SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

(MARK ONE)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 26, 2006.

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

COMMISSION FILE NUMBER 0-12919

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

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

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

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

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

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS A LARGE ACCELERATED FILER, AN ACCELERATED FILER, OR A NON-ACCELERATED FILER. SEE DEFINITION OF "ACCELERATED FILER AND LARGE ACCELERATED FILER" IN RULE 12B-2 OF THE EXCHANGE ACT. (CHECK ONE)

LARGE ACCELERATED FILER [ ] ACCELERATED FILER [ ] NON-ACCELERATED FILER [X}

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS A SHELL COMPANY (AS DEFINED IN RULE 12 B-2 OF THE EXCHANGE ACT). YES [ ] NO [X]

AS OF MAY 1, 2006, AN AGGREGATE OF 10,138,494 SHARES OF THE ISSUER'S COMMON STOCK WERE OUTSTANDING.

PIZZA INN, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
REVENUES:	MARCH 26, 2006	MARCH 27, 2005	MARCH 26, 2006	MARCH 27, 2005
Food and supply sales	$ 11,131	$ 11,859	$ 33,654	$ 36,981
Franchise revenue	1,200	1,319	3,579	3,884
Restaurant sales	512	223	1,069	721
	12,843	13,401	38,302	41,586
COSTS AND EXPENSES:				
Cost of sales	11,225	11,241	33,451	35,125
Franchise expenses	783	723	2,384	2,044
General and administrative expenses	1,363	1,311	4,461	3,497
	13,371	13,275	40,296	40,666
OPERATING (LOSS) INCOME	(528)	126	(1,994)	920
Gain on sale of asset	2	-	149	-
Interest expense	(211)	(157)	(579)	(431)
(LOSS) INCOME BEFORE INCOME TAXES	(737)	(31)	(2,424)	489
Provision for income taxes	(260)	(11)	(856)	173
NET (LOSS) INCOME	$ (477)	$ (20)	$ (1,568)	$ 316
BASIC (LOSS) EARNINGS 'PER COMMON SHARE	$ (0.05)	$ -	$ (0.15)	$ 0.03
DILUTED (LOSS) EARNINGS ' PER COMMON SHARE	$ (0.05)	$ -	$ (0.15)	$ 0.03
WEIGHTED AVERAGE ' COMMON SHARES	10,138	10,089	10,118	10,109
WEIGHTED AVERAGE COMMON AND POTENTIAL DILUTIVE COMMON SHARES	10,188	10,117	10,164	10,142

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(IN THOUSANDS)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	MARCH 26, 2006	MARCH 27, 2005	MARCH 26, 2006	MARCH 27, 2005
Net (loss) income	$ (477)	$ (20)	$ (1,568)	$ 316
Interest rate swap gain (loss) - (net of tax benefit (expense) of ($11) and $56 and ($59) and $70, respectively)	31	(109)	133	(137)
Comprehensive (loss) income	$ (446)	$ (129)	$ (1,435)	$ 179

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	MARCH 26, 2006	JUNE 26, 2005
	(unaudited)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 190	$ 173
Accounts receivable, less allowance for doubtful accounts of $209 and $360 respectively	2,894	3,419
Accounts receivable - related parties	465	622
Notes receivable, current portion, less allowance for doubtful accounts of $0 and $11, respectively	63	-
Inventories	1,996	1,918
Property held for sale	-	301
Deferred tax assets, net	1,011	193
Prepaid expenses and other	353	355
Total current assets	6,972	6,981
LONG-TERM ASSETS		
Property, plant and equipment, net	13,340	12,148
Property under capital leases, net	-	12
Long-term receivable	10	-
Long-term receivable - related party	313	314
Goodwill	153	-
Reacquired development territory	479	623
Deposits and other	196	177
	$ 21,463	$ 20,255
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable - trade	$ 2,558	$ 1,962
Accrued expenses	1,896	1,374
Current portion of long-term debt	8,648	406
Current portion of capital lease obligations	-	11
Total current liabilities	13,102	3,753
LONG-TERM LIABILITIES		
Long-term debt	-	7,297
Long-term capital lease obligations	-	13
Deferred tax liability, net	-	3
Other long-term liabilities	523	283
	13,625	11,349
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Common Stock, $.01 par value; authorized 26,000,000 shares; issued 15,090,319 and 15,046,319 shares, respectively; outstanding 10,138,494 and 10,094,494 shares, respectively	151	150
Additional paid-in capital	8,371	8,005
Retained earnings	19,014	20,582
Accumulated other comprehensive loss	(54)	(187)
Treasury stock at cost Shares in treasury: 4,951,825 and 4,951,825, respectively	(19,644)	(19,644)
Total shareholders' equity	7,838	8,906
	$ 21,463	$ 20,255

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	NINE MONTHS ENDED	
	MARCH 26, 2006	MARCH 27, 2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (1,568)	$316
Adjustments to reconcile net (loss) income to cash provided by operating activities:		
Depreciation and amortization	884	861
Gain on property held for sale	(159)	-
Provision for bad debt	100	30
Utilization of deferred taxes	-	(20)
Stock compensation expense	285	-
Deferred rent	32	-
Changes in assets and liabilities:		
Notes and accounts receivable	491	(358)
Inventories	(79)	(435)
Accounts payable - trade	596	786
Accrued expenses	(166)	(711)
Prepaid expenses and other	158	51
CASH PROVIDED BY OPERATING ACTIVITIES	574	520
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of assets	589	-
Capital expenditures	(2,165)	(721)
CASH USED FOR INVESTING ACTIVITIES	(1,576)	(721)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of long-term bank debt and capital lease obligations	(110)	(102)
Borrowings of bank debt	1,047	-
Stock repurchase	-	(160)
Proceeds from exercise of stock options	82	16
CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	1,019	(246)
Net increase (decrease) in cash and cash equivalents	17	(447)
Cash and cash equivalents, beginning of period	173	617
Cash and cash equivalents, end of period	$ 190	$ 170

See accompanying Notes to Condensed Consolidated Financial Statements.

PIZZA INN, INC.
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION
(IN THOUSANDS)
(UNAUDITED)

	NINE MONTHS ENDED	
	MARCH 26, 2006	MARCH 27, 2005
CASH PAYMENTS FOR:		
Interest	$ 580	$ 433
Income taxes	-	420

See accompanying Notes to Condensed Consolidated Financial Statements.

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

(1) The accompanying condensed consolidated financial statements of Pizza Inn, Inc. (the "Company") have been prepared without audit pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in the financial statements have been omitted pursuant to such rules and regulations. The condensed consolidated financial statements should be read in conjunction with the notes to the Company's audited condensed consolidated financial statements in its Form 10-K for the fiscal year ended June 26, 2005. Certain prior year amounts have been reclassified to conform with current year presentation.

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

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment ("FAS 123R"). This Statement requires companies to expense the estimated fair value of stock options and similar equity instruments issued to employees over the requisite service period. FAS 123R eliminates the alternative to use the intrinsic method of accounting provided for in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ("APB 25"), which generally resulted in no compensation expense recorded in the financial statements related to the grant of stock options to employees if certain conditions were met. Additionally, the pro forma impact from recognition of the estimated fair value of stock options granted to employees has been disclosed in our footnotes as required under previous accounting rules.

Effective June 27, 2005, the Company adopted FAS 123R using the modified prospective method, which requires us to record compensation expense for all awards granted after the date of adoption, and for the unvested portion of previously granted awards that remain outstanding at the date of adoption. Accordingly, prior period amounts presented herein have not been restated to reflect the adoption of FAS 123R.

Prior to the adoption of FAS 123R, the Company reported all tax benefits resulting from the exercise of stock options as operating cash flows in our consolidated statements of cash flows. In accordance with FAS 123R, for the period beginning with first quarter of fiscal 2006, the Company will report the excess tax benefits from the exercise of stock options as financing cash flows. Such benefits are presented as a component of operating cash flows for periods prior to the first quarter of 2006.

The fair value concepts were not changed significantly in FAS 123R; however, in adopting this Standard, companies must choose among alternative valuation models and amortization assumptions. After assessing alternative valuation models and amortization assumptions, the Company will continue using both the Black-Scholes valuation model and straight-line amortization of compensation expense over the requisite service period for each separately vesting portion of the grant. The Company will reconsider use of this model if additional information becomes available in the future that indicates another model would be more appropriate for us, or if grants issued in future periods have characteristics that cannot be reasonably estimated using this model. The Company had previously estimated forfeitures in the expense calculation for pro forma footnote disclosure and no change in that methodology was made upon adoption of FAS 123R.

Amortization of the fair value of the stock option grants has been included in our results since the grant date and totaled approximately $88,000 and $285,000 for the quarter and nine months ended March 26, 2006, respectively. The current period expense related to the unvested portion of previously granted awards that remain outstanding at the date of adoption and one grant of options to a director in the current year. Similar amounts for these options are expected to be expensed in future quarters.

The previously disclosed pro forma effects of recognizing the estimated fair value of stock-based compensation for the first nine months of fiscal 2005 are presented below.

MARCH 27,
2005

Net income, as reported	$ 316
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	-
Pro forma net income	$ 316
Earnings per share	
Basic-as reported	$ 0.03
Basic-pro forma	$ 0.03
Diluted-as reported	$ 0.03
Diluted-pro forma	$ 0.03

(2) The Company entered into an agreement on August 29, 2005, effective June 26, 2005 (the "Revolving Credit Agreement"), with Wells Fargo to provide a $6.0 million revolving credit line that will expire October 1, 2007, replacing a $3.0 million line that was due to expire December 23, 2005. The agreement provides, among other terms, for modifications to certain financial covenants. Interest is provided for at a rate equal to a range of Prime less an interest rate margin of 0.75% to Prime plus an interest rate margin of 1.75% or, at the Company's option, at the LIBOR rate plus an interest rate margin of 1.25% to 3.75%. The interest rate margin is based on the Company's performance under certain financial ratio tests. An annual commitment fee is payable on any unused portion of the revolving credit line at a rate from 0.35% to 0.50% based on the Company's performance under certain financial ratio tests. As of March 26, 2006 and March 27, 2005, the variable interest rates were 9.25% and 6.0%, using a Prime interest rate basis. Amounts outstanding under the revolving credit line as of March 26, 2006 and March 27, 2005 were $2,215,000 and $1,411,000, respectively. Property, plant and equipment, inventory and accounts receivable have been pledged for the Revolving Credit Agreement.

The Company entered into an agreement effective December 28, 2000, as amended (the "Term Loan Agreement"), with Wells Fargo to provide up to $8.125 million of financing for the construction of the Company's new headquarters, training center and distribution facility. The construction loan converted to a term loan effective January 31, 2002 with the unpaid principal balance to mature on December 28, 2007. The term loan amortizes over a term of twenty years, with principal payments of $34,000 due monthly. Interest on the term loan is also payable monthly. Interest is provided for at a rate equal to a range of Prime less an interest rate margin of 0.75% to Prime plus an interest rate margin of 1.75% or, at the Company's option, at the LIBOR rate plus an interest rate margin of 1.25% to 3.75%. The interest rate margin is based on the Company's performance under certain financial ratio tests. The Company, to fulfill the requirements of Wells Fargo, fixed the interest rate on the term loan by utilizing an interest rate swap agreement. The $8.125 million Term Loan Agreement had an outstanding balance of $6,433,000 at March 26, 2006 and $6,838,000 at March 27, 2005. Property, plant and equipment, inventory and accounts receivable have been pledged for the Term Loan Agreement.

On October 18, 2005, the Company notified Wells Fargo Bank, N.A. that, as of September 25, 2005 the Company was in violation of certain financial ratio covenants in the Revolving Credit Agreement and that, as a result, an event of default exists under the Loan Agreement. As a result of the continuing event of default as of March 26, 2006 all outstanding principal of the Company's obligations under the Revolving Credit Agreement were reclassified as a current liability on the Company's balance sheet.

On November 28, 2005 Wells Fargo notified the Company that as a result of the default Wells Fargo would continue to make Revolving Credit Loans (as defined in the Revolving Credit Agreement) to the Company in accordance with the terms of the Revolving Credit Agreement, provided that the aggregate principal amount of all such Revolving Credit Loans does not exceed $3,000,000 at any one time. Additionally, Wells Fargo notified the Company that the LIBOR rate margin and the prime rate margin have been adjusted, effective as of October 1, 2005, according to the pricing rate grid set forth in the Revolving Credit Agreement.

(3) The Company entered into an interest rate swap effective February 27, 2001, as amended, designated as a cash flow hedge, to manage interest rate risk relating to the financing of the construction of the Company's new headquarters and to fulfill bank requirements. The swap agreement has a notional principal amount of $8.125 million with a fixed pay rate of 5.84%, which began November 1, 2001 and will end November 19, 2007. The swap's notional amount amortizes over a term of twenty years to parallel the terms of the Term Loan Agreement. Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" requires that for cash flow hedges, which hedge the exposure to variable cash flow of a forecasted transaction, the effective portion of the derivative's gain or loss be initially reported as a component of other comprehensive income in the equity section of the balance sheet and subsequently reclassified into earnings when the forecasted transaction affects earnings. Any ineffective portion of the derivative's gain or loss is reported in earnings immediately. As of March 26, 2006, there was no hedge ineffectiveness. The Company's expectation is that the hedging relationship will be highly effective at achieving offsetting changes in cash flows.

(4) On December 11, 2004, the Board of Directors of the Company terminated the Executive Compensation Agreement dated December 16, 2002 between the Company and its then Chief Executive Officer, Ronald W. Parker ("Parker Agreement"). Mr. Parker's employment was terminated following ten days written notice to Mr. Parker of the Company's intent to discharge him for cause as a result of violations of the Parker Agreement. Written notice of termination was communicated to Mr. Parker on December 13, 2004. The nature of the cause alleged was set forth in the notice of intent to discharge and based upon Section 2.01(c) of the Parker Agreement, which provides for discharge for "any intentional act of fraud against the Company, any of its subsidiaries or any of their employees or properties, which is not cured, or with respect to which Executive is not diligently pursuing a cure, within ten (10) business days of the Company giving notice to Executive to do so." Mr. Parker was provided with an opportunity to cure as provided in the Parker Agreement as well as the opportunity to be heard by the Board of Directors prior to the termination.

On January 12, 2005, the Company instituted an arbitration proceeding against Mr. Parker with the American Arbitration Association in Dallas, Texas pursuant to the Parker Agreement seeking declaratory relief that Mr. Parker is not entitled to severance payments or any other further compensation from the Company. In addition, the Company is seeking compensatory damages, consequential damages and disgorgement of compensation paid to Mr. Parker under the Parker Agreement. On January 31, 2005, Mr. Parker filed claims against the Company for breach of the Parker Agreement, seeking the severance payment provided for in the Parker Agreement for a termination of Mr. Parker by the Company for reason other than for cause (as defined in the Parker Agreement), plus interest, attorney's fees and costs. The arbitration hearing is scheduled to begin September 11, 2006.

Due to the preliminary stages of the arbitration proceeding and the general uncertainty surrounding the outcome of this type of legal proceeding, it is not possible for the Company to provide any certain or meaningful analysis, projections or expectations at this time regarding the outcome of this matter. Although the ultimate outcome of the arbitration proceeding cannot be projected with certainty at this time, the Company intends to vigorously defend against Mr. Parker's claims and to pursue all relief to which it may be entitled. An adverse outcome to the proceeding could materially affect the Company's financial position and results of operations. In the event the Company is unsuccessful, it could be liable to Mr. Parker for approximately $5.4 million under the Parker Agreement plus accrued interest and legal expenses. No accrual for any amount has been made as of March 26, 2006.

(5) On June 15, 2004, B. Keith Clark provided the Company with notice of his intent to resign as Senior Vice President - Corporate Development, Secretary and General Counsel of the Company effective as of July 7, 2004. By letter dated June 24, 2004, Mr. Clark notified the Company that he reserved his right to assert that the election of Ramon D. Phillips and Robert B. Page to the Board of Directors of the Company at the February 11, 2004 annual meeting of shareholders constituted a "change of control" of the Company under his executive compensation agreement (the "Clark Agreement"). As a result of the alleged "change of control" under the Clark Agreement, Clark claimed that he was entitled to terminate the Clark Agreement within 12 months of February 11, 2004 for "good reason" (as defined in the Clark Agreement) and is entitled to severance. On August 6, 2004, the Company instituted an arbitration proceeding against Mr. Clark with the American Arbitration Association in Dallas, Texas pursuant to the Clark Agreement seeking declaratory relief that Mr. Clark is not entitled to severance payments or any other further compensation from the Company. On January 18, 2005, the Company amended its claims against Mr. Clark to include claims for compensatory damages, consequential damages and disgorgement of compensation paid to Mr. Clark under the Clark Agreement. Mr. Clark filed claims against the Company for breach of the Clark Agreement, seeking the severance payment provided for in the Clark Agreement plus a bonus payment for 2003 of approximately $12,500. On November 8, 2005 the parties entered into a confidential settlement agreement and release of claims, which provided, among other things, that the Company paid Mr. Clark $150,000, the parties dismissed with prejudice all claims in the pending arbitration action and each party bore its or his own costs and expenses.

(6) On October 5, 2004 the Company filed a lawsuit against the law firm Akin, Gump, Strauss, Hauer & Feld, ("Akin Gump") and J. Kenneth Menges, one of the firm's partners. Akin Gump served as the Company's principal outside lawyers from 1997 through May 2004, when the Company terminated the relationship. The petition alleges that during the course of representation of the Company, the firm and Mr. Menges, as the partner in charge of the firm's services for the Company, breached certain fiduciary responsibilities to the Company by giving advice and taking action to further the personal interests of certain of the Company's executive officers to the detriment of the Company and its shareholders. Specifically, the petition alleges that the firm and Mr. Menges assisted in the creation and implementation of so-called "golden parachute" agreements, which, in the opinion of the Company's current counsel, provided for potential severance payments to those executives in amounts greatly disproportionate to the Company's ability to pay, and that, if paid, could expose the Company to significant financial liability which could have a material adverse effect on the Company's financial position. This matter is in its preliminary stages, and the Company is unable to provide any meaningful analysis, projections or expectations at this time regarding the outcome of this matter. However, the Company intends to vigorously pursue all relief to which it may be entitled. On January 25, 2005, Akin Gump filed a motion with the court asking for this matter to be abated pending a determination in the Clark and Parker arbitrations. The court denied the motion but ruled that it would not set a trial date until after completion of the Clark and Parker arbitration hearings.

(7) On April 22, 2005, the Company provided PepsiCo, Inc. ("PepsiCo") written notice of PepsiCo's breach of the beverage marketing agreement the

parties had entered into in May 1998 (the "Beverage Agreement"). In the notice, the Company alleged that PepsiCo had not complied with the terms of the Beverage Agreement by failing to (i) provide account and equipment service, (ii) maintain and repair fountain dispensing equipment, (iii) make timely and accurate account payments, and by providing the Company beverage syrup containers that leaked in storage and in transit. The notice provided PepsiCo 90 days within which to cure the instances of default. On May 18, 2005 the parties entered into a "standstill" agreement under which the parties agreed to a 60-day extension of the cure period to attempt to renegotiate the terms of the Beverage Agreement and for PepsiCo to complete its cure.

The parties were unable to renegotiate the Beverage Agreement, and the Company contends that PepsiCo did not cure each of the instances of default set forth in the Company's April 22, 2005 notice of default. On September 15, 2005, the Company provided PepsiCo notice of termination of the Beverage Agreement. On October 11, 2005, PepsiCo served the Company with a Petition in the matter of PepsiCo, Inc. v. Pizza Inn Inc., filed in District Court in Collin County, Texas. In the Petition, PepsiCo alleges that the Company breached the Beverage Agreement by terminating it without cause. PepsiCo seeks damages of approximately $2.6 million, an amount PepsiCo believes represents the value of gallons of beverage products that the Company is required to purchase under the terms of the Beverage Agreement, plus return of any marketing support funds that PepsiCo advanced to the Company but that the Company has not earned. The Company has filed a counterclaim against PepsiCo for amounts earned by the Company under the Beverage Agreement but not yet paid by PepsiCo, and for damages for business defamation and tortuous interference with contract based upon statements and actions of the PepsiCo account representative servicing the Company's account.

The Company believes that it had good reason to terminate the Beverage Agreement and that it terminated the Beverage Agreement in good faith and in compliance with its terms. The Company further believes that under such circumstances it has no obligation to purchase additional quantities of beverage products. Due to the preliminary nature of this matter and the general uncertainty surrounding the outcome of any form of legal proceeding, it is not possible for the Company to provide any certain or meaningful analysis, projection or expectation at this time regarding the outcome of this matter. Although the outcome of the legal proceeding cannot be projected with certainty, the Company believes that PepsiCo's allegations are without merit. The Company intends to vigorously defend against such allegations and to pursue all relief to which it may be entitled. An adverse outcome to the proceeding could materially affect the Company's financial position and results of operation. In the event the Company is unsuccessful, it could be liable to PepsiCo for approximately $2.6 million plus costs and fees. No accrual for such amounts has been made as of March 26, 2006. This matter is set for trial beginning on September 4, 2006.

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

	INCOME (NUMERATOR)	SHARES (DENOMINATOR)	PER SHARE AMOUNT
THREE MONTHS ENDED MARCH 26, 2006			
BASIC EPS			
Income Available to Common Shareholders	$ (477)	10,138	$ (0.05)
Effect of Dilutive Securities - Stock Options		50	
DILUTED EPS			
Income Available to Common Shareholders & Assumed Conversions	$ (477)	10,188	$ (0.05)
THREE MONTHS ENDED MARCH 27, 2005			
BASIC EPS			
Income Available to Common Shareholders	$ (20)	10,089	$ (0.00)
Effect of Dilutive Securities - Stock Options		28	
DILUTED EPS			
Income Available to Common Shareholders & Assumed Conversions	$ (20)	10,117	$ (0.00)
NINE MONTHS ENDED MARCH 26, 2006			
BASIC EPS			
Income Available to Common Shareholders	(1,568)	10,118	$ (0.15)
Effect of Dilutive Securities - Stock Options		46	
DILUTED EPS			
Income Available to Common Shareholders & Assumed Conversions	$ (1,568)	10,164	$ (0.15)
NINE MONTHS ENDED MARCH 27, 2005			
BASIC EPS			
Income Available to Common Shareholders	$ 316	10,109	$ 0.03
Effect of Dilutive Securities - Stock Options		33	
DILUTED EPS			
Income Available to Common Shareholders & Assumed Conversions	$ 316	10,142	$ 0.03

(8) Summarized in the following tables are net sales and operating revenues, depreciation and amortization, interest expense, operating (loss) income and geographic information (revenues) for the Company's reportable segments for the three month and nine month periods ended March 26, 2006 and March 27, 2005 (in thousands).

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	MARCH 26, 2006	MARCH 27, 2005	MARCH 26, 2006	MARCH 27, 2005
NET SALES AND OPERATING REVENUES:				
Food and Equipment Distribution	$ 11,131	$ 11,859	$ 33,654	$ 36,981
Franchise and Other	1,712	1,542	4,648	4,605
Intersegment revenues	386	80	881	255
Combined	13,229	13,481	39,183	41,841
Less intersegment revenues	(386)	(80)	(881)	(255)
Consolidated revenues	$ 12,843	$ 13,401	$ 38,302	$ 41,586
DEPRECIATION AND AMORTIZATION:				
Food and Equipment Distribution	$ 128	$ 129	$ 394	$ 381
Franchise and Other	106	71	253	214
Combined	234	200	647	595
Corporate administration and other	84	81	237	266

Depreciation and amortization	$ 318	$ 281	$ 884	$ 861
INTEREST EXPENSE:				
Food and Equipment Distribution	$ 118	$ 87	$ 323	$ 240
Franchise and Other	1	1	3	2
Combined	119	88	326	242
Corporate administration and other	92	69	253	189
Interest Expense	$ 211	$ 157	$ 579	$ 431
OPERATING (LOSS) INCOME:				
Food and Equipment Distribution (1)	$ (188)	$ 41	$ (996)	$ 576
Franchise and Other (1)	271	563	817	1,754
Intersegment profit	63	24	153	70
Combined	146	628	(26)	2,400
Less intersegment profit	(63)	(24)	(153)	(70)
Corporate administration and other	(611)	(478)	(1,815)	(1,410)
Operating (loss) income	$ (528)	$ 126	$ (1,994)	$ 920
GEOGRAPHIC INFORMATION (REVENUES):				
United States	$ 12,578	$ 13,060	$ 37,532	$ 40,593
Foreign countries	265	341	770	993
Consolidated total	$ 12,843	$ 13,401	$ 38,302	$ 41,586

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

(10) On February 27, 2006 the Company sold the Company's Dallas, Texas buffet unit to an existing franchisee for $115,000.

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

The following discussion should be read in conjunction with the consolidated financial statements, accompanying notes and selected financial data appearing elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K and may contain forward-looking statements that are based on current management expectations. Generally, verbs in the future tense and the words "believe," "expect," "anticipate," "estimate," "intends," "opinion," "potential" and similar expressions identify forward-looking statements. Forward-looking statements in this report include, without limitation, statements relating to the strategies underlying our business objectives, our customers and our franchisees, our liquidity and capital resources, the impact of our historical and potential business strategies on our business, financial condition, and operating results and the expected effects of potentially adverse litigation outcomes. Our actual results could differ materially from our expectations. Further information concerning our business, including additional risk factors and uncertainties that could cause actual results to differ materially from the forward-looking statements contained in this Quarterly Report on Form 10-Q, are set forth below under the heading "Risk Factors." These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. The forward-looking statements contained herein speak only as of the date of this Quarterly Report on Form 10-Q and, except as may be required by applicable law and regulation, we do not undertake, and specifically disclaim any obligation to, publicly update or revise such statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

RESULTS OF OPERATIONS

OVERVIEW

We are a franchisor and food and supply distributor to a system of restaurants operating under the trade name "Pizza Inn". Our distribution division is Norco Restaurant Services Company ("Norco"). At March 26, 2006, there were 381 Pizza Inn restaurants, consisting of four Company-owned restaurants and 377 franchised restaurants. Domestic restaurants are operated as: (i) 185 buffet restaurants ("Buffet Units") that offer dine-in, carry-out, and, in many cases, delivery services; (ii) 50 restaurants that offer delivery and carry-out services only ("Delco Units"); and (iii) 72 express units ("Express Units") typically located within a convenience store, college campus building, airport terminal, or other commercial facility that offers quick carry-out service from a limited menu. The 307 domestic restaurants were located in 18 states predominately situated in the southern half of the United States. Additionally, we have 74 international restaurants located in 9 foreign countries.

Diluted earnings per share decreased $0.05 to ($0.05) from $0.00 for the three month period ended March 26, 2006 and decreased $0.18 to ($0.15) from $0.03 for the nine month period ended March 26, 2006 compared to the comparable periods in the prior year, respectively. Net loss for the three month period ended March 26, 2006 increased $457,000 to ($477,000) from ($20,000) in the prior year, on revenues of $12,812,000 in the current year and $13,401,000 in the prior year. Net income for the nine month period ended March 26, 2006 decreased $1,884,000 to ($1,568,000) from $316,000 in the prior year, on revenues of $38,271,000 in the current year and $41,586,000 in the prior year. The decrease in net income is primarily the result of lower food and supply sales and royalties resulting from lower overall chainwide retail sales and fewer net restaurants. In addition to lower revenues, year-to-date energy costs increased $446,000 due to higher rates for diesel fuel and electricity and legal fees increased $419,000 for ongoing litigation and related matters.

REVENUES

Our revenues are primarily derived from sales of food, paper products, and equipment and supplies by Norco to franchisees, initial franchise license fees and ongoing royalties and, from time to time, the sale of area development rights. Management believes that key performance indicators in evaluating financial results include chainwide retail sales, the number and type of operating restaurants and the percentage of products and supplies such restaurants purchase from Norco. Our financial results are dependent in large part upon the pricing and cost of these products and supplies to franchisees, and the level of chainwide retail sales, which are driven by changes in same store sales and restaurant count.

FOOD AND SUPPLY SALES

Food and supply sales by Norco include food and paper products, equipment, marketing material and other distribution revenues. Food and supply sales for the three month period ended March 26, 2006 decreased 6%, or $728,000, to $11,131,000 from $11,859,000 compared to the same period last year. The decrease in sales for the three month period ended March 26, 2006 compared to the three month period ended March 27, 2005 is primarily due to a decline of 2.6% in overall domestic chainwide retail sales which negatively impacted Norco product sales by approximately $482,000; lower cheese prices, which decreased sales by $255,000; $119,000 lower equipment sales and $100,000 lower international sales. These sales decreases were partially offset by $226,000 higher backhaul and storage revenues. Food and supply sales for the nine month period ended March 26, 2006 decreased 9%, or $3,327,000 to $33,654,000 from $36,981,000 compared to the same period last year. The decrease for the nine month period ending March 26, 2006 is primarily due to a decline of 4.5% in overall domestic chainwide retail sales, which negatively impacted Norco product sales by approximately $2,141,000; lower non-cheese prices, which negatively impacted sales by $545,000; $414,000 lower Norco product sales due to lower

market penetration and lower non-cheese price variances; $225,000 lower international sales; $184,000 lower marketing material sales; and $119,000 lower equipment sales. The sales decreases were partially offset by $452,000 higher backhaul and storage revenues and a $86,000 fuel surcharge.

FRANCHISE REVENUE

Franchise revenue, which includes income from royalties, license fees and area development and foreign master license sales, decreased 9%, or $119,000 to $1,200,000 from $1,319,000 for the three month period ended March 26, 2006 compared to the same period last year, due to the impact on royalty income as a result of the decline of 2.6% in overall domestic chainwide retail sales. In addition, the prior year included collections of $102,000 in unrecorded royalties. Franchise revenue decreased 8%, or $305,000 to $3,579,000 from $3,884,000 for the nine month period ended March 26, 2006 compared to the same period last year, primarily due to the impact on royalties as a result of the decline of 4.5% in overall domestic chainwide retail sales and the collections of $102,000 in unrecorded royalty income in the prior year. The following chart summarizes the major components of franchise revenue (in thousands):

	Three Months Ended		Nine Months Ended	
	March 26, 2006	March 27, 2005	March 26, 2006	March 27, 2005
Domestic royalties	$ 1,065	$ 1,208	$ 3,186	$ 3,475
International royalties	116	92	275	269
Domestic franchise fees	19	19	118	140
Franchise revenue	$ 1,200	$ 1,319	$ 3,579	$ 3,884

RESTAURANT SALES

Restaurant sales, which consist of revenue generated by Company-owned restaurants, increased 130%, or $289,000 to $512,000 from $223,000 for the three month period ended March 26, 2006 compared to the same period of the prior year due to three new Buffet Units opening during the current year. This increase was partially offset by lower comparable sales Company-owned Delco Unit and the sale of one Company-owned Buffet Unit on February 27, 2006. Restaurant sales increased 48%, or $348,000 to $1,069,000 from $721,000 for the nine month period ended March 27, 2006 compared to the same period of the prior year. The following chart summarizes the sales by Company owned restaurants (in thousands):

	Three Months Ended		Nine Months Ended	
	March 26, 2006	March 27, 2005	March 26, 2006	March 27, 2005
Buffet Units	$ 439	$ 140	$ 833	$ 437
Delco Unit	73	83	236	284
Restaurant sales	$ 512	$ 223	$ 1,069	$ 721

COSTS AND EXPENSES

COST OF SALES

Cost of sales decreased $16,000 to $11,225,000 from $11,241,000 for the three month period ended March 26, 2006 compared to the same period in the prior year and decreased 5%, or $1,674,000 to $33,451,000 from $35,125,000 for the nine month period ended March 26, 2006 compared to the same period in the prior year. These decreases are primarily the result of lower food and supply sales resulting from lower retail sales as previously discussed. Cost of sales, as a percentage of food and supply and restaurant sales for the three month and nine month periods ended March 26, 2006 increased to 96% from 93% for the same periods last year. This percentage increase is primarily due to higher energy costs and to pre-opening expenses, including payroll, rent and utilities for the three new Company-owned Buffet Units under development in the first two quarters of the current year. The Company experiences fluctuations in commodity prices (most notably, block cheese prices), increases in transportation costs (particularly in the price of diesel fuel) and net gains or losses in the number of restaurants open in any particular period, among other things, all of which have impacted operating margins over the past several quarters to some extent. Future fluctuations in these factors are difficult for the Company to meaningfully predict with any certainty.

FRANCHISE EXPENSES

Franchise expenses include selling, general and administrative expenses directly related to the sale and continuing service of domestic and international franchises. These costs increased 8%, or $60,000 to $783,000 from $723,000 for the three month period ended March 26, 2006 compared to the same period last year and 17%, or $340,000 to $2,384,000 from $2,044,000 for the nine month period ended March 26, 2006 compared to the same period in the prior year. These increases are primarily the result of higher payroll expenses due to additional staffing levels, higher travel costs relating primarily to the construction and opening of the three new Company-owned Buffet Units, and increased field market research.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses increased 4%, or $52,000 to $1,363,000 from $1,311,000 for the three month period ended March 26, 2006 compared to the same period last year and increased 28%, or $964,000 to $4,461,000 from $3,497,000 for the nine month period ended March 26, 2006 compared to the same period in the prior year. The following chart summarizes the major components of general and administrative expenses (in thousands):

	Three Months Ended		Nine Months Ended	
	March 26, 2006	March 27, 2005	March 26, 2006	March 27, 2005
Payroll	$ 744	$ 539	$ 1,924	$ 1,696
Legal fees	180	482	1,237	818
Bad debt	100	-	100	30
Stock compensation	88	-	285	-
Other	251	290	915	953
Total general and administrative expense	$ 1,363	$ 1,311	$ 4,461	$ 3,497

The current year includes legal expenses related to ongoing litigation and related matters described previously, bad debt expense, and increased payroll amounts due to increased staffing levels and severance payments made in the third quarter. The Company anticipates that higher than normal legal expenses will continue until all such matters are resolved. Stock compensation expense is the result of the implementation of FAS 123R as previously discussed.

INTEREST EXPENSE

Interest expense increased 34%, or $54,000 to $211,000 from $157,000 for the three month period ended March 26, 2006 compared to the same period of the prior year and 34%, or $148,000 to $579,000 from $431,000 for the nine month period ended March 26, 2006 compared to the same period in the prior year, due to higher interest rates and higher debt balances under the Revolving Credit Agreement.

PROVISION FOR INCOME TAX

Provision for income taxes decreased $249,000 for the three month period ended March 26, 2006 compared to the same period in the prior year and $1,029,000 for the nine month period ended March 26, 2006 compared to the same period in the prior year due to lower income for the three month and nine month periods in the current year compared to the same periods in the prior year. The effective tax rate was 35% for the three month and nine month periods ending March 26, 2006 and March 27, 2005. The majority of the current loss can be carried back against prior taxes paid.

RESTAURANT OPENINGS AND CLOSINGS

A total of 17 new Pizza Inn franchise restaurants opened, including ten domestic and seven international, during the nine month period ended March 26, 2006. Domestically, 27 restaurants were closed by franchisees or terminated by the Company, typically because of unsatisfactory standards of operation or performance. Additionally, seven international restaurants were closed. We do not believe that these closings had any material impact on collectibility of any outstanding receivables and royalties due to us because (i) these amounts have been previously reserved for by us with respect to restaurants that were closed during fiscal 2005 and (ii) these closed restaurants were generally lower volume restaurants. For those restaurants that are anticipated to close or are exhibiting signs of financial distress, credit terms are typically restricted, weekly food orders are required to be paid for on delivery and/or with certified funds and royalty and advertising fees are collected as add-ons to the delivered price of weekly food orders. The following chart summarizes restaurant activity for the period ended March 26, 2006 compared to the same period in the prior year:

Nine months ending March 26, 2006

	Beginning of Period	Opened	Closed	Concept Change	End of Period
Buffet Units	199	4	18	-	185
Delco	52	3	5	-	50
Express Units	73	3	4	-	72
International	74	7	7	-	74

Total	398	17	34	-	381

Nine months ending March 27, 2005

	Beginning of Period	Opened	Closed	Concept Change	End of Period
Buffet Units	212	7	9	(3)	207
Delco	53	4	2	1	56
Express Units	73	6	6	2	75
International	67	6	-	-	73
Total	405	23	17	-	411

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from operating activities are generally the result of net loss adjusted for deferred taxes, depreciation and amortization, stock compensation and changes in working capital. In the nine month period ending March 26, 2006 the Company generated cash flows of $574,000 from operating activities as compared to $520,000 in cash flows for the same period in the prior year. The increase in cash flows for the nine months ended March 26, 2006 as compared to the prior year was primarily related to normal changes in working capital partially offset by a decrease in net income of $1,884,000 to ($1,568,000) for the nine month period ended March 26, 2006 from $316,000 for the same period in the prior year.

Cash flows from investing activities primarily reflect the Company's capital expenditure strategy. In the first nine months of fiscal 2006, $1,576,000 cash was used for investing activities as compared to cash used for investing activities of $721,000 for the same period in fiscal 2005. Cash used was primarily for costs associated with development of the three new Company-owned Buffet Units and purchase of warehouse equipment that was partially offset from the proceeds from the sale of land in Prosper, Texas.

Cash flows from financing activities generally reflect changes in the Company's borrowings, treasury stock transactions and exercise of stock options during the period. Net cash provided by financing activities was $1,019,000 in the first nine months of fiscal 2006 as compared to cash used for financing activities of $246,000 for the same period in fiscal 2005. The increase of net cash from financing activities is primarily the result of increased borrowing of the revolving credit line. As of March 26, 2006, the Company had utilized $2,200,000 of the $3,000,000 revolving credit line.

Management believes that future operations will generate sufficient taxable income, along with the reversal of temporary differences, to fully realize the deferred tax asset, net of a valuation allowance of $138,000 primarily related to the potential expiration of certain foreign tax credit carryforwards. Additionally, management believes that taxable income based on the Company's existing franchise base should be more than sufficient to enable the Company to realize its net deferred tax asset without reliance on material non-routine income.

The Company entered into an agreement on August 29, 2005, effective June 26, 2005 (the "Revolving Credit Agreement"), with Wells Fargo to provide a $6.0 million revolving credit line that will expire October 1, 2007, replacing a $3.0 million line that was due to expire December 23, 2005. The agreement provides, among other terms, for modifications to certain financial covenants. Interest is provided for at a rate equal to a range of Prime less an interest rate margin of 0.75% to Prime plus an interest rate margin of 1.75% or, at the Company's option, at the LIBOR rate plus an interest rate margin of 1.25% to 3.75%. The interest rate margin is based on the Company's performance under certain financial ratio tests. An annual commitment fee is payable on any unused portion of the revolving credit line at a rate from 0.35% to 0.50% based on the Company's performance under certain financial ratio tests. As of March 26, 2006 and March 27, 2005, the variable interest rates were 9.25% and 6.0%, using a Prime interest rate basis. Amounts outstanding under the revolving credit line as of March 26, 2006 and March 27, 2005 were $2,215,000 and $1,411,000, respectively. Property, plant and equipment, inventory and accounts receivable have been pledged for the Revolving Credit Agreement.

The Company entered into an agreement effective December 28, 2000, as amended (the "Term Loan Agreement"), with Wells Fargo to provide up to $8.125 million of financing for the construction of the Company's new headquarters, training center and distribution facility. The construction loan converted to a term loan effective January 31, 2002 with the unpaid principal balance to mature on December 28, 2007. The term loan amortizes over a term of twenty years, with principal payments of $34,000 due monthly. Interest on the term loan is also payable monthly. Interest is provided for at a rate equal to a range of Prime less an interest rate margin of 0.75% to Prime plus an interest rate margin of 1.75% or, at the Company's option, at the LIBOR rate plus an interest rate margin of 1.25% to 3.75%. The interest rate margin is based on the Company's performance under certain financial ratio tests. The Company, to fulfill the

requirements of Wells Fargo, fixed the interest rate on the term loan by utilizing an interest rate swap agreement. The Term Loan Agreement had an outstanding balance of $6.4 million at March 26, 2006 and $6.8 million at March 27, 2005. Property, plant and equipment, inventory and accounts receivable have been pledged for the Term Loan Agreement.

On October 18, 2005, the Company notified Wells Fargo Bank, N.A. that, as of September 25, 2005 the Company was in violation of certain financial ratio covenants in the Revolving Credit Agreement and that, as a result, an event of default exists under the Loan Agreement. As a result of the continuing event of default as of December 25, 2005 all outstanding principal of the Company's obligations under the Revolving Credit Agreement were reclassified as a current liability on the Company's balance sheet.

On November 28, 2005 Wells Fargo notified the Company that as a result of the default Wells Fargo would continue to make Revolving Credit Loans (as defined in the Revolving Credit Agreement) to the Company in accordance with the terms of the Revolving Credit Agreement, provided that the aggregate principal amount of all such Revolving Credit Loans does not exceed $3,000,000 at any one time. Additionally, Wells Fargo notified the Company that the LIBOR rate margin and the Prime rate margin under the Revolving Credit Agreement had been adjusted, effective as of October 1, 2005, according to the pricing rate grid set forth in the Revolving Credit Agreement.

The Company entered into an interest rate swap effective February 27, 2001, as amended, designated as a cash flow hedge, to manage interest rate risk relating to the financing of the construction of the Company's new headquarters and to fulfill bank requirements. The swap agreement has a notional principal amount of $8.125 million with a fixed pay rate of 5.84%, which began November 1, 2001 and will end November 19, 2007. The swap's notional amount amortizes over a term of twenty years to parallel the terms of the Term Loan Agreement. Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" requires that for cash flow hedges, which hedge the exposure to variable cash flow of a forecasted transaction, the effective portion of the derivative's gain or loss be initially reported as a component of other comprehensive income in the equity section of the balance sheet and subsequently reclassified into earnings when the forecasted transaction affects earnings. Any ineffective portion of the derivative's gain or loss is reported in earnings immediately. As of March 26, 2006, there was no hedge ineffectiveness. The Company's expectation is that the hedging relationship will be highly effective at achieving offsetting changes in cash flows.

The Company is in an arbitration proceeding with Mr. Parker as previously described. Although the ultimate outcome of the arbitration proceeding cannot be projected with certainty at this time, the Company intends to vigorously defend against Mr. Parker's claims and pursue all relief to which it may be entitled. An adverse outcome to the proceeding could materially affect the Company's financial position, results of operations and liquidity. In the event the Company is unsuccessful, it could be liable to Mr. Parker for approximately $5.4 million under the Parker Agreement plus accrued interest and legal expenses. The Company maintains that it does not owe Mr. Parker severance payments or any other compensation, however it is possible that the Company might not have sufficient borrowing capacity or available cash or assets to make all payments required by a determination granting Mr. Parker all or substantially all of the amounts he demands. No accrual for any amount has been made as of March 26, 2006. We are also a party to a lawsuit brought against us by PepsiCo, as previously described. We believe that the allegations made against the Company by PepsiCo are unfounded, although the ultimate outcome of the lawsuit cannot be predicted with certainty at this time. We intend to vigorously contest all of PepsiCo's claims and to pursue all relief to which we may be entitled. However, in the event the Company is unsuccessful, it could be liable to PepsiCo for approximately $2.6 million plus fees and costs. It is possible that the Company might not have sufficient borrowing capacity or available cash or assets to make all payments required by a determination granting PepsiCo all or substantially all of the amount demanded. No accrual has been made as of March 26, 2006. The Company anticipates a higher level of legal expenses from the ongoing litigation and related matters described previously, until all such matters are resolved.

In July 2005 the Company acquired the assets of two existing Buffet Units from Houston, Texas area franchisees. These restaurants have been remodeled and one opened in December 2005 and the other restaurant opened in February 2006. One location has approximately 4,100 square feet and the other has approximately 2,750 square feet. Both are leased at rates of approximately $18.00 per square foot. The leases expire in 2015 and each has at least one renewal option. The cost of acquiring and remodeling these restaurants was approximately $1,152,000.

In July 2005 the Company leased approximately 4,100 square feet of space in a retail development in Plano, Texas for the operation of a Buffet Unit at a lease rate of approximately $30.00 per square foot. The restaurant opened October 28, 2005. The lease has a five-year term with multiple renewal options. The cost of finishing out the space, including equipment, was approximately $678,000.

We also owned property in Prosper, Texas that was purchased in August 2004 with the intention of constructing and operating a Buffet Unit. We decided not to pursue development at that location and sold the property to a third party on September 23, 2005 for $301,000, realizing a gain of $147,000 on the sale.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following chart summarizes all of the Company's material obligations and commitments to make future payments under contracts such as debt and lease agreements as of March 26, 2006 (in thousands):

	Total	Fiscal Year 2006	Fiscal Years 2007 - 2008	Fiscal Years 2009 - 2010	After Fiscal Year 2010
Bank debt (1)	$ 8,648	$ 8,648	$ -	$ -	$ -
Operating lease obligations	3,591	1,045	925	629	992
Employee contracts	517	142	375	-	-
Total contractual obligations	$12,756	$ 9,835	$ 1,300	$ 629	$ 992

(1) Does not include amounts representing interest. The bank debt includes a variable rate $3.0 million revolving credit line with a balance of $2.2 million as of March 26, 2006. At March 26, 2006, the variable interest rate on the revolving credit line was 9.25%. Also included in the bank debt is a variable rate term loan of $8.125 million with a balance of $6.4 million as of March 26, 2006. The Company fixed the interest rate at 5.84% on the term loan by utilizing an interest rate swap agreement.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires our management to make estimates and assumptions that affect our reported amounts of assets, liabilities, revenues, expenses and related disclosure of contingent liabilities. We base our estimates on historical experience and various other assumptions that we believe are reasonable under the circumstances. Estimates and assumptions are reviewed periodically. Actual results could differ materially from estimates.

The Company believes the following critical accounting policies require estimates about the effect of matters that are inherently uncertain, are susceptible to change, and therefore require subjective judgments. Changes in the estimates and judgments could significantly impact our results of operations and financial conditions in future periods.

Accounts receivable consist primarily of receivables generated from food and supply sales to franchisees and franchise royalties. The Company records a provision for doubtful receivables to allow for any amounts which may be unrecoverable and is based upon an analysis of the Company's prior collection experience, general customer creditworthiness, and the franchisee's ability to pay, based upon the franchisee's sales, operating results, and other general and local economic trends and conditions that may affect the franchisee's ability to pay. Actual realization of amounts receivable could differ materially from our estimates. Beginning January 1, 2006, the Company began charging a finance charge on all receivables past due more than thirty days.

Inventory, which consists primarily of food, paper products, supplies and equipment located at the Company's distribution center, are stated at the lower of FIFO (first-in, first-out), cost or market. The valuation of inventory requires us to estimate the amount of obsolete and excess inventory. The determination of obsolete and excess inventory requires us to estimate the future demand for our products within specific time horizons, generally six months or less. If the Company's demand forecast for specific products is greater than actual demand and the Company fails to reduce purchasing accordingly, the Company could be required to write down additional inventory, which would have a negative impact on our gross margin.

The Company has recorded a valuation allowance to reflect the estimated amount of deferred tax assets that may not be realized based upon the Company's analysis of existing tax credits by jurisdiction and expectations of the Company's ability to utilize these tax attributes through a review of estimated future taxable income and establishment of tax strategies. These estimates could be materially impacted by changes in future taxable income and the results of tax strategies.

The Company assesses its exposures to loss contingencies including legal and income tax matters based upon factors such as the current status of cases and consultations with external counsel and provides for an exposure by accruing an amount if it is judged to be probable and can be reasonably estimated. If the actual loss from a contingency differs from management's estimate, operating results could be impacted.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

At March 26, 2006, the Company had approximately $8.6 million of variable rate debt obligations outstanding with a weighted average interest rate of 7.0%. A hypothetical 10% increase in the effective interest rate for these borrowings, assuming debt levels at March 26, 2006, would have increased interest expense by approximately $11,000 for the nine month period ending March 26, 2006. As discussed previously, the Company has entered into an interest rate swap designed to manage the interest rate risk relating to $6.4 million of the variable rate debt.

ITEM 4. CONTROLS AND PROCEDURES

The Company's management, including the Company's principal executive officer and principal accounting officer, has evaluated the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, the Company's principal executive officer and principal accounting officer have concluded that the disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q.

There were no changes in the Company's internal control over financial reporting that occurred during the Company's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On December 11, 2004, the Board of Directors of the Company terminated the Executive Compensation Agreement dated December 16, 2002 between the Company and its then Chief Executive Officer, Ronald W. Parker ("Parker Agreement"). Mr. Parker's employment was terminated following ten days written notice to Mr. Parker of the Company's intent to discharge him for cause as a result of violations of the Parker Agreement. Written notice of termination was communicated to Mr. Parker on December 13, 2004. The nature of the cause alleged was set forth in the notice of intent to discharge and based upon Section 2.01(c) of the Parker Agreement, which provides for discharge for "any intentional act of fraud against the Company, any of its subsidiaries or any of their employees or properties, which is not cured, or with respect to which Executive is not diligently pursuing a cure, within ten (10) business days of the Company giving notice to Executive to do so." Mr. Parker was provided with an opportunity to cure as provided in the Parker Agreement as well as the opportunity to be heard by the Board of Directors prior to the termination.

On January 12, 2005, the Company instituted an arbitration proceeding against Mr. Parker with the American Arbitration Association in Dallas, Texas pursuant to the Parker Agreement seeking declaratory relief that Mr. Parker is not entitled to severance payments or any other further compensation from the Company. In addition, the Company is seeking compensatory damages, consequential damages, and disgorgement of compensation paid to Mr. Parker under the Parker Agreement. On January 31, 2005, Mr. Parker filed claims against the Company for breach of the Parker Agreement, seeking the severance payment provided for in the Parker Agreement for a termination of Mr. Parker by the Company for reason other than for cause (as defined in the Parker Agreement), plus interest, attorney's fees and costs. The arbitration hearing is scheduled to begin September 11, 2006.

Due to the preliminary stages of the arbitration proceeding and the general uncertainty surrounding the outcome of this type of legal proceeding, it is not possible for the Company to provide any certain or meaningful analysis, projections, or expectations at this time regarding the outcome of this matter. Although the ultimate outcome of the arbitration proceeding cannot be projected with certainty at this time, the Company intends to vigorously defend against Mr. Parker's claims and to pursue all relief to which it may be entitled. An adverse outcome to the proceeding could materially affect the Company's financial position and results of operations. In the event the Company is unsuccessful, it could be liable to Mr. Parker for approximately $5.4 million under the Parker Agreement plus accrued interest and legal expenses. No accrual for any amount has been made as of March 26, 2006.

On June 15, 2004, B. Keith Clark provided the Company with notice of his intent to resign as Senior Vice President - Corporate Development, Secretary and General Counsel of the Company effective as of July 7, 2004. By letter dated June 24, 2004, Mr. Clark notified the Company that he reserved his right to assert that the election of Ramon D. Phillips and Robert B. Page to the Board of Directors of the Company at the February 11, 2004 annual meeting of shareholders constituted a "change of control" of the Company under his executive compensation agreement (the "Clark Agreement"). As a result of the alleged "change of control" under the Clark Agreement, Clark claims that he was entitled to terminate the Clark Agreement within twelve (12) months of February 11, 2004 for "good reason" (as defined in the Clark Agreement) and is entitled to severance. On August 6, 2004, the Company instituted an arbitration

proceeding against Mr. Clark with the American Arbitration Association in Dallas, Texas pursuant to the Clark Agreement seeking declaratory relief that Mr. Clark is not entitled to severance payments or any other further compensation from the Company. On January 18, 2005, the Company amended its claims against Mr. Clark to include claims for compensatory damages, consequential damages and disgorgement of compensation paid to Mr. Clark under the Clark Agreement. Mr. Clark has filed claims against the Company for breach of the Clark Agreement, seeking the severance payment provided for in the Clark Agreement plus a bonus payment for 2003 of approximately $12,500. On November 8, 2005 the parties entered into a confidential settlement agreement and release of claims, which provided, among other things, that the Company paid Mr. Clark $150,000, the parties dismissed with prejudice all claims in the pending arbitration action and each party will bore its or his own costs and expenses.

On October 5, 2004 the Company filed a lawsuit against the law firm Akin, Gump, Strauss, Hauer & Feld, ("Akin Gump") and J. Kenneth Menges, one of the firm's partners. Akin Gump served as the Company's principal outside lawyers from 1997 through May 2004, when the Company terminated the relationship. The petition alleges that during the course of representation of the Company, the firm and Mr. Menges, as the partner in charge of the firm's services for the Company, breached certain fiduciary responsibilities to the Company by giving advice and taking action to further the personal interests of certain of the Company's executive officers to the detriment of the Company and its shareholders. Specifically, the petition alleges that the firm and Mr. Menges assisted in the creation and implementation of so-called "golden parachute" agreements, which, in the opinion of the Company's current counsel, provided for potential severance payments to those executives in amounts greatly disproportionate to the Company's ability to pay, and that, if paid, could expose the Company to significant financial liability which could have a material adverse effect on the Company's financial position. This matter is in its preliminary stages, and the Company is unable to provide any meaningful analysis, projections or expectations at this time regarding the outcome of this matter. However, the Company intends to vigorously pursue all relief to which it may be entitled. On January 25, 2005, Akin Gump filed a motion with the court asking for this matter to be abated pending a determination in the Clark and Parker arbitrations. The court denied the motion but ruled that it would not set a trial date until after completion of the Clark and Parker arbitration hearings.

On April 22, 2005, the Company provided PepsiCo, Inc. ("PepsiCo") with written notice of PepsiCo's breach of the beverage marketing agreement the parties had entered into in May 1998 (the "Beverage agreement"). In the notice, the Company alleged that PepsiCo had not complied with the terms of the Beverage Agreement by failing to (i) provide account and equipment service, (ii) maintain and repair fountain dispensing equipment, (iii) make timely and accurate account payments, and by providing the Company with beverage syrup containers that leaked in storage and in transit. The notice provided PepsiCo 90 days with which to cure the instances of default. On May 18, 2005 the parties entered into a "standstill" agreement under which the parties agreed to a 60-day extension of the cure period to attempt to renegotiate the terms of the Beverage Agreement and for PepsiCo to complete its cure.

The parties did not reach an agreement regarding renegotiation of the Beverage Agreement and the Company contends that PepsiCo did not cure each of the instances of default set forth in the Company's original notice of default. On September 15, 2005 the Company provided PepsiCo with notice of termination of the Beverage Agreement effective immediately. On October 11, 2005 PepsiCo served the Company with a Petition in the matter of PepsiCo, Inc. v. Pizza Inn, Inc. filed in District Court in Collin County, Texas. In the Petition, PepsiCo alleges that the Company breached the Beverage Agreement by terminating it without cause. PepsiCo seeks damages of $2.6 million, an amount PepsiCo believes represents the value of gallons of beverage products that the Company is required to purchase under the terms of the Beverage Agreement, plus return of any marketing support funds that PepsiCo advanced to the Company but that the Company has not earned. The Company has filed a counterclaim against PepsiCo for amounts earned by the Company under the Beverage Agreement but not yet paid by PepsiCo, and for damages for business defamation and tortuous interference with contract based upon statements and actions of the PepsiCo account representative servicing the Company's account.

The Company believes that it had good reason to terminate the Beverage Agreement and that it terminated the Beverage Agreement in good faith and in compliance with its terms. The Company further believes that under such circumstances it has no obligation to purchase additional quantities of beverage products. Due to the preliminary nature of this matter and the general uncertainty surrounding the outcome of any form of legal proceeding, it is not possible for the Company to provide any certain or meaningful analysis, projection, or expectation at this time regarding the outcome of this matter. Although the outcome of the legal proceeding cannot be projected with certainty, the Company believes that its actions in terminating the Beverage Agreement were proper and that PepsiCo's allegations are without merit. The Company intends to vigorously defend against such allegations and to pursue all relief to which it may be entitled. An adverse outcome to the proceeding could materially affect the Company's financial position and results of operation. In the event the Company is unsuccessful, it could be liable to PepsiCo for gallons of beverage products valued at approximately $2.6 million plus costs and fees. No accrual for such amounts has been made as of March 26, 2006. This matter is set for trial beginning on September 4, 2006.

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ITEM 1A. RISK FACTORS

In addition to the other information contained in this report, the following risk factors may affect us. Among the risk factors are: (i) risks associated with our business and ongoing operations, (ii) risks associated with an investment in our common stock and (iii) risks associated with our industry. Our business, financial condition or results of operations could be materially and adversely affected by any of these risks.

RISKS ASSOCIATED WITH OUR BUSINESS AND ONGOING OPERATIONS

AS A RESULT OF LOSSES IN RECENT QUARTERS, OUR FINANCIAL CONDITION HAS BEEN MATERIALLY WEAKENED AND OUR LIQUIDITY HAS DECREASED.

We incurred losses of $601,000, $490,000, and $477,000 in the first, second and third quarters, respectively, of the fiscal year ending June 25, 2006. As a result, our financial condition has been materially weakened and our liquidity diminished, and we remain vulnerable both to unexpected events (such as a sudden spike in block cheese prices or fuel prices) and to general declines in our operating environment (such as that resulting from significantly increased competition).

WE ARE IN DEFAULT UNDER OUR REVOLVING CREDIT AGREEMENT, WHICH HAS REDUCED AVAILABLE BORROWING CAPACITY UNDER OUR REVOLVING CREDIT AGREEMENT AND RESULTED IN DIMINISHED LIQUIDITY.

Since September 2005, we have been in default of our loan agreement with Wells Fargo Bank for ongoing violations of certain financial ratio covenants in the Revolving Credit Agreement. As a result, Wells Fargo has reduced the availability of revolving credit loans under the Revolving Credit Agreement from $6,000,000 to $3,000,000. The reduction in available borrowing capacity may diminish our cash flow and liquidity positions and adversely affect our ability to (i) meet our new restaurant development goals, and (ii) effectively address competitive challenges and adverse operating and economic conditions.

As a result of our default under the Revolving Credit Agreement we are also in default under the Term Loan Agreement. According to the provisions of the Term Loan Agreement, Wells Fargo has the right to require immediate payment of the Real Estate Note (as defined in the Term Loan Agreement), which had a principal balance of $6,433,000 as of March 26, 2006.

OUR SUBSTANTIAL INDEBTEDNESS COULD MATERIALLY ADVERSELY AFFECT OUR BUSINESS AND LIMIT OUR ABILITY TO PLAN FOR OR RESPOND TO CHANGES IN OUR BUSINESS.

As of March 26, 2006, our substantial consolidated long-term indebtedness was $8,615 million, the full amount of which has been reclassified on our balance sheet as current debt since December 25, 2005 as a result of our on-going loan default. Our indebtedness and the fact that a portion of our reduced cash flow from operations must be used to make principal and interest payments on our indebtedness could have important consequences to you. For example, they could:

- make it more difficult for us to satisfy our obligations with respect to our loan agreement;
- increase our vulnerability to general adverse economic and industry conditions;
- reduce the availability of our cash flow for other purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate, thereby placing us at a competitive disadvantage compared to our competitors that may have less debt; and
- limit, by the financial and other restrictive covenants in our loan agreement, our ability to borrow additional funds.

IF WE DO NOT PREVAIL IN OUR ARBITRATION WITH OUR FORMER PRESIDENT AND CHIEF EXECUTIVE OFFICER AND IN LITIGATION WITH A FORMER BEVERAGE SUPPLIER, WE COULD BE LIABLE FOR SIGNIFICANT MONETARY DAMAGES.

An adverse outcome to the proceedings involving Ronald W. Parker, the Company's former President and Chief Executive Officer, could materially affect the Company's financial position and results of operations. In the event the Company is unsuccessful, it could be liable to Mr. Parker for approximately $5.4 million under his employment agreement plus accrued interest and legal expenses. Likewise, an unfavorable outcome in our litigation with PepsiCo, Inc. could result in a liability of approximately $2.6 million. No accrual for any amount of potential liability for either of these matters has been made as of March 26, 2006.

WE ALSO FACE RISKS OF LITIGATION FROM CUSTOMERS, FRANCHISEES, EMPLOYEES AND OTHERS IN THE ORDINARY COURSE OF BUSINESS, WHICH DIVERTS OUR FINANCIAL AND MANAGEMENT RESOURCES. ANY ADVERSE LITIGATION OR PUBLICITY MAY NEGATIVELY IMPACT OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Claims of illness or injury relating to food quality or food handling are common in the food service industry. In addition to decreasing our sales and profitability and diverting our management resources, adverse publicity or a substantial judgment against us could negatively impact our financial condition, results of operations and brand reputation, hindering our ability to attract and retain franchisees and grow our business.

Further, we may be subject to employee, franchisee and other claims in the future based on, among other things, discrimination, harassment, wrongful termination and wage, rest break and meal break issues, including those relating

to overtime compensation. If one or more of these claims were to be successful or if there is a significant increase in the number of these claims, our business, financial condition and operating results could be harmed.

IF WE ARE NOT ABLE TO IMPLEMENT OUR GROWTH STRATEGY SUCCESSFULLY, WHICH INCLUDES OPENING NEW DOMESTIC BUFFET UNITS AND REIMAGING EXISTING RESTAURANTS, OUR ABILITY TO INCREASE OUR REVENUES AND OPERATING PROFITS COULD BE MATERIALLY ADVERSELY AFFECTED.

A significant component of our growth strategy for developing new domestic franchised and Company-owned restaurants is the implementation of our new prototype buffet restaurant concept. We and our franchisees face many challenges in opening new restaurants, including, among other things, selection and availability of suitable restaurant locations and suitable employees, increases in food, paper, labor, utilities, fuel, employee benefits, insurance and similar costs, negotiation of suitable lease or financing terms, constraints on permitting and construction of restaurants, higher than anticipated construction costs, the hiring, training and retention of management and other personnel and securing required domestic or foreign governmental permits and approvals. In addition to implementing our growth strategy through the sale of franchised Buffet Units, we intend to gradually develop and operate Company-owned Buffet Units in selected markets. The construction, finish-out, and operation of Buffet Units will require more initial capital investment and greater on-going expense and operating risk to the Company than normally experienced through franchise development alone. As a result, we may experience diminished liquidity, reduced cash flow, and increased risk of loss from unprofitable Buffet Unit operations.

The opening of additional franchise restaurants also depends, in part, upon the availability of prospective franchisees who meet our criteria. Our new concept development program may require considerable management time as well as start-up expenses for franchisee recruitment and training and market development before any significant revenues and earnings are generated.

Accordingly, we may not be able to meet planned growth targets, open restaurants in markets now targeted for expansion or operate profitably in existing markets. In addition, even if we are able to continue to open new restaurants, we may not be able to keep restaurants from closing at a faster rate than we are able to open restaurants.

AN INCREASE IN THE COST OF CHEESE OR OTHER COMMODITIES, INCLUDING FUEL AND LABOR, COULD ADVERSELY AFFECT OUR PROFITABILITY AND OPERATING RESULTS.

An increase in our operating costs could adversely affect our profitability. Factors such as inflation, increased food costs, increased labor and employee benefit costs and increased energy costs may adversely affect our operating costs. Most of the factors affecting costs are beyond our control and, in many cases, we may not be able to pass along these increased costs to our customers or franchisees even if we attempted to do so. Most ingredients used in our pizza, particularly cheese, are subject to significant price fluctuations as a result of seasonality, weather, availability, demand and other factors. Sustained increases in fuel and utility costs could adversely affect the profitability of our restaurant and distribution businesses. Labor costs are largely a function of the minimum wage for a majority of our restaurant and distribution center personnel and, generally, are a function of the availability of labor.

SHORTAGES OR INTERRUPTIONS IN THE DELIVERY OF FOOD PRODUCTS COULD ADVERSELY AFFECT OUR OPERATING RESULTS.

We, and our franchisees, are dependent on frequent deliveries of food products that meet our specifications. Our Company-owned domestic restaurants purchase substantially all food and related products from our distribution division, Norco. Domestic franchisees are only required to purchase the flour mixture, spice blend and certain other items from Norco, and changes in purchasing practices by domestic franchisees as a result of delivery disruptions or otherwise could adversely affect the financial results of our distribution operation. Interruptions in the delivery of food products caused by unanticipated demand, problems in production or distribution by Norco or otherwise, inclement weather (including hurricanes and other natural disasters) or other conditions could adversely affect the availability, quality and cost of ingredients, which would adversely affect our operating results.

IF WE ARE NOT ABLE TO CONTINUE PURCHASING OUR KEY PIZZA INGREDIENTS FROM OUR CURRENT SUPPLIERS OR FIND SUITABLE REPLACEMENT SUPPLIERS OUR FINANCIAL RESULTS COULD BE MATERIALLY ADVERSELY AFFECTED.

We are dependent on a few suppliers for our key ingredients. Domestically, we rely upon sole suppliers for our cheese, flour mixture and certain other key ingredients. Alternative sources for these ingredients may not be available on a timely basis to supply these key ingredients or be available on terms as favorable to us as under our current arrangements. Any disruptions in our supply of key ingredients could adversely affect our operations.

WE ARE SUBJECT TO EXTENSIVE GOVERNMENT REGULATION, AND ANY FAILURE TO COMPLY WITH EXISTING OR INCREASED REGULATIONS COULD ADVERSELY AFFECT OUR BUSINESS AND OPERATING RESULTS.

We are subject to numerous federal, state, local and foreign laws and regulations, including those relating to:

- the preparation and sale of food;
- building and zoning requirements;
- environmental protection;
- minimum wage, citizenship, overtime and other labor requirements;
- compliance with the Americans with Disabilities Act; and

- - working and safety conditions.

If we fail to comply with existing or future laws and regulations, we may be subject to governmental or judicial fines or sanctions. In addition, our capital expenditures could increase due to remediation measures that may be required if we are found to be noncompliant with any of these laws or regulations.

We are also subject to a Federal Trade Commission rule and to various state and foreign laws that govern the offer and sale of franchises. These laws regulate various aspects of the franchise relationship, including terminations and the refusal to renew franchises. The failure to comply with these laws and regulations in any jurisdiction or to obtain required government approvals could result in a ban or temporary suspension on future franchise sales, fines or other penalties or require us to make offers of rescission or restitution, any of which could adversely affect our business and operating results.

OUR EARNINGS AND BUSINESS GROWTH STRATEGY DEPENDS ON THE SUCCESS OF OUR FRANCHISEES, AND WE MAY BE HARMED BY ACTIONS TAKEN BY OUR FRANCHISEES THAT ARE OUTSIDE OF OUR CONTROL.

A significant portion of our earnings comes from royalties generated by our franchised restaurants. Franchisees are independent operators whose employees are not our employees. We provide limited training and support to franchisees, but the quality of franchised restaurant operations may be diminished by any number of factors beyond our control. Consequently, franchisees may not successfully operate restaurants in a manner consistent with our standards and requirements, or may not hire and train qualified managers and other restaurant personnel. If they do not, our image and reputation may suffer, and revenues could decline. Our franchisees may take actions that adversely affect the value of our intellectual property or reputation. Our domestic and international franchisees may not operate their franchises successfully. If one or more of our key franchisees were to become insolvent or otherwise were unable or unwilling to pay us our royalties, our business and results of operations would be adversely affected.

LOSS OF KEY PERSONNEL OR OUR INABILITY TO ATTRACT AND RETAIN NEW QUALIFIED PERSONNEL COULD HURT OUR BUSINESS AND INHIBIT OUR ABILITY TO OPERATE AND GROW SUCCESSFULLY.

Our success will depend to a significant extent on our leadership team and other key management personnel. We may not be able to retain our executive officers and key personnel or attract additional qualified management. Our success also will depend on our ability to attract and retain qualified personnel to oversee our restaurants, distribution center and international operations. The loss of these employees or any inability to recruit and retain qualified personnel could have a material adverse effect on our operating results.

OUR CURRENT INSURANCE COVERAGE MAY NOT BE ADEQUATE, OUR INSURANCE PREMIUMS MAY INCREASE AND WE MAY NOT BE ABLE TO OBTAIN INSURANCE AT ACCEPTABLE RATES, OR AT ALL.

Our insurance policies may not be adequate to protect us from liabilities that we incur in our business. In addition, in the future our insurance premiums may increase and we may not be able to obtain similar levels of insurance on reasonable terms, or at all. Any such inadequacy of, or inability to obtain, insurance coverage could have a material adverse effect on our business, financial condition and results of operations.

RISKS ASSOCIATED WITH AN INVESTMENT IN OUR COMMON STOCK

EVEN THOUGH OUR COMMON STOCK IS CURRENTLY TRADED ON THE NASDAQ SMALLCAP MARKET, IT HAS LESS LIQUIDITY THAN THE STOCK OF MANY OTHER COMPANIES QUOTED ON THE NASDAQ STOCK MARKET'S NATIONAL MARKET OR ON A NATIONAL SECURITIES EXCHANGE.

The trading volume in our common stock on the Nasdaq SmallCap Market has been relatively low when compared with larger companies listed on the Nasdaq National Market or the other stock exchanges. Shareholders, therefore, may experience difficulty selling a substantial number of shares for the same price at which shareholders could sell a smaller number of shares. We cannot predict the effect, if any, that future sales of our common stock in the market, or the availability of shares of common stock for sale in the market, will have on the market price of our common stock. Sales of substantial amounts of common stock in the market, or the potential for large amounts of sales in the market, may cause the price of our common stock to decline or impair our future ability to raise capital through sales of our common stock.

THE MARKET PRICE OF OUR COMMON STOCK MAY FLUCTUATE IN THE FUTURE, AND THESE FLUCTUATIONS MAY BE UNRELATED TO OUR PERFORMANCE.

General market price declines or overall market volatility in the future could adversely affect the price of our common stock, and the current market price may not be indicative of future market prices.

RISKS ASSOCIATED WITH OUR INDUSTRY

IF WE ARE NOT ABLE TO COMPETE EFFECTIVELY, OUR BUSINESS, SALES AND EARNINGS COULD BE MATERIALLY ADVERSELY AFFECTED.

The restaurant industry in general, as well as the pizza segment of the industry, is intensely competitive, both internationally and domestically, with respect to price, service, location and food quality. We compete against many regional and local businesses. There are many well-established competitors with substantially greater brand awareness and financial and other resources than we have. Some of these competitors may be better established in markets where

restaurants we operate or that are operated by our franchisees are, or may be, located. Experience has shown that a change in the pricing or other marketing or promotional strategies, including new product and concept developments, of one or more of our major competitors can have an adverse impact on sales and earnings and our systemwide restaurant operations.

We could also experience increased competition from existing or new companies in the pizza segment of the restaurant industry. If we are unable to compete, we could experience downward pressure on prices, lower demand for our products, reduced margins, the inability to take advantage of new business opportunities and the loss of market share, all of which would have a material adverse effect on our operating results.

We also compete on a broader scale with quick service, fast casual and other international, national, regional and local restaurants. The overall food service market and the quick service restaurant sector are intensely competitive with respect to food quality, price, service, convenience and concept. We also compete within the food service market and the restaurant industry for management and hourly employees, suitable real estate sites and qualified franchisees.

Norco is also subject to competition from outside suppliers. If other suppliers who meet our qualification standards were to offer lower prices or better service to our franchisees for their ingredients and supplies and, as a result, our franchisees chose not to purchase from Norco, our financial condition, business and results of operations would be adversely affected.

CHANGES IN CONSUMER PREFERENCES AND PERCEPTIONS COULD DECREASE THE DEMAND FOR OUR PRODUCTS, WHICH WOULD REDUCE SALES AND HARM OUR BUSINESS.

Restaurant businesses are affected by changes in consumer tastes, national, regional and local economic conditions, demographic trends, disposable purchasing power, traffic patterns and the type, number and location of competing restaurants. For example, if prevailing health or dietary preferences cause consumers to avoid pizza and other products we offer or quick service restaurant offerings generally in favor of foods that are perceived as more healthy, our business and operating results would be harmed.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND THE USE OF PROCEEDS

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

On October 18, 2005 the Company notified Wells Fargo that as of September 25, 2005 the Company was in violation of certain financial ratio covenants in the Revolving Credit Agreement and that as a result an event of default existed under the Revolving Credit Agreement. As a result of the continuing event of default, as of March 26, 2006, all outstanding principal of the Company's obligations under the Revolving Credit Agreement and Term Loan Agreement have been reclassified as current liabilities on the Company's balance sheet.

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

Not applicable.

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ITEM 5. OTHER INFORMATION

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Not applicable.

ITEM 6. EXHIBITS

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3.1 Restated Articles of Incorporation as filed on September 5, 1990 and amended on June 23, 2005 (filed as Exhibit 3.6 to the Company's Annual Report on Form 10-K for the fiscal year ended June 26, 2005 and incorporated herein by reference).

3.2 Amended and Restated By-laws as adopted by the Board of Directors on February 11, 2004 (filed as Item 5 on Form 8-K on February 11, 2004 and incorporated herein by reference).

31.1 Certification of Chief Executive Officer as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Principal Accounting Officer as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Principal Accounting Officer as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

PIZZA INN, INC.
Registrant

By: /s/Timothy P. Taft
Timothy P. Taft
Chief Executive Officer

By: /s/Kevin A. Kleiner
Kevin A. Kleiner
Principal Accounting Officer

Dated: May 9, 2006

EXHIBIT 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Timothy P. Taft, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pizza Inn, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/Timothy P. Taft

Timothy P. Taft
Chief Executive Officer

Date: May 9, 2006

EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Kevin A. Kleiner, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pizza Inn, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/Kevin A. Kleiner

Kevin A. Kleiner
Date: May 9, 2006 Principal Accounting Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), the undersigned officer of Pizza Inn, Inc. (the "Company"), does hereby certify, to such officer's knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended March 26, 2006 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Form 10-Q.

By:/s/Timothy P. Taft

Timothy P. Taft
Chief Executive Officer

Date: May 9, 2006

The foregoing certification is being furnished as an exhibit to the Form 10-Q pursuant to Item 601(b)(32) of Regulation S-K and Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and, accordingly, is not being filed as part of the Form 10-Q for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

EXHIBIT 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), the undersigned officer of Pizza Inn, Inc. (the "Company"), does hereby certify, to such officer's knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended March 26, 2006 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Form 10-Q.

By:/s/Kevin A. Kleiner

Kevin A. Kleiner
Principal Accounting Officer

Date: May 9, 2006

The foregoing certification is being furnished as an exhibit to the Form 10-Q pursuant to Item 601(b)(32) of Regulation S-K and Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and, accordingly, is not being filed as part of the Form 10-Q for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.