

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-K

(Mark One)

- Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the fiscal year ended June 30, 2019.
Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
- For the transition period from ____ to ____.

Commission File Number 0-12919

RAVE RESTAURANT GROUP, INC.

(Exact name of registrant as specified in its charter)

Missouri
(State or jurisdiction of incorporation or organization)

45-3189287
(I.R.S. Employer Identification No.)

3551 Plano Parkway
The Colony, Texas
(Address of principal executive offices)

75056
(Zip Code)

Registrant's telephone number, including area code: (469) 384-5000

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value	RAVE	Nasdaq Capital Market

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

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 for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of December 23, 2018, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the voting and non-voting common equity held by non-affiliates was approximately \$7.1 million computed by reference to the price at which the common equity was last sold on the NASDAQ Capital Market.

As of September 18, 2019, there were 15,122,877 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement, to be filed pursuant to Section 14(a) of the Securities Exchange Act in connection with the registrant's annual meeting of shareholders scheduled for December 10, 2019, have been incorporated by reference in Part III of this report.

Forward-Looking Statements

This Form 10-K contains certain forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, which are intended to be covered by the safe harbors created thereby. Forward-looking statements include statements which are predictive in nature, which depend upon or refer to future events or conditions, or which include words such as “expect,” “anticipate,” “intend,” “plan,” “believe,” “estimate” or similar expressions. These statements include the plans and objectives of management for future operations, including plans and objectives relating to future growth of our business activities and availability of funds. Statements that address business and growth strategies, performance goals, projected financial condition and operating results, our understanding of our competition, industry and market trends, and any other statements or assumptions that are not historical facts are forward-looking statements.

The forward-looking statements included in this Form 10-K are based on current expectations that involve numerous risks and uncertainties. Assumptions relating to these forward-looking statements involve judgments with respect to, among other things, future economic, competitive and market conditions, regulatory framework and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Although we believe that the assumptions underlying these forward-looking statements are reasonable, any of the assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Form 10-K will prove to be accurate. In light of the significant uncertainties inherent in these forward-looking statements, the inclusion of such information should not be regarded as a representation that our objectives and plans will be achieved.

PART I

ITEM 1. BUSINESS.

General

Rave Restaurant Group, Inc., through its subsidiaries (collectively, the “Company” or “we,” “us” or “our”) operates and franchises pizza buffet (“Buffet Units”), delivery/carry-out (“Delco Units”) and express (“Express Units”) restaurants under the trademark “Pizza Inn” and operates and franchises fast casual pizza restaurants (“Pie Five Units”) under the trademarks “Pie Five Pizza Company” or “Pie Five”. The Company also licenses Pizza Inn Express, or PIE, kiosks (“PIE Units”) under the trademark “Pizza Inn”. We facilitate food, equipment and supply distribution to our domestic and international system of restaurants through agreements with third party distributors.

As of June 30, 2019, we owned and operated one Pie Five Unit. As of that date, we also had 57 franchised Pie Five Units, 194 franchised Pizza Inn restaurants and nine licensed PIE Units. The 146 domestic franchised Pizza Inn restaurants were comprised of 87 Buffet Units, nine Delco Units and 50 Express Units. As of June 30, 2019, there were 48 international franchised Pizza Inn restaurants. Domestic Pizza Inn restaurants and kiosks were located predominantly in the southern half of the United States, with Texas, Arkansas, North Carolina and Mississippi accounting for approximately 25%, 18%, 17% and 8%, respectively, of the total number of domestic units.

Our History

The Company has offered consumers affordable, high quality pizza since 1958, when the first Pizza Inn restaurant opened in Dallas, Texas. We awarded our first franchise in 1963 and opened our first buffet restaurant in 1969. We began franchising the Pizza Inn brand internationally in the late 1970s. In 1993, our stock began trading on the NASDAQ Stock Market, and presently trades on the NASDAQ Capital Market under the ticker symbol “RAVE.” In June 2011, we opened the first Pie Five restaurant in Ft. Worth, Texas. In November 2012, we signed our first franchise development agreement for Pie Five. In 2018, we launched the PIE kiosk and convenience store solution to meet the consumer demand for tasty and high-quality pizzas within a grab-and-go delivery model.

Our Concepts

We operate and franchise restaurant concepts and license PIE kiosks under two distinct brands: Pizza Inn and Pie Five.

Pizza Inn

We franchise Buffet Units, Delco Units and Express Units under the Pizza Inn brand. Additionally, we license PIE Units under the Pizza Inn brand. Buffet Units and Delco Units feature crusts that are hand-made from dough made fresh in the restaurant each day. Our pizzas are made with a proprietary all-in-one flour mixture, real mozzarella cheese and a proprietary mix of classic pizza spices. In international markets, the menu mix of toppings and side items is occasionally adapted to local tastes.

Buffet Units offer dine-in, carryout and catering service and, in many cases, also offer delivery service. Buffet Units offer a variety of pizza crusts with standard toppings and special combinations of toppings in addition to pasta, salad, sandwiches, appetizers, desserts and beverages, including beer and wine in some locations, in an informal, family-oriented atmosphere. We occasionally offer other items on a limited promotional basis. Buffet Units are generally located in free standing buildings or strip center locations in retail developments near offices, shopping centers and residential areas. The current standard Buffet Units are between 2,100 and 4,500 square feet in size and seat 120 to 185 customers. The interior decor is designed to promote a casual, lively, contemporary, family-style atmosphere. Some Buffet Units feature game rooms that offer a range of electronic game entertainment for the entire family.

Delco Units offer delivery and carryout service only and are typically located in shopping centers or other in-line retail developments. Delco Units typically offer a variety of crusts and some combination of side items. Delco Units occupy approximately 1,200 square feet, are primarily production facilities and, in most instances, do not offer seating. The decor of the Delco Unit is designed to be bright and highly visible and feature neon lighted displays and awnings. We have attempted to locate Delco Units strategically to facilitate timely delivery service and to provide easy access for carryout service.

Express Units serve our customers through a variety of non-traditional points of sale. Express Units are typically located in a convenience store, food court, college campus, airport terminal, travel plaza, athletic facility or other commercial facility. They have limited or no seating and solely offer quick carryout service of a limited menu of pizza and other foods and beverages. An Express Unit typically occupies approximately 200 to 400 square feet and is commonly operated by the operator or food service licensee of the commercial host facility. We have developed a high-quality pre-prepared crust that is topped and cooked on-site, allowing this concept to offer a lower initial investment and reduced labor and operating costs while maintaining product quality and consistency. Like Delco Units, Express Units are primarily production-oriented facilities and, therefore, do not require all of the equipment, labor or square footage of the Buffet Unit.

PIE Units serve customers through a non-traditional, licensed pizza-only model called Pizza Inn Express. PIE Units provide a nimble and streamlined pizza preparation and sales model at a minimal investment. PIE Units provide customers with a fast, seamless experience when picking up their favorite hot pizza. Geared towards convenience stores, but also an airport or entertainment venue option, PIE Units allow customers to order and pay at a kiosk for grab-and-go or pick up their food at a designated spot. A PIE Unit typically occupies approximately 52 square feet and is simple to configure and move to meet licensee retail sales traffic needs. For PIE Units, we have developed a high-quality pre-prepared crust that is topped and cooked on-site, allowing this concept to offer a lower initial investment and reduced labor and operating costs while maintaining product quality and consistency. Like Delco Units and Express Units, PIE Units are primarily production-oriented facilities and, therefore, do not require all of the equipment, labor or square footage of the Buffet Unit.

Pie Five

Pie Five is a fast-casual pizza concept that creates individualized pizzas which are baked in 140 seconds in our specially designed oven. Pizzas are created at the direction of our customers who choose from a variety of freshly prepared and displayed proprietary and non-proprietary toppings, cheeses, sauces and doughs and complete their purchase process in less than five minutes. Customers can also get freshly prepared side salads, also made to order from our recipes or at the customer's direction. They can also choose from several baked daily desserts like brownies, cookie pies, and cakes. A variety of soft beverages are available, as well as beer and wine in some locations.

Traditional Pie Five restaurants typically occupy leased, in-line or end-cap space of between 1,800 and 2,400 square feet in retail strip or multi-unit retail space. With seating for 65 to 85 customers in most units, and patio seating where available, Pie Five restaurants primarily serve lunch and dinner to families, adults and kids of all ages. During fiscal 2018, an alternative prototype Pie Five was developed to minimize retail space needs with only 1,400 square feet and seating for 20 to 25 customers. Pie Five restaurants typically are in high traffic, high visibility urban or suburban sites in mid to large-size metropolitan areas. Sales are predominantly on-premise though carry out and delivery are offered as well. The majority of Pie Five restaurants also sell salads, calzones, and desserts. Due to the relatively compact footprint of the restaurants, and other operating advantages, we believe Pie Five is also well suited for non-traditional locations such as airports.

Site Selection

We consider the restaurant site selection process critical to a restaurant's long-term success and devote significant resources to the investigation and evaluation of potential sites. The site selection process includes a review of trade area demographics using a third party customer and site selection tool, as well as a proprietary evaluation process. We may also rely on a franchisee's knowledge of the trade area and market characteristics when selecting a location for a franchised restaurant. A member of our development team visits each potential domestic restaurant location.

Development and Operations

New Unit Development

We intend to expand the Pizza Inn system domestically and internationally in markets with significant long-term growth potential and where we believe we can use our competitive strengths to establish brand recognition and gain local market share. We plan to expand our Pizza Inn branded domestic restaurant base primarily through opening new franchised restaurants with new and existing franchisees. We also plan to seek new domestic licensees for PIE kiosks. We expect to evaluate the continued development of new Pizza Inn Buffet and Delco Units in international markets in fiscal 2020, particularly in the Middle East.

In appropriate circumstances, we may grant area developer rights for Pizza Inn restaurants in new and existing domestic markets. A Pizza Inn area developer typically pays a negotiated fee to purchase the right to operate or develop restaurants within a defined territory and, typically, agrees to a multi-restaurant development schedule. The area developer assists us in local franchise service and quality control in exchange for half of the franchise fees and royalties from all restaurants within the territory during the term of the agreement.

In fiscal 2020, we intend to continue developing franchised Pie Five Units domestically and internationally. As of June 30, 2019, we had 57 franchised units open. The rate at which we will be able to continue to expand the Pie Five concept through franchise development is determined in part by our success at selecting qualified franchisees, by our ability to identify satisfactory sites in appropriate markets and by our ability to continue training and monitoring our franchisees. We intend to continue to focus on franchise development opportunities with experienced, well-capitalized, restaurant operators. In addition, we intend to take the brand into international markets, starting with Panama.

Domestic Franchise Operations

Franchise and development agreements. We discontinued offering new Delco Unit franchises during fiscal 2014. Our current standard forms of franchise agreements provide for the following basic terms:

	Pizza Inn			
	Hometown Buffet Unit	Neighborhood Buffet Unit	Express Unit	Pie Five Unit
Development fee per unit	\$ -	\$ -	\$ -	\$ 5,000
Franchise fee per unit	\$ 30,000	\$ 15,000	\$ 5,000	\$ 20,000
Initial franchise term	20 years	10 years	5 years	10 years
Renewal period	10 years	5 years	5 years	5 years
Royalty rate % of sales	4%	5%	5%	6%
National ad fund % of sales	1%	1%	2%	2%
Required total ad spending % of sales	5%	5%	2%	5%

Since the Pizza Inn concept was first franchised in 1963, industry franchising concepts and development strategies have evolved, and our present franchise relationships are evidenced by a variety of contractual forms. Common to those forms are provisions that: (i) require the franchisee to follow the Pizza Inn system of restaurant operation and management, (ii) require the franchisee to pay a franchise fee and continuing royalties, and (iii) except for Express Units, prohibit the development of one restaurant within a specified distance from another.

We launched the franchise program for Pie Five in fiscal 2013. Our Pie Five franchise agreement requires that the franchisees: (i) follow the Pie Five system of restaurant operation and management, (ii) pay a franchise fee and continuing royalties, (iii) contribute a specified percentage of sales to a marketing fund managed by the Company, and (iv) only open restaurants that comply with site and design standards determined by the Company.

Training. We offer numerous training programs for the benefit of franchisees and their restaurant crew managers. The training programs, taught by experienced Company employees, focus on food preparation, service, cost control, sanitation, safety, local store marketing, personnel management and other aspects of restaurant operation. The training programs include group classes, supervised work in restaurants and special field seminars. Initial and certain supplemental training programs are offered free of charge to franchisees, who pay their own travel and lodging expenses. New franchisees also receive on-site training from Company employees to assist with their first two restaurant openings under their development agreements. Restaurant managers train their staff through on-the-job training, utilizing video and printed materials produced by us.

Standards. We require franchisee adherence to a variety of standards designed to ensure proper operations and to protect and enhance the Pizza Inn and Pie Five brands. All franchisees are required to operate their restaurants in compliance with these written policies, standards and specifications, which include matters such as menu items, ingredients, materials, supplies, services, furnishings, decor and signs. Our efforts to maintain consistent operations may result, from time to time, in the closing of certain restaurants that have not achieved and maintained a consistent standard of quality or operations. We also maintain adherence to our standards through ongoing support and education of our franchisees by our franchise business consultants, who are deployed locally in markets where our franchisees are located.

Domestic Kiosk License Agreements

Kiosk license agreements. Our PIE Units are typically offered for five year initial license periods with options for additional five year renewals. PIE Unit licensees are not charged development fees, license fees, royalties, or advertising assessments. PIE Unit license agreements require that the licensee comply with standards of the Pizza Inn brand, including marketing, kiosk system configuration, and sales and sourcing of authorized products and services. The mandated products and sourcing provisions within the PIE Unit licensing agreement result in supplier rebates for the Company.

Training. New licensees and their PIE Unit employees must attend and successfully complete our training program, which consists of a single day of training at the licensed location. PIE Unit managers train their staff through on-the-job training, utilizing video and printed materials produced by us.

Standards. We require licensee adherence to a variety of standards designed to ensure proper operations and to protect and enhance the Pizza Inn brand. All licensees are required to operate their kiosks in compliance with these written policies, standards and specifications, which include matters such as menu items, ingredients, materials, supplies, services, furnishings, decor and signs. Our efforts to maintain consistent operations may result, from time to time, in the closing of certain kiosks that have not achieved and maintained a consistent standard of quality or operations. We also maintain adherence to our standards through ongoing support and education of our licensees by our franchise business consultants, who are deployed locally in markets where our licensees are located.

Company-Owned Restaurant Operations

As of June 30, 2019, we operated one Pie Five Unit in the Dallas/Fort Worth metropolitan area. We do not presently intend to open or operate additional Company-owned restaurants during fiscal 2020.

International Franchise Operations

We also offer master license rights to develop Pizza Inn and Pie Five restaurants in certain foreign countries, with negotiated fees, development schedules and ongoing royalties. A master licensee for a foreign country pays a negotiated fee to purchase the right to develop and operate restaurants within a defined territory, typically for a term of 20 years, plus a ten-year renewal option. The master licensee agrees to a multi-restaurant development schedule and we train the master licensee to monitor and assist franchisees in their territory with local service and quality control, with support from us. In return, the master licensee typically retains half the franchise fees and half the royalties on all restaurants within the territory during the term of the agreement. Master licensees may open restaurants that they own and operate, or they may open sub-franchised restaurants owned and operated by third parties through agreements with the master licensee, but subject to our approval.

Our first franchised Pizza Inn restaurant outside of the United States opened in the late 1970s. As of June 30, 2019, there were 48 Pizza Inn restaurants operating internationally. Except for two restaurants in Honduras, all of the Pizza Inn restaurants operated or sub-licensed by our international master licensees are in the United Arab Emirates, Saudi Arabia and adjoining countries. Our ability to continue to develop select international markets is affected by a number of factors, including our ability to locate experienced, well-capitalized developers who can commit to an aggressive multi-restaurant development schedule and achieve maximum initial market penetration with minimal supervision by us. We expect the first international franchised Pie Five Unit to open in fiscal 2020 in Panama.

Food and Supply Distribution

During the fiscal quarter ended December 24, 2017, the Company discontinued its Norco distribution division and revised its arrangements with third party suppliers and distributors of food, equipment and supplies. The discontinuation of the Norco food and supply distribution entity was a strategic shift for the Company, releasing the Company from the credit risk, overhead expense, and delivery responsibilities of directly supplying franchised restaurants and PIE kiosks. As a result of the revised arrangements, franchisees and licensees began purchasing food and supplies directly from authorized, reputable and experienced supply and distribution companies. As a result, we no longer receive revenue from the sale of food, equipment and supplies.

Prior to the discontinuation of the Norco distribution division, supplier incentive funds were included in the margin of the Norco business unit. As a result of the Norco strategic shift, the Company reports incentive revenues received from third party suppliers and distributors as revenue.

The Company provides sourcing, quality assurance, and research and development for both the Pizza Inn and Pie Five systems. The authorized distributors make deliveries to all domestic units from several distribution centers, with delivery territories and responsibilities for each determined according to geographical region. As a franchisor, the Company is able to leverage the advantages of direct vendor negotiations and volume purchasing of food, equipment and supplies for the franchisees' and licensees' benefit in the form of a concentrated, one-truck delivery system, competitive pricing and product consistency. Franchisees and licensees are able to source all products and ingredients from authorized distributors. In order to assure product quality and consistency, our franchisees and licensees are required to purchase from authorized distributors certain food products that are proprietary to the Pizza Inn and Pie Five systems, including cheese, pizza sauce, flour mixture, certain meats and spice blend. Franchisees and licensees may purchase other non-proprietary food products and supplies either from authorized distributors or from other suppliers who meet our requirements for quality and reliability.

Non-proprietary food and ingredients, equipment and other supplies are generally available from several qualified sources. With the exception of several proprietary food products, such as cheese and dough flour, we are not dependent upon any one supplier or a limited group of suppliers. We contract with established food processors for the production of our proprietary products according to our specifications.

We have not experienced any significant shortages of supplies or any delays in receiving our food or beverage inventories, restaurant supplies or products, and do not anticipate any difficulty in obtaining inventories or supplies in the foreseeable future. Prices charged by our suppliers are subject to fluctuation, and franchisees and licensees bear increased costs or benefit from savings through changes in product pricing. We do not engage in commodity hedging but enter into pricing arrangements for up to a year in advance for certain high volume products.

Marketing and Advertising

By communicating a common brand message at the regional, local market and restaurant levels, we believe we can create and reinforce a strong, consistent marketing message to consumers and increase our market share. We offer or facilitate several ways for the brand image and message to be promoted at the local and regional levels.

The Pizza Inn Advertising Plan Cooperative ("PIAP Cooperative") is a cooperative association that is responsible for creating and producing various marketing programs and materials, which may include print and digital advertisements, direct mail materials, social media and e-mail marketing, television and radio commercials, in-store promotional materials, and related marketing and public relations services. Each operator of a domestic Buffet Unit or Delco Unit is entitled to membership in PIAP Cooperative. Nearly all of our existing Pizza Inn franchise agreements for Buffet Units and Delco Units require the franchisees to become members of PIAP Cooperative. Members contribute 1% of their sales to PIAP Cooperative. PIAP Cooperative is managed by a board of trustees comprised of franchisee representatives who are elected by the members each year. We do not have any ownership interest in PIAP Cooperative. We provide certain administrative, marketing and other services to PIAP Cooperative and are paid by PIAP Cooperative for such services. As of June 30, 2019, substantially all of our domestic Buffet Unit and Delco Unit franchisees were members of PIAP Cooperative. Operators of Express Units do not participate in PIAP Cooperative. However, they contribute directly to a Pizza Inn Express Fund ("PIEF") to help fund purchases of Express Unit marketing materials and similar expenditures. International franchisees and PIE Unit licensees do not participate in the PIAP Cooperative or the PIEF.

Pie Five franchisees contribute a specified percentage of their sales to the Company to fund the creation and production of various marketing and advertising programs and materials, which may include print and digital advertisements, direct mail materials, customer satisfaction systems, social media and e-mail marketing, television and radio commercials, in-store promotional materials, and related marketing and public relations services. We anticipate continuing to optimize Pie Five marketing activities commensurate with the contributions of the Pie Five system.

Pizza Inn and Pie Five franchisees are required to conduct independent marketing efforts in addition to their participation in the national marketing programs for each brand. We provide Company-owned and franchised restaurants with access to an assortment of local store marketing materials, including pre-approved print, radio, and digital media marketing materials. We also provide local store marketing materials and programs specifically to support new restaurant openings.

Trademarks and Quality Control

We own various trademarks, including the names “Pizza Inn” and “Pie Five,” that are used in connection with the restaurants and have been registered with the United States Patent and Trademark Office. The duration of our trademarks is unlimited, subject to periodic renewal and continued use. In addition, we have obtained trademark registrations for our marks in several foreign countries and have periodically re-filed and applied for registration in others. We believe that we hold the necessary rights for protection of the trademarks essential to our business.

Government Regulation

We and our franchisees are subject to various federal, state and local laws affecting the operation of our restaurants. Each restaurant is subject to licensing and regulation by several governmental authorities, which include health, safety, sanitation, wage and hour, alcoholic beverage, building and fire agencies in the state and municipality in which the restaurant is located. Difficulties in obtaining, or the failure to obtain, required licenses or approvals could delay or prevent the opening of a new restaurant or require the temporary or permanent closing of an existing restaurant in a particular area.

We are subject to Federal Trade Commission (“FTC”) regulation and to various state laws regulating the offer and sale of franchises. The FTC requires us to furnish to prospective franchisees a franchise disclosure document containing prescribed information. Substantive state laws that regulate the franchisor-franchisee relationship presently exist in a number of states, and bills have been introduced in Congress from time to time that would provide for further federal regulation of the franchisor-franchisee relationship in certain respects. Some foreign countries also have disclosure requirements and other laws regulating franchising and the franchisor-franchisee relationship.

Employees

As of June 30, 2019, we had 45 employees, including 33 in our corporate office and two full-time and 10 part-time employees at the Company-owned restaurant. None of our employees are currently covered by collective bargaining agreements.

Industry and Competition

The restaurant industry is intensely competitive with respect to price, service, location and food quality, and there are many well-established competitors with substantially greater brand recognition and financial and other resources than the Company. Competitors include a number of international, national and regional restaurant and pizza chains, as well as local restaurants and pizza operators. Some of our competitors may be better established in the markets where our restaurants are or may be located. Within the pizza segment of the restaurant industry, we believe that our primary competitors are national pizza chains and several regional chains, including chains executing a “take and bake” concept. We also compete against the frozen pizza products available at grocery stores and large superstore retailers. In recent years, several competitors have developed fast-casual pizza concepts that compete with Pie Five in certain metropolitan areas. A change in the pricing or other market strategies of one or more of our competitors could have an adverse impact on our sales and earnings.

With respect to the sale of franchises and licenses, we compete with many franchisors of restaurants and other business concepts. We believe that the principal competitive factors affecting the sale of franchises are product quality, price, value, consumer acceptance, franchisor experience and support, and the quality of the relationship maintained between the franchisor and its franchisees. In general, there is also active competition for management personnel and attractive commercial real estate sites suitable for our restaurants.

ITEM 1A. RISK FACTORS.

Not required for a smaller reporting company.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable.

ITEM 2. PROPERTIES.

The company leases its 19,576 square foot corporate office facility with average annual lease payments of approximately \$17.50 per square foot. This lease began on January 2, 2017 and has a ten year term.

As of June 30, 2019, the Company also operated one Pie Five Unit from a leased location. The operating lease covers 2,400 square feet and has an initial term of ten years at a base rental rate of \$40.00 per square foot in the first five years and \$44.00 per square foot in the last five years. The lease contains provisions permitting renewal for an additional term of five years.

As of June 30, 2019, the Company had contingent and direct lease obligations for 18 additional locations. Two of the lease obligations have been subleased, 11 of the lease obligations have been assigned to franchisees, and five of the lease obligations are direct lease obligations for non-operating locations. These leased properties range in size from 2,021 to 2,850 square feet, have annual rental rates ranging from approximately \$28.00 to \$44.00 per square foot and expire between 2022 and 2028. The Company has settled one of the non-operating leases and is currently pursuing alternatives for subleasing or terminating the remaining four non-operating unexpired leases.

ITEM 3. LEGAL PROCEEDINGS.

The Company is subject to claims and legal actions in the ordinary course of its business. The Company believes that all such claims and actions currently pending against it are either adequately covered by insurance or would not have a material adverse effect on the Company's annual results of operations, cash flows or financial condition if decided in a manner that is unfavorable to the Company.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

As of September 12, 2019, there were approximately 1,984 stockholders of record of the Company's common stock.

The Company had no sales of unregistered securities during fiscal 2019 or 2018.

The Company's common stock is listed on the Capital Market of the NASDAQ Stock Market, LLC ("NASDAQ") under the symbol "RAVE". The following table shows the highest and lowest price per share of the common stock during each quarterly period within the two most recent fiscal years, as reported by NASDAQ. Such prices reflect inter-dealer quotations, without adjustment for any retail markup, markdown or commission.

	High		Low
<u>Fiscal 2019:</u>			
Fourth Quarter Ended 6/30/2019	\$ 3.60	\$	1.05
Third Quarter Ended 3/24/2019	2.05		0.64
Second Quarter Ended 12/23/2018	1.74		0.91
First Quarter Ended 9/23/2018	1.60		1.20
<u>Fiscal 2018:</u>			
Fourth Quarter Ended 6/24/2018	\$ 1.50	\$	1.09
Third Quarter Ended 3/25/2018	2.33		1.20
Second Quarter Ended 12/24/2017	1.95		1.36
First Quarter Ended 9/24/2017	2.31		1.27

The Company did not pay any dividends on its common stock during the fiscal years ended June 30, 2019 or June 24, 2018. Any determination to pay cash dividends in the future will be at the discretion of the Company's board of directors and will be dependent upon the Company's results of operations, financial condition, capital requirements, contractual restrictions and other factors deemed relevant. Currently, there is no intention to pay any dividends on our common stock.

2007 Stock Purchase Plan

On May 23, 2007, the Company's board of directors approved a stock purchase plan (the "2007 Stock Purchase Plan") authorizing the purchase on our behalf of up to 1,016,000 shares of our common stock in the open market or in privately negotiated transactions. On June 2, 2008, the Company's board of directors amended the 2007 Stock Purchase Plan to increase the number of shares of common stock the Company may repurchase by 1,000,000 shares to a total of 2,016,000 shares. On April 22, 2009 the Company's board of directors amended the 2007 Stock Purchase Plan again to increase the number of shares of common stock the Company may repurchase by 1,000,000 shares to a total of 3,016,000 shares. The 2007 Stock Purchase Plan does not have an expiration date. There were no stock purchases in the fiscal year ended June 30, 2019.

The Company's ability to purchase shares of our common stock is subject to various laws, regulations and policies as well as the rules and regulations of the Securities and Exchange Commission (the "SEC"). Subsequent to June 30, 2019, the Company has not repurchased any outstanding shares but may make further purchases under the 2007 Stock Purchase Plan. The Company may also purchase shares of our common stock other than pursuant to the 2007 Stock Purchase Plan or other publicly announced plans or programs.

Equity Compensation Plan Information

The following table furnishes information with respect to the Company's stock option equity compensation plans as of June 30, 2019:

<u>Plan Category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants, and rights</u>	<u>Weighted-average exercise price of outstanding options, warrants, and rights</u>	<u>Number of securities remaining available for future issuance under equity compensation plans¹</u>
Stock option compensation plans approved by security holders	216,550	\$ 4.82	2,693,055
Stock option compensation plans not approved by security holders	-	-	-
Total	216,550	\$ 4.82	2,693,055

¹ Securities remaining available for future issuance are net of a maximum of 232,659 shares of common stock issuable pursuant to outstanding restricted stock units, subject to applicable vesting requirements and performance criteria. See Note H to the audited consolidated financial statements included in this report.

ITEM 6. SELECTED FINANCIAL DATA

Not required for a smaller reporting company.

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

Results of Operations

The following discussion should be read in conjunction with the consolidated financial statements and accompanying notes appearing elsewhere in this Annual Report on Form 10-K and may contain certain forward-looking statements. See "Forward-Looking Statements."

Overview

The Company franchises pizza buffet ("Buffet Units"), delivery/carry-out ("Delco Units") and express ("Express Units") restaurants under the trademark "Pizza Inn" and operates and franchises fast casual pizza restaurants ("Pie Five Units") under the trademarks "Pie Five Pizza Company" or "Pie Five". The Company also licenses Pizza Inn Express kiosks ("PIE Units") under the trademark "Pizza Inn". We facilitate food, equipment and supply distribution to our domestic and international system of restaurants through agreements with third party distributors. At June 30, 2019, Company-owned and franchised restaurants consisted of the following (in thousands, except unit data):

Fiscal Year Ended June 30, 2019

(in thousands, except unit data)

	Pizza Inn		Pie Five		All Concepts	
	Ending Units	Retail Sales	Ending Units	Retail Sales	Ending Units	Retail Sales
Domestic Franchised/Licensed	155	\$ 90,135	57	\$ 40,681	212	\$ 130,816
Company-Owned	-	-	1	887	1	887
Total Domestic Units	155	\$ 90,135	58	\$ 41,568	213	\$ 131,703
International Franchised	48		-		48	

The domestic units were located in 21 states predominately situated in the southern half of the United States. The international restaurants were located in seven foreign countries.

The following table summarizes domestic comparable store retail sales for the Company.

	53 Weeks Ended	
	June 30, 2019	July 1, 2018
	(in thousands)	
Pizza Inn Domestic Comparable Store Retail Sales	\$ 85,504	\$ 83,330
Pie Five Domestic Comparable Store Retail Sales	33,866	35,408
Total Rave Comparable Store Retail Sales	\$ 119,370	\$ 118,738

Basic net income per common share decreased \$0.19 to a net loss of \$0.05 per share for fiscal 2019 compared to net income of \$0.14 per share in the prior fiscal year. Net income decreased \$2.7 million to a net loss of \$0.8 million for fiscal 2019 compared to net income of \$1.9 million for the prior fiscal year on revenues of \$12.3 million for fiscal 2019 as compared to \$15.1 million in fiscal 2018.

Diluted net income per common share decreased \$0.18 to a net loss of \$0.05 per share for fiscal 2019 compared to net income of \$0.13 per share in the prior fiscal year.

Adjusted EBITDA for the fiscal year ended June 30, 2019, improved to \$1.2 million compared to \$0.6 million for the comparable period of the prior fiscal year. The following table sets forth a reconciliation of net income to EBITDA and Adjusted EBITDA for the periods shown (in thousands):

	Fiscal Year Ended	
	June 30, 2019	June 24, 2018
Net income / (loss)	\$ (750)	\$ 1,912
Interest expense	104	183
Income taxes	(51)	(3,322)
Income taxes - discontinued ops	-	(60)
Depreciation and amortization	466	874
EBITDA	<u>\$ (231)</u>	<u>\$ (413)</u>
Stock compensation expense	36	115
Pre-opening costs	-	114
(Gain) / loss on sale/disposal of assets	(551)	(144)
Impairment of long-lived assets and other lease charges	1,664	894
Discontinued operations, excluding taxes	-	422
Closed and non-operating store costs	238	(369)
Adjusted EBITDA	<u>\$ 1,156</u>	<u>\$ 619</u>

Results of operations for the fiscal years 2019 and 2018 included 53 weeks and 52 weeks, respectively.

Pizza Inn Brand Summary

The following tables summarize certain key indicators for the Pizza Inn franchised and licensed domestic restaurants that management believes are useful in evaluating performance.

	53 Weeks Ended	
	June 30, 2019	July 1, 2018
(in thousands, except unit data)		
Pizza Inn Retail Sales - Total Domestic Units		
Domestic Units		
Buffet Units - Franchised	\$ 82,950	\$ 81,725
Delco/Express Units - Franchised	6,981	6,812
PIE Units - Licensed	204	26
Total Domestic Retail Sales	<u>\$ 90,135</u>	<u>\$ 88,563</u>
Pizza Inn Comparable Store Retail Sales - Total Domestic	85,504	83,330
Pizza Inn Average Units Open in Period		
Domestic Units		
Buffet Units - Franchised	88	90
Delco/Express Units - Franchised	60	65
PIE Units - Licensed	6	-
Total Domestic Units	<u>154</u>	<u>155</u>

Pizza Inn total domestic retail sales increased \$1.6 million, or 1.8% compared to the prior year. The increase in domestic retail sales was primarily due to an increase in domestic comparable store retail sales. Pizza Inn domestic comparable store retail sales increased by 2.6%.

The following chart summarizes Pizza Inn restaurant activity for the fiscal year ended June 30, 2019:

	Fiscal Year Ended June 30, 2019				
	Beginning Units	Opened	Concept Change	Closed	Ending Units
Domestic Units					
Buffet Units - Franchised	90	4	-	7	87
Delco/Express Units - Franchised	60	2	-	3	59
PIE Units - Licensed	3	6	-	-	9
Total Domestic Units	<u>153</u>	<u>12</u>	<u>-</u>	<u>10</u>	<u>155</u>
International Units (all types)					
	58	2	-	12	48
Total Units	<u>211</u>	<u>14</u>	<u>-</u>	<u>22</u>	<u>203</u>

The net increase of two domestic units is primarily due to new PIE units partially offset by modest declines in Buffet and Delco units. The net decrease of ten international Pizza Inn units is due to closure of underperforming units in the Middle East. We believe that this represents a stabilizing of international unit count.

Pie Five Brand Summary

The following tables summarize certain key indicators for the Pie Five franchised and Company-owned restaurants that management believes are useful in evaluating performance.

	53 Weeks Ended	
	June 30, 2019	July 1, 2018
(in thousands, except unit data)		
Pie Five Retail Sales - Total Units		
Domestic Units - Franchised	\$ 40,681	\$ 44,407
Domestic Units - Company-owned	887	4,254
Total Domestic Retail Sales	\$ 41,568	\$ 48,661
Pie Five Comparable Store Retail Sales - Total	33,866	35,408
Pie Five Average Units Open in Period		
Domestic Units - Franchised	65	74
Domestic Units - Company-owned	2	7
Total Domestic Units	67	81

Pie Five total domestic retail sales decreased \$7.1 million, or 14.6%, compared to the prior year. Average units open in the period decreased to 67 from 81 the prior year. Comparable store retail sales decreased by 4.4% during fiscal 2019 compared to the prior year.

The following chart summarizes Pie Five restaurant activity for the fiscal year ended June 30, 2019:

	Fiscal Year Ended June 30, 2019				
	Beginning Units	Opened	Transfer	Closed	Ending Units
Domestic - Franchised	72	6	-	21	57
Domestic - Company-owned	1	-	-	-	1
Total Domestic Units	73	6	-	21	58

The net decrease of 15 Pie Five units during fiscal 2019 was primarily the result of the closure of poor-performing units, which we believe provides us a stronger foundation for future brand growth. We believe that this trend of net store closures will moderate and then reverse in future periods. One franchised Pie Five unit was acquired by the Company during fiscal 2019 but was refranchised by the end of the fiscal year.

Pie Five - Company-Owned Restaurants

(in thousands, except store weeks and average data)

	Fiscal Year Ended	
	June 30, 2019	June 24, 2018
Store weeks (excluding partial weeks)	79	358
Average weekly sales	11,253	11,707
Average number of units	2	7
Restaurant sales (excluding partial weeks)	887	4,191
Restaurant sales	887	4,254
Loss from continuing operations before taxes	(2,001)	(1,763)
Allocated marketing and advertising expenses	44	214
Depreciation/amortization expense	123	459
Pre-opening costs	-	114
Operations management and extraordinary expenses	-	96
Impairment, other lease charges and non-operating store costs	1,135	526
Restaurant operating cash flow	(699)	(354)

Total retail sales of Company-owned Pie Five restaurants decreased \$3.4 million, or 79.1%, to \$0.9 million for fiscal 2019 compared to \$4.3 million for fiscal 2018 primarily as a result of decreased store count. Average weekly sales for Company-owned Pie Five restaurants also decreased \$454, or 3.9%, to \$11,253 for the fiscal year ended June 30, 2019 compared to \$11,707 for the prior year. The decrease in average weekly sales was primarily attributable to a similar decline in comparable store retail sales.

Loss from continuing operations before taxes for Company-owned Pie Five stores increased \$0.2 million for the fiscal year ended June 30, 2019 compared to the same period of the prior year primarily as a result of increased impairment of long-lived assets and other lease charges. Similarly, operating cash flow from Company-owned Pie Five restaurants declined by \$0.3 million to \$0.7 million cash used in fiscal 2019 compared to \$0.4 million cash used in fiscal 2018.

Non-GAAP Financial Measures and Other Terms

The Company's financial statements are prepared in accordance with United States generally accepted accounting principles ("GAAP"). However, the Company also presents and discusses certain non-GAAP financial measures that it believes are useful to investors as measures of operating performance. Management may also use such non-GAAP financial measures in evaluating the effectiveness of business strategies and for planning and budgeting purposes. However, these non-GAAP financial measures should not be viewed as an alternative or substitute for the results reflected in the Company's GAAP financial statements.

We consider EBITDA and Adjusted EBITDA to be important supplemental measures of operating performance that are commonly used by securities analysts, investors and other parties interested in our industry. We believe that EBITDA is helpful to investors in evaluating our results of operations without the impact of expenses affected by financing methods, accounting methods and the tax environment. We believe that Adjusted EBITDA provides additional useful information to investors by excluding non-operational or non-recurring expenses to provide a measure of operating performance that is more comparable from period to period. We believe that restaurant operating cash flow is a useful metric to investors in evaluating the ongoing operating performance of Company-owned restaurants and comparing such store operating performance from period to period. Management also uses these non-GAAP financial measures for evaluating operating performance, assessing the effectiveness of business strategies, projecting future capital needs, budgeting and other planning purposes.

The following key performance indicators presented herein, some of which represent non-GAAP financial measures, have the meaning and are calculated as follows:

- "EBITDA" represents earnings before interest, taxes, depreciation and amortization.
- "Adjusted EBITDA" represents earnings before interest, taxes, depreciation and amortization, stock compensation expense, pre-opening expense, gain/loss on sale of assets, costs related to impairment, discontinued operations and closed and non-operating store costs.
- "Retail sales" represents the restaurant sales reported by our franchisees and Company-owned restaurants, which may be segmented by brand or domestic/international locations.
- "Comparable store retail sales" includes the retail sales for restaurants that have been open for at least 18 months as of the end of the reporting period. The sales results for a restaurant that was closed temporarily for remodeling or relocation within the same trade area are included in the calculation only for the days that the restaurant was open in both periods being compared.
- "Store weeks" represent the total number of full weeks that specified restaurants were open during the period.
- "Average units open" reflects the number of restaurants open during a reporting period weighted by the percentage of the weeks in a reporting period that each restaurant was open.
- "Average weekly sales" for a specified period is calculated as total retail sales (excluding partial weeks) divided by store weeks in the period.
- "Restaurant operating cash flow" represents the pre-tax income earned by Company-owned restaurants before (1) allocated marketing and advertising expenses, (2) depreciation and amortization, (3) pre-opening expenses, (4) operations management and extraordinary expenses, (5) impairment and other lease charges, and (6) non-operating store costs.
- "Non-operating store costs" represent gain or loss on asset disposal, store closure expenses, lease termination expenses and expenses related to abandoned store sites.
- "Pre-opening expenses" consist primarily of certain costs incurred prior to the opening of a Company-owned restaurant, including: (1) marketing and promotional expenses, (2) accrued rent, and (3) manager salaries, employee payroll and related training costs.

Fiscal years 2019 and 2018 included 53 weeks and 52 weeks, respectively. In order to reflect comparable 53 week periods, the first week of fiscal 2019 has been included in both periods in the presentation of retail sales, average units open and comparable store retail sales.

Financial Results

	Pizza Inn Franchising		Pie Five Franchising		Company-Owned Stores		Corporate		Total	
	Fiscal Year-to-Date June 30, 2019	June 24, 2018	Fiscal Year-to-Date June 30, 2019	June 24, 2018	Fiscal Year-to-Date June 30, 2019	June 24, 2018	Fiscal Year-to-Date June 30, 2019	June 24, 2018	Fiscal Year-to-Date June 30, 2019	June 24, 2018
REVENUES:										
Franchise and license revenues	\$ 7,192	\$ 6,892	\$ 4,191	\$ 3,970	\$ -	\$ -	\$ -	\$ -	\$ 11,383	\$ 10,862
Restaurant sales	-	-	-	-	889	4,254	-	-	889	4,254
Interest income and other	-	-	1	-	(2)	-	48	4	47	4
Total revenues	7,192	6,892	4,192	3,970	887	4,254	48	4	12,319	15,120
COSTS AND EXPENSES:										
Cost of sales	-	-	-	-	1,120	3,654	-	-	1,120	3,654
General and administrative expenses	-	-	-	-	196	772	5,078	6,825	5,274	7,597
Franchise expenses	1,680	1,298	2,098	1,347	-	-	-	-	3,778	2,645
Pre-opening expenses	-	-	-	-	-	114	-	-	-	114
(Gain)/loss on sale of assets	-	-	-	-	-	-	(551)	(144)	(551)	(144)
Impairment of long-lived assets and other lease charges	-	-	-	-	1,449	894	215	-	1,664	894
Bad debt	-	-	-	-	-	124	1,265	227	1,265	351
Interest expense	-	-	-	-	-	-	104	183	104	183
Amortization and depreciation expense	-	-	-	-	123	459	343	415	466	874
Total costs and expenses	1,680	1,298	2,098	1,347	2,888	6,017	6,454	7,506	13,120	16,168
INCOME/(LOSS) FROM CONTINUING OPERATIONS BEFORE TAXES										
	<u>\$ 5,512</u>	<u>\$ 5,594</u>	<u>\$ 2,094</u>	<u>\$ 2,623</u>	<u>\$ (2,001)</u>	<u>\$ (1,763)</u>	<u>\$ (6,406)</u>	<u>\$ (7,502)</u>	<u>\$ (801)</u>	<u>\$ (1,048)</u>

Revenues:

Revenues are derived from (1) franchise royalties, franchise fees and supplier incentives, (2) sales by Company-owned restaurants, and (3) interest income. The volume of supplier incentive revenues is dependent on the level of chain-wide retail sales, which are impacted by changes in comparable store sales and restaurant count, and the products sold to franchisees through third-party food distributors. Total revenues for fiscal 2019 and fiscal 2018 were \$12.3 million and \$15.1 million, respectively.

Pizza Inn Franchise and License Revenues

Pizza Inn franchise revenues increased by \$0.3 million to \$7.2 million in fiscal 2019 compared to \$6.9 million in fiscal 2018. The 4.4% increase was primarily the result of increased retail sales, largely attributable to domestic comparable stores.

Pie Five Franchise and License Revenues

Pie Five franchise revenues increased by \$0.2 million to \$4.2 million for fiscal 2019 compared to \$4.0 million for fiscal 2018. The 5.6% increase was primarily driven by accelerated revenue recognition of fees attributable to defaulted area developments and closed stores and contributions to advertising and convention funds by franchisees and suppliers partially offset by decreased franchise royalties from decreased franchised store count.

Restaurant Sales

Restaurant sales, which consist of revenue generated by Company-owned restaurants, decreased 79.1%, or \$3.4 million, to \$0.9 million for fiscal 2019 compared to \$4.3 million for fiscal 2018. The decrease in restaurant sales was primarily a result of decreased Company-owned store count.

Costs and Expenses:

Cost of Sales

Cost of sales primarily includes food and supply costs and labor directly related to Company-owned restaurant sales. These costs decreased 69.3%, or \$2.5 million, to \$1.1 million for fiscal 2019 compared to fiscal 2018. The decrease was primarily the result of decreased Company-owned store count.

General and Administrative Expenses

Total general and administrative expenses decreased \$2.3 million to \$5.3 million for fiscal 2019 compared to \$7.6 million for the prior fiscal year. General and administrative expenses for Company-owned restaurants decreased \$0.6 million to \$0.2 million for fiscal 2019 compared to \$0.8 million for the prior fiscal year primarily as a result of lower store count. General and administrative expenses for corporate decreased \$1.8 million to \$5.0 million for fiscal 2019 compared to \$6.8 million for the prior year primarily as a result of reduced general and administrative employees.

Franchise Expenses

Franchise expenses include general and administrative expenses directly related to the sale and continuing service of domestic and international franchises. Total franchise expenses increased \$1.1 million to \$3.8 million in fiscal 2019 from \$2.6 million in the prior fiscal year. Pizza Inn franchise expenses increased \$0.4 million to \$1.7 million in fiscal 2019 compared to \$1.3 million in the prior fiscal year primarily as a result of the change in treatment of convention fund contributions due to adoption of Topic 606. Pie Five franchise expenses increased by \$0.8 million to \$2.1 million in fiscal 2019 compared to \$1.3 million in the prior fiscal year primarily as a result of the change in treatment of advertising fund contributions due to adoption of Topic 606.

Pre-Opening Expense

Pre-opening expenses are directly related to the number of new corporate store openings. There were no pre-opening expenses for fiscal 2019 compared to \$0.1 million in fiscal 2018. The decrease was due to a reduction in openings of Company-owned restaurants.

(Gain)/Loss on sale of assets

The Company's (gain) / loss on sale of assets reflects the net difference between the sale price of assets and the net carrying value of the assets at the time of sale. (Gain) / loss on sale of assets improved to a gain of \$0.6 million in fiscal 2019 compared to a gain of \$0.1 million in the prior year due to the sale of two Pie Five units that were acquired at no cost basis.

Impairment Expenses

Impairment of long-lived assets and other lease charges were \$1.7 million for fiscal 2019 compared to \$0.9 million for fiscal 2018. Impairment of long-lived assets and other lease charges among Company-owned restaurants of \$1.4 million consisted primarily of impairments of leasehold improvements and equipment and lease charges for closed stores.

Bad Debt Expense

The Company monitors franchisee receivable balances and adjusts credit terms when necessary to minimize the Company's exposure to high risk accounts receivable. Bad debt expense increased by \$0.9 million to \$1.3 million in fiscal 2019 compared to \$0.4 million in fiscal 2018 related to uncollectible domestic and international accounts receivable.

Interest Expense

Interest expense decreased \$0.1 million for fiscal 2019 to \$0.1 million compared to \$0.2 million in the prior year due to a decrease in outstanding principal balance of senior convertible notes as a result of conversions during the third quarter of fiscal 2018.

Amortization and Depreciation Expense

Amortization and depreciation expense decreased \$0.4 million to \$0.5 million in fiscal 2019 compared to \$0.9 million in fiscal 2018 primarily as a result of lower depreciation attributable to fewer Company-owned restaurants.

Provision for Income Tax

The Company continually reviews the realizability of its deferred tax assets, including an analysis of factors such as future taxable income, reversal of existing taxable temporary differences, and tax planning strategies. The Company has assessed whether the valuation allowance should be maintained against its deferred tax assets based on consideration of all available evidence, using a “more likely than not” standard. In assessing the need for the valuation allowance, the Company considered both positive and negative evidence related to the likelihood of realization of deferred tax assets. Future sources of taxable income were also considered in determining the amount of the recorded valuation allowance. Based on the Company's review of this evidence, management determined it was appropriate to maintain the existing valuation allowance against the Company's deferred tax assets.

Income tax benefit of \$0.1 million for fiscal 2019 represents \$0.1 million in state and foreign tax expense and a \$0.2 million benefit on other deferred taxes. At the end of tax year ended June 30, 2019, the Company had net operating loss carryforwards totaling \$23.9 million that are available to reduce future taxable income and will begin to expire in 2032.

Discontinued Operations

Net losses from the Norco food and supply distribution division are included within discontinued operations. The discontinuation of the Norco food and supply distribution entity was a strategic shift for the Company during the second quarter of fiscal 2018, releasing the Company from added credit risk, overhead expense, and direct supply and delivery responsibilities. Discontinued operations also include losses from leased buildings and operating losses associated with Company-owned restaurants closed in prior years.

Liquidity and Capital Resources

Sources and Uses of Funds

Our primary sources of liquidity are cash flows from operating activities and proceeds from the sale of securities.

Cash flows from operating activities generally reflect net income adjusted for certain non-cash items including depreciation and amortization, changes in deferred taxes, share based compensation, and changes in working capital. Cash provided by operations was \$0.7 million in fiscal 2019 compared to cash used of \$3.9 million in fiscal year 2018.

Cash flows from investing activities reflect net proceeds from sale of assets and capital expenditures for the purchase of Company assets. Cash provided by investing activities during fiscal 2019 of \$0.1 million was primarily attributable to sales of assets of Company-owned Pie Five restaurants including notes receivable issued for fixed asset sales partially offset by capital expenditures for computers and other miscellaneous assets. This compares to cash provided by investing activities of \$0.7 million during the fiscal 2018 primarily attributable to sales of assets of closed Company-owned Pie Five restaurants partially offset by capital expenditures for a new Pie Five unit, computers and other miscellaneous assets.

Cash flows from financing activities generally reflect changes in the Company's borrowings and securities activity during the period. Net cash provided by financing activities was \$0.1 million and \$4.1 million for the fiscal years ended June 30, 2019 and June 24, 2018, respectively. Cash flows from financing activities for fiscal 2019 were primarily the result of sales of stock in an at-the-market offering. Cash flows from financing activities for fiscal 2018 were primarily the result of the sale of stock in connection with a shareholder rights offering that closed in September 2017, plus stock sales in the at-the-market offering, partially offset by the repayment of a \$1.0 million short-term promissory note.

ATM Offering

On December 5, 2017, the Company entered into an At Market Issuance Sales Agreement with B. Riley FBR, Inc. ("B. Riley FBR") pursuant to which the Company may offer and sell shares of its common stock having an aggregate offering price of up to \$5,000,000 from time to time through B. Riley FBR acting as agent (the "2017 ATM Offering"). The 2017 ATM Offering is being undertaken pursuant to Rule 415 and a shelf Registration Statement on Form S-3 which was declared effective by the SEC on November 6, 2017. Through June 30, 2019, the Company had sold an aggregate of 191,478 shares in the 2017 ATM Offering, realizing aggregate gross proceeds of \$0.3 million.

Short Term Loan

On December 22, 2016, the Company obtained a \$1.0 million loan from its largest shareholder, Newcastle Partners, LP ("Newcastle"), evidenced by a Promissory Note. The loan bore interest at 10% per annum and was originally due and payable on April 30, 2017. On May 8, 2017, the Company executed an Extended and Restated Promissory Note in favor of Newcastle extending the due date of the short term loan until the earlier of September 1, 2017, or the Company's receipt of at least \$2.0 million in additional debt or equity capital. The short term loan was paid in full during fiscal 2018. Newcastle is an affiliate of the Company's Chairman, Mark E. Schwarz.

Convertible Notes

On March 3, 2017, the Company completed a registered shareholder rights offering of its 4% Convertible Senior Notes due 2022 ("Notes"). Shareholders exercised subscription rights to purchase all 30,000 of the Notes at the par value of \$100 per Note, resulting in gross offering proceeds to the Company of \$3.0 million.

The Notes bear interest at the rate of 4% per annum on the principal or par value of \$100 per note, payable annually in arrears on February 15 of each year, commencing February 15, 2018. Interest is payable in cash or, at the Company's discretion, in shares of Company common stock. The Notes mature on February 15, 2022, at which time all principal and unpaid interest will be payable in cash or, at the Company's discretion, in shares of Company common stock. The Notes are secured by a pledge of all outstanding equity securities of our two primary direct operating subsidiaries.

Noteholders may convert their notes to common stock as of the 15th day of any calendar month, unless the Company sooner elects to redeem the notes. The conversion price is \$2.00 per share of common stock. Accrued interest will be paid through the effective date of the conversion in cash or, at the Company's sole discretion, in shares of Company common stock.

The Company determined that the Notes contained a beneficial conversion feature of \$0.1 million since the market price of the Company's common stock was higher than the effective conversion price of the notes when issued. The beneficial conversion feature and the issuance costs of the notes aggregated \$0.2 million and were considered a debt discount and are accreted into interest expense using the effective interest method over the debt maturity period.

During fiscal 2019, \$4 thousand in par value of the Notes were converted to common shares. At the end of fiscal 2019, \$1.7 million in par value of the Notes were outstanding, offset by \$0.1 million of unamortized debt issue costs and unamortized debt discounts.

Liquidity

We expect to fund continuing operations and planned capital expenditures for the next fiscal year primarily from cash on hand, operating cash flow and sales of securities. Based on budgeted and year-to-date cash flow information, we believe that we have sufficient liquidity to satisfy our cash requirements for the 2020 fiscal year.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with GAAP requires the Company's management to make estimates and assumptions that affect our reported amounts of assets, liabilities, revenues, expenses and related disclosure of contingent liabilities. The Company bases its estimates on historical experience and various other assumptions that it believes 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 the Company's results of operations and financial condition in future periods.

Accounts receivable consist primarily of receivables generated from franchise royalties and supplier concessions. The Company records a provision for doubtful receivables to allow for any amounts which may be unrecoverable based upon an analysis of the Company's prior collection experience, customer creditworthiness and current economic trends. Actual realization of accounts receivable could differ materially from the Company's estimates.

The Company reviews long-lived assets for impairment when events or circumstances indicate that the carrying value of such assets may not be fully recoverable. Impairment is evaluated based on the sum of undiscounted estimated future cash flows expected to result from use and eventual disposition of the assets compared to their carrying value. If impairment is indicated, the carrying value of an impaired asset is reduced to its fair value, based on discounted estimated future cash flows. During fiscal year 2019, the Company tested its long-lived assets for impairment and recognized pre-tax, non-cash impairment charges of \$0.8 million primarily related to the carrying value of one Pie Five unit. The Company also had lease charges related to closed units of \$0.9 million.

Franchise revenue consists of income from license fees, royalties, area development and foreign master license agreements, advertising fund revenues, supplier incentive and convention contribution revenues. Franchise fees, area development and foreign master license agreement fees are amortized into revenue on a straight-line basis over the term of the related contract agreement. Royalties and advertising fund revenues, which are based on a percentage of franchise retail sales, are recognized as income as retail sales occur. Supplier incentive revenues are recognized as earned, typically as the underlying commodities are shipped. For periods prior to adoption of Topic 606, franchise fees, area development and foreign master license agreement fees were recognized when we performed our obligations related to such fees, primarily the store opening date.

The Company continually reviews the realizability of its deferred tax assets, including an analysis of factors such as future taxable income, reversal of existing taxable temporary differences, and tax planning strategies. The Company assesses whether a valuation allowance should be established against its deferred tax assets based on consideration of all available evidence, using a “more likely than not” standard. In assessing the need for a valuation allowance, the Company considers both positive and negative evidence related to the likelihood of realization of deferred tax assets. In making such assessment, more weight is given to evidence that can be objectively verified, including recent losses. Future sources of taxable income are also considered in determining the amount of the recorded valuation allowance.

The Company accounts for uncertain tax positions in accordance with ASC 740-10, which prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that it has taken or expects to take on a tax return. ASC 740-10 requires that a company recognize in its financial statements the impact of tax positions that meet a “more likely than not” threshold, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. As of June 30, 2019 and June 24, 2018, the Company had no uncertain tax positions.

The Company assesses its exposures to loss contingencies from legal matters based upon factors such as the current status of the cases and consultations with external counsel and provides for the 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 adversely impacted.

Accounting Standards Adopted

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers” (“Topic 606”), which supersedes nearly all existing revenue recognition guidance under GAAP, including industry-specific requirements, and provides companies with a single framework for recognizing revenue from contracts with customers. This update and subsequently issued amendments require companies to recognize revenue at amounts that reflect the consideration to which the companies expect to be entitled in exchange for those goods or services at the time of transfer. Topic 606 requires that we assess contracts to determine each separate and distinct performance obligation. If a contract has multiple performance obligations, we allocate the transaction price using our best estimate of the standalone selling price to each distinct good or service in the contract.

The Company adopted Topic 606 using the modified retrospective transition method effective June 25, 2018. Results for reporting periods beginning June 25, 2018 and after are presented in accordance with Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historical accounting under Topic 605, Revenue Recognition.

A cumulative effect opening adjustment of \$1.6 million was recorded as a reduction to retained earnings as of June 25, 2018 to reflect the impact of adopting Topic 606. A tax adjustment of \$0.4 million was recorded as an increase to retained earnings as of March 25, 2019 to reflect the impact of adopting Topic 606. The impact of applying Topic 606 for the fiscal year ended June 30, 2019 was an increase in revenues of \$1.4 million and an increase in pre-tax income of \$0.5 million.

The adoption of Topic 606 did not impact the recognition and reporting of our two largest sources of revenue: franchise royalties and supplier and distributor incentives. The items impacted by the adoption include the timing of franchise and development revenue recognition and the presentation of advertising funds and supplier convention contributions.

As noted above, an after-tax reduction of \$1.6 million was recorded to retained earnings to reflect the cumulative impact of adopting Topic 606. This is comprised of \$1.3 million related to domestic franchise and renewal fees, \$0.2 million related to domestic area development fees and \$0.3 million related to international development and franchise master license fees partially offset by \$0.2 million in deferral of contract-related expenses.

The following chart presents the specific line items impacted by the cumulative adjustment to opening retained earnings:

<i>(In thousands, except share amounts)</i>	As Reported June 24, 2018	Total Adjustment	Adjusted Balance Sheet June 25, 2018
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 1,386	\$ -	\$ 1,386
Accounts receivable, less allowance for bad debts of \$158	1,518	-	1,518
Other receivable	300	-	300
Notes receivable	712	-	712
Inventories	6	-	6
Income tax receivable	5	-	5
Property held for sale	539	-	539
Deferred contract charges	-	10	10
Prepaid expenses and other	273	-	273
Total current assets	<u>4,739</u>	<u>10</u>	<u>4,749</u>
LONG-TERM ASSETS			
Property, plant and equipment, net	1,510	-	1,510
Intangible assets definite-lived, net	212	-	212
Long-term notes receivable	803	-	803
Deferred tax asset, net	3,479	-	3,479
Long term deferred contract charges	-	182	182
Deposits and other	243	-	243
Total assets	<u>\$ 10,986</u>	<u>\$ 192</u>	<u>\$ 11,178</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable - trade	\$ 421	\$ -	\$ 421
Accounts payable - lease termination impairments	353	-	353
Accrued expenses	1,109	(4)	1,105
Deferred rent	32	-	32
Deferred revenues	65	243	308
Total current liabilities	<u>1,980</u>	<u>239</u>	<u>2,219</u>
LONG-TERM LIABILITIES			
Convertible notes	1,562	-	1,562
Deferred rent, net of current portion	433	-	433
Deferred revenues, net of current portion	670	1,575	2,245
Other long-term liabilities	42	-	42
Total liabilities	<u>4,687</u>	<u>1,814</u>	<u>6,501</u>
COMMITMENTS AND CONTINGENCIES (SEE NOTE 3)			
SHAREHOLDERS' EQUITY			
Common stock, \$.01 par value; authorized 26,000,000 shares; issued 22,166,674 shares outstanding 15,047,470 shares	222	-	222
Additional paid-in capital	33,206	-	33,206
Accumulated deficit	(2,493)	(1,622)	(4,115)
Treasury stock at cost	-	-	-
Shares in treasury: 7,119,204	(24,636)	-	(24,636)
Total shareholders' equity	<u>6,299</u>	<u>(1,622)</u>	<u>4,677</u>
Total liabilities and shareholders' equity	<u>\$ 10,986</u>	<u>\$ 192</u>	<u>\$ 11,178</u>

The following charts present the specific line items impacted by the application of Topic 606 in fiscal 2019.

<i>(In thousands, except share amounts)</i>	As Reported June 30, 2019	Total Adjustment	Balance Sheet Without Adoption of Topic 606
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 2,264	\$ -	\$ 2,264
Accounts receivable, less allowance for bad debts of \$209	1,191	-	1,191
Other receivable	-	-	-
Notes receivable, less allowance of bad debt of \$916	389	-	389
Inventories	7	-	7
Income tax receivable	4	-	4
Property held for sale	231	-	231
Deferred contract charges	38	(38)	-
Prepaid expenses and other	346	-	346
Total current assets	<u>4,470</u>	<u>(38)</u>	<u>4,432</u>
LONG-TERM ASSETS			
Property, plant and equipment, net	500	-	500
Intangible assets definite-lived, net	196	-	196
Long-term notes receivable	735	-	735
Deferred tax asset, net	4,060	-	4,060
Long term deferred contract charges	232	(232)	-
Deposits and other	233	-	233
Total assets	<u>\$ 10,426</u>	<u>\$ (270)</u>	<u>\$ 10,156</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable - trade	\$ 400	\$ -	\$ 400
Accounts payable - lease termination impairments	832	-	832
Accrued expenses	834	4	838
Deferred rent	37	-	37
Deferred revenues	275	(275)	-
Total current liabilities	<u>2,378</u>	<u>(271)</u>	<u>2,107</u>
LONG-TERM LIABILITIES			
Convertible notes	1,584	-	1,584
Deferred rent, net of current portion	397	-	397
Deferred revenues, net of current portion	1,561	(1,124)	437
Other long-term liabilities	72	-	72
Total liabilities	<u>5,992</u>	<u>(1,395)</u>	<u>4,597</u>
COMMITMENTS AND CONTINGENCIES (SEE NOTE 3)			
SHAREHOLDERS' EQUITY			
Common stock, \$.01 par value; authorized 26,000,000 shares; issued 22,208,141 outstanding 15,090,837	222	-	222
Additional paid-in capital	33,327	-	33,327
Accumulated deficit	(4,483)	1,125	(3,358)
Treasury stock at cost	-	-	-
Shares in treasury: 7,117,304	(24,632)	-	(24,632)
Total shareholders' equity	<u>4,434</u>	<u>1,125</u>	<u>5,559</u>
Total liabilities and shareholders' equity	<u>\$ 10,426</u>	<u>\$ (270)</u>	<u>\$ 10,156</u>

	As Reported Fiscal Year Ended June 30, 2019	Total Adjustments	Income Statement Without Adoption of Topic 606
REVENUES:	\$ 12,319	\$ (1,398)	\$ 10,921
COSTS AND EXPENSES:			
Cost of sales	1,120	-	1,120
General and administrative expenses	5,274	-	5,274
Franchise expenses	3,778	(901)	2,877
Gain on sale of assets	(551)	-	(551)
Impairment of long-lived assets and other lease charges	1,664	-	1,664
Bad debt	1,265	-	1,265
Interest expense	104	-	104
Depreciation and amortization expense	466	-	466
Total costs and expenses	<u>13,120</u>	<u>(901)</u>	<u>12,219</u>
LOSS FROM CONTINUING OPERATIONS BEFORE TAXES	(801)	(497)	(1,298)
Income tax benefit	(51)	-	(51)
LOSS FROM CONTINUING OPERATIONS	<u>(750)</u>	<u>(497)</u>	<u>(1,247)</u>
Loss from discontinued operations, net of taxes	-	-	-
NET LOSS	<u>\$ (750)</u>	<u>\$ (497)</u>	<u>\$ (1,247)</u>
INCOME PER SHARE OF COMMON STOCK - BASIC:			
Loss from continuing operations	\$ (0.05)	\$ (0.03)	\$ (0.08)
Loss from discontinued operations	-	-	-
Net loss	<u>\$ (0.05)</u>	<u>\$ (0.03)</u>	<u>\$ (0.08)</u>
INCOME PER SHARE OF COMMON STOCK - DILUTED:			
Loss from continuing operations	\$ (0.05)	\$ (0.03)	\$ (0.08)
Loss from discontinued operations	-	-	-
Net loss	<u>\$ (0.05)</u>	<u>\$ (0.03)</u>	<u>\$ (0.08)</u>
Weighted average common shares outstanding - basic	<u>15,070</u>	<u>15,070</u>	<u>15,070</u>
Weighted average common and potential dilutive common shares outstanding	<u>15,070</u>	<u>15,070</u>	<u>15,070</u>

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases. ASU 2016-02 amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets. The new lease standard is effective for public companies for fiscal years, (including interim periods therein), beginning after December 15, 2018. Application of ASU 2016-02 will be required beginning in the first quarter of our fiscal 2020. Early adoption of ASU 2016-02 as of its issuance is permitted. This new guidance requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The Company believes this will have a material impact on the financial statements as it relates to its corporate office lease and various lease obligations for store locations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not required for a smaller reporting company.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See information set forth on Index to Consolidated Financial Statements and Supplementary Data appearing on page F-1 of this report on Form 10-K.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's principal executive officer and principal financial officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures, as of the end of the period covered by this report, were effective in assuring that the information required to be disclosed by the Company in reports filed under the Securities Exchange Act of 1934 is (i) accumulated and communicated to management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding disclosure, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Management Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate "internal control over financial reporting" (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934). Under the supervision and with the participation of management, including our principal executive officer and principal financial officer, the Company has conducted an evaluation of the effectiveness of its internal control over financial reporting. The Company's management based its evaluation on criteria set forth in the framework in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon that evaluation, management has concluded that our internal control over financial reporting was effective as of June 30, 2019.

ITEM 9B. OTHER INFORMATION.

On September 26, 2019, the board of directors of the Company appointed Mark E. Schwarz to serve as the Company's principal financial officer on an interim basis. Mr. Schwarz, age 59, has served as a director and the Chairman of the Board of the Company since 2004. Mr. Schwarz is the Chairman, Chief Executive Officer and Portfolio Manager of Newcastle Capital Management, L.P. ("NCM"), a private investment management firm he founded in 1993. NCM is the general partner of Newcastle Partners, L.P., which is the largest shareholder of the Company. Mr. Schwarz is Chairman of the boards of directors of Hallmark Financial Services, Inc., a specialty property and casualty insurance company, and Wilhelmina International, Inc., a model management and talent representation company. Within the past five years, he has also served as a director of SL Industries, Inc., a developer of power systems used in a variety of aerospace, computer, datacom, industrial, medical, telecom, transportation and utility equipment applications. He also serves as a director of various privately held companies.

Mr. Schwarz will serve as principal financial officer of the Company at the will of the board of directors pending the appointment of a permanent replacement. He will not receive any fixed compensation from the Company for his service as principal financial officer. However, the board of directors may award him a discretionary bonus at the conclusion of his tenure. Mr. Schwarz has no family relationship with any other director or other executive officer of the Company. There are no transactions in which Mr. Schwarz has an interest requiring disclosure under Item 404(a) of Regulation S-K.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information required by this Item is incorporated by reference from the Company's definitive proxy statement to be filed with the SEC pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this Item is incorporated by reference from the Company's definitive proxy statement to be filed with the SEC pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information required by this Item is incorporated by reference from the Company's definitive proxy statement to be filed with the SEC pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE.

The information required by this Item is incorporated by reference from the Company's definitive proxy statement to be filed with the SEC pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information required by this Item is incorporated by reference from the Company's definitive proxy statement to be filed with the SEC pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

1. The financial statements filed as part of this report are listed in the Index to Consolidated Financial Statements and Supplementary Data appearing on page F-1 of this report on Form 10-K.
2. Any financial statement schedule filed as part of this report is listed in the Index to Consolidated Financial Statements and Supplementary Data appearing on page F-1 of this report on Form 10-K.
3. Exhibits:

3.1	Amended and Restated Articles of Incorporation of Rave Restaurant Group, Inc. (incorporated by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K filed January 8, 2015).
3.2	Amended and Restated Bylaws of Rave Restaurant Group, Inc. (incorporated by reference to Exhibit 3.2 to the registrant's Current Report on Form 8-K filed January 8, 2015).
4.1	Indenture for 4% Convertible Senior Notes due 2022 (filed as Exhibit 4.1 to Form S-3/A filed January 6, 2017 and incorporated herein by reference).
4.2	Pledge Agreement (filed as Exhibit 4.2 to Form S-3/A filed January 6, 2017 and incorporated herein by reference).
4.3	Supplemental Indenture Number 1 dated as of October 31, 2017, between Rave Restaurant Group, Inc. and Securities Transfer Corporation (filed as Exhibit 4.1 to Form 8-K filed November 9, 2017 and incorporated herein by reference).
10.1	2015 Long Term Incentive Plan of the Company (filed as Exhibit 10.1 to Form 8-K filed November 20, 2014 and incorporated herein by reference).*
10.2	Form of Stock Option Grant Agreement under the Company's 2015 Long Term Incentive Plan (filed as Exhibit 10.2 to Form 8-K filed November 20, 2014 and incorporated herein by reference).*
10.3	Form of Restricted Stock Unit Award Agreement under the Company's 2015 Long-Term Incentive Plan (filed as Exhibit 10.1 to Form 10-Q for the fiscal quarter ended December 27, 2015 and incorporated herein by reference).*
10.4	Lease Agreement dated November 1, 2016, between A&H Properties Partnership and Rave Restaurant Group, Inc.
10.5	First Amendment to Lease and Expansion dated July 1, 2017, between A&H Properties Partnership and Rave Restaurant Group, Inc.
10.6	At Market Issuance Sales Agreement between the Company and B. Riley FBR, Inc. (filed as Exhibit 1.01 to Form 8-K filed December 5, 2017).*
21.1	List of Subsidiaries.
23.1	Consent of Independent Registered Public Accounting Firm.
31.1	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer.
32.1	Section 1350 Certification of Principal Executive Officer.
32.2	Section 1350 Certification of Principal Financial Officer.
101	Interactive data files pursuant to Rule 405 of Regulation S-T.

*Management contract or compensatory plan or agreement.

ITEM 16. FORM 10-K SUMMARY.

None.

SIGNATURES

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

Date: September 30, 2019

Rave Restaurant Group, Inc.
By: /s/ Robert W. Bafundo
Robert W. Bafundo
President

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

<u>Name and Position</u>	<u>Date</u>
<u>/s/ Robert W. Bafundo</u> Robert W. Bafundo President (Principal Executive Officer)	<u>September 30, 2019</u>
<u>/s/Mark E. Schwarz</u> Mark E. Schwarz Director and Chairman of the Board (Principal Financial Officer)	<u>September 30, 2019</u>
<u>/s/Ramon D. Phillips</u> Ramon D. Phillips Director and Vice Chairman of the Board	<u>September 30, 2019</u>
<u>/s/ Brian T. Bares</u> Brian T. Bares Director	<u>September 30, 2019</u>
<u>/s/Robert B. Page</u> Robert B. Page Director	<u>September 30, 2019</u>
<u>/s/ William C. Hammett, Jr.</u> William C. Hammett, Jr. Director	<u>September 30, 2019</u>
<u>/s/ Clinton J. Coleman</u> Clinton J. Coleman Director	<u>September 30, 2019</u>

RAVE RESTAURANT GROUP, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

<u>Description</u>	<u>Page No.</u>
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<u>Consolidated Statements of Operations for the fiscal years ended June 30, 2019 and June 24, 2018.</u>	F-3
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<u>Notes to Consolidated Financial Statements.</u>	F-7

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
Rave Restaurant Group, Inc.
The Colony, Texas

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Rave Restaurant Group, Inc. (the Company) as of June 30, 2019 and June 24, 2018, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the fiscal years ended, and the related notes (collectively referred to as the financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2019 and June 24, 2018, and the results of its operations and its cash flows for each of the years in the fiscal years ended June 30, 2019 and June 24, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since 2010.

/s/ Baker Tilly Virchow Krause, LLP
Plano, Texas
September 30, 2019

RAVE RESTAURANT GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	Fiscal Year Ended	
	June 30, 2019	June 24, 2018
REVENUES:	\$ 12,319	\$ 15,120
COSTS AND EXPENSES:		
Cost of sales	1,120	3,654
General and administrative expenses	5,274	7,597
Franchise expenses	3,778	2,645
Pre-opening expenses	-	114
Loss/(gain) on sale of assets	(551)	(144)
Impairment of long-lived assets and other lease charges	1,664	894
Bad debt	1,265	351
Interest expense	104	183
Depreciation and amortization expense	466	874
Total costs and expenses	13,120	16,168
LOSS FROM CONTINUING OPERATIONS BEFORE TAXES	(801)	(1,048)
Income tax benefit	(51)	(3,322)
INCOME / (LOSS) FROM CONTINUING OPERATIONS	(750)	2,274
Loss from discontinued operations, net of taxes	-	(362)
NET INCOME / (LOSS)	\$ (750)	\$ 1,912
INCOME / (LOSS) PER SHARE OF COMMON STOCK - BASIC:		
Income / (loss) from continuing operations	\$ (0.05)	\$ 0.17
Loss from discontinued operations	-	(0.03)
Net income / (loss)	\$ (0.05)	\$ 0.14
INCOME / (LOSS) PER SHARE OF COMMON STOCK - DILUTED:		
Income / (loss) from continuing operations	\$ (0.05)	\$ 0.16
Loss from discontinued operations	-	(0.03)
Net income / (loss)	\$ (0.05)	\$ 0.13
Weighted average common shares outstanding - basic	15,070	13,854
Weighted average common and potential dilutive common shares outstanding	15,070	14,983

See accompanying Notes to Consolidated Financial Statements.

RAVE RESTAURANT GROUP, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

	<u>June 30, 2019</u>	<u>June 24, 2018</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,264	\$ 1,386
Accounts receivable, less allowance for bad debts of \$209 and \$158, respectively	1,191	1,518
Other receivable	-	300
Notes receivable, less allowance of bad debt of \$916 and \$0, respectively	389	712
Inventories	7	6
Income tax receivable	4	5
Property held for sale	231	539
Deferred contract charges	38	-
Prepaid expenses and other	346	273
Total current assets	<u>4,470</u>	<u>4,739</u>
LONG-TERM ASSETS		
Property, plant and equipment, net	500	1,510
Intangible assets definite-lived, net	196	212
Long-term notes receivable	735	803
Deferred tax asset, net	4,060	3,479
Long-term deferred contract charges	232	-
Deposits and other	233	243
Total assets	<u>\$ 10,426</u>	<u>\$ 10,986</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable - trade	\$ 400	\$ 421
Accounts payable - lease termination impairments	832	353
Accrued expenses	834	1,109
Deferred rent	37	32
Deferred revenues	275	65
Total current liabilities	<u>2,378</u>	<u>1,980</u>
LONG-TERM LIABILITIES		
Convertible notes	1,584	1,562
Deferred rent, net of current portion	397	433
Deferred revenues, net of current portion	1,561	670
Other long-term liabilities	72	42
Total liabilities	<u>5,992</u>	<u>4,687</u>
COMMITMENTS AND CONTINGENCIES (SEE NOTE J)		
SHAREHOLDERS' EQUITY		
Common stock, \$.01 par value; authorized 26,000,000 shares; issued 22,208,141 and 22,166,674 shares, respectively; outstanding 15,090,837 and 15,047,470 shares, respectively	222	222
Additional paid-in capital	33,327	33,206
Accumulated deficit	(4,483)	(2,493)
Treasury stock at cost		
Shares in treasury: 7,117,304 and 7,119,204, respectively	(24,632)	(24,636)
Total shareholders' equity	<u>4,434</u>	<u>6,299</u>
Total liabilities and shareholders' equity	<u>\$ 10,426</u>	<u>\$ 10,986</u>

See accompanying Notes to Consolidated Financial Statements.

RAVE RESTAURANT GROUP, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Treasury Stock		Total
	Shares	Amount			Shares	Amount	
BALANCE, JUNE 25, 2017	10,667	\$ 178	\$ 26,784	\$ (4,405)	(7,119)	\$ (24,636)	\$ (2,079)
Stock compensation expense	-	-	115	-	-	-	115
Conversion of senior notes, net	614	6	1,308	-	-	-	1,314
Sale of shares	3,766	38	5,140	-	-	-	5,178
Equity issue costs - Sr conv notes	-	-	(92)	-	-	-	(92)
Equity issue costs - ATM offering	-	-	(49)	-	-	-	(49)
Net income	-	-	-	1,912	-	-	1,912
BALANCE, JUNE 24, 2018	15,047	\$ 222	\$ 33,206	\$ (2,493)	(7,119)	\$ (24,636)	\$ 6,299
ASC 606 cumulative opening adjustment	-	-	-	(1,622)	-	-	(1,622)
ASC 606 Q4 tax adjustment	-	-	-	382	-	-	382
Stock compensation expense	-	-	36	-	-	-	36
Conversion of senior notes, net	-	-	-	-	2	4	4
Issuance of common stock	44	-	88	-	-	-	88
Equity issue costs - ATM Offering	-	-	(3)	-	-	-	(3)
Net loss	-	-	-	(750)	-	-	(750)
BALANCE, JUNE 30, 2019	15,091	\$ 222	\$ 33,327	\$ (4,483)	(7,117)	\$ (24,632)	\$ 4,434

See accompanying Notes to Consolidated Financial Statements.

RAVE RESTAURANT GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Fiscal Year Ended	
	June 30, 2019	June 24, 2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income / (loss)	\$ (750)	\$ 1,912
Adjustments to reconcile net income/(loss) to cash provided by (used in) operating activities:		
Impairment of fixed assets and other assets	1,664	894
Stock compensation expense	36	115
Depreciation and amortization	423	835
Amortization of intangible assets definite-lived	43	39
Amortization of debt issue costs	22	35
Gain on the sale of assets	(551)	(144)
Provision for bad debt (accounts receivable)	349	351
Provision for bad debt (notes receivable)	916	-
Deferred tax benefit	(198)	(3,479)
Changes in operating assets and liabilities:		
Accounts receivable	226	908
Operating notes receivable	50	-
Inventories	(1)	73
Prepaid expenses, deposits and other, net	(446)	25
Deferred contract charges	(270)	-
Deferred revenue	(139)	(767)
Accounts payable - trade	(21)	(4,241)
Accounts payable - lease termination impairments	(418)	-
Accrued expenses, deferred rent and other	(276)	(458)
Cash provided by (used in) operating activities	659	(3,902)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments received on notes receivable issued for fixed asset sales	201	-
Proceeds from sale of assets	11	1,789
Capital expenditures	(81)	(1,081)
Cash provided by investing activities	131	708
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of stock	88	5,129
Net change in other debt	-	(1,000)
Cash provided by financing activities	88	4,129
Net increase in cash and cash equivalents	878	935
Cash and cash equivalents, beginning of period	1,386	451
Cash and cash equivalents, end of period	<u>\$ 2,264</u>	<u>\$ 1,386</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
CASH PAID FOR:		
Interest	\$ 72	\$ 187
Income taxes	\$ 168	\$ 64
Non-cash activities:		
Conversion of note to common shares	\$ 4	\$ 1,314
Notes receivable issued for sales of fixed assets	\$ 654	\$ -
Capital expenditures included in accounts payable	\$ -	\$ 49

See accompanying Notes to Consolidated Financial Statements.

RAVE RESTAURANT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Description of Business:

Rave Restaurant Group, Inc. and its subsidiaries (collectively referred to as the “Company”, or in the first person notations of “we”, “us” and “our”) franchise pizza buffet, delivery/carry-out and express restaurants domestically and internationally under the trademark “Pizza Inn” and operate and franchise domestic fast casual restaurants under the trademarks “Pie Five Pizza Company” or “Pie Five”. We facilitate the procurement and distribution of food, equipment and supplies to our domestic and international system of restaurants through agreements with third party distributors.

As of June 30, 2019, we owned and operated one Pie Five restaurant (“Pie Five Units”). As of that date, we also had 57 franchised Pie Five Units, 194 franchised Pizza Inn restaurants, and nine licensed Pizza Inn Express, or PIE, kiosks (“PIE Units”). The 146 domestic franchised Pizza Inn restaurants were comprised of 87 pizza buffet restaurants (“Buffet Units”), nine delivery/carry-out restaurants (“Delco Units”), and 50 express restaurants (“Express Units”). As of June 30, 2019, there were 48 international franchised Pizza Inn restaurants. Domestic Pizza Inn restaurants and kiosks were located predominantly in the southern half of the United States, with Texas, Arkansas, North Carolina and Mississippi accounting for approximately 25%, 18%, 17% and 8%, respectively, of the total number of domestic units.

Principles of Consolidation:

The consolidated financial statements include the accounts of Rave Restaurant Group, Inc. and its subsidiaries, all of which are wholly owned. All appropriate inter-company balances and transactions have been eliminated.

Cash and Cash Equivalents:

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Restricted cash of \$0.2 million at June 30, 2019 and June 24, 2018 is omitted from cash and cash equivalents and is included in other long term assets. The restricted cash is held in an interest-bearing money market account and is restricted pursuant to a letter of credit for an insurance claim dating back to the mid-1980’s.

Concentration of Credit Risk:

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of cash and cash equivalents. At June 30, 2019 and June 24, 2018, and at various times during the fiscal years then ended, cash and cash equivalents were in excess of Federal Depository Insurance Corporation insured limits. We do not believe we are exposed to any significant credit risk on cash and cash equivalents.

Notes receivable, which potentially subject the Company to concentrations of credit risk, consist primarily of structured Company-financed sales of assets. At June 30, 2019 and June 24, 2018, and at various times during the fiscal years then ended, the Company had concentrations of credit risk with five franchisees on notes receivables with both short and long term maturities. As of June 30, 2019, the Company had one short term note receivable with one franchisee with a balloon payment of \$0.2 million due during the third quarter of fiscal 2020. At June 30, 2019, the Company had two additional notes receivable with one franchisee totaling \$0.9 million with an allowance reserve of \$0.9 million. In addition, the Company had five notes receivable with four franchisees totaling \$0.9 million. Each of the financed asset sales was executed with a 4.0-5.0% stated interest rate, principal and interest payments due monthly and a balloon payment due after 24 months.

Inventories:

Inventory consists primarily of food, paper products and supplies stored in and used by Company restaurants and was stated at lower of first-in, first-out (“FIFO”) or market.

Closed Restaurants and Discontinued Operations:

In April, 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, which modifies the definition of discontinued operations to include only disposals of an entity that represent strategic shifts that have or will have a major effect on an entity’s operation and requires entities to disclose information about disposals of individually significant components that do not meet the definition of discontinued operations. The standard was effective prospectively for annual and interim periods beginning after December 15, 2014, with early adoption permitted. This pronouncement did not have a material impact on our consolidated financial statements.

The authoritative guidance on “*Accounting for the Impairment or Disposal of Long-Lived Assets*,” requires that discontinued operations that meet certain criteria be reflected in the statement of operations after results of continuing operations as a net amount. This guidance also requires that the operations of closed restaurants, including any impairment charges, be reclassified to discontinued operations for all periods presented.

The authoritative guidance on “*Accounting for Costs Associated with Exit or Disposal Activities*,” requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. This authoritative guidance also establishes that fair value is the objective for initial measurement of the liability.

Discontinued operations include losses attributable to the discontinued Norco distribution and supply division, leased buildings associated with Company-owned restaurants closed in prior years, and Company-owned restaurants closed in the reported period.

Property, Plant and Equipment:

Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Repairs and maintenance are charged to operations as incurred while major renewals and betterments are capitalized. Upon the sale or disposition of a fixed asset, the asset and the related accumulated depreciation or amortization are removed from the accounts and the gain or loss is included in operations. The Company capitalizes interest on borrowings during the active construction period of major capital projects. Capitalized interest is added to the cost of the underlying asset and amortized over the estimated useful life of the asset.

Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the assets or, in the case of leasehold improvements, over the term of the lease including any reasonably assured renewal periods, if shorter. The useful lives of the assets range from three to ten years.

Impairment of Long-Lived Asset and other Lease Charges:

The Company reviews long-lived assets for impairment when events or circumstances indicate that the carrying value of such assets may not be fully recoverable. Impairment is evaluated based on the sum of undiscounted estimated future cash flows expected to result from use and eventual disposition of the assets compared to their carrying value. If impairment is recognized, the carrying value of an impaired asset is reduced to its fair value, based on discounted estimated future cash flows. During fiscal year 2019, the Company tested its long-lived assets for impairment and recognized pre-tax, non-cash impairment charges of \$0.8 million primarily related to the carrying value of one Pie Five unit. The Company also had lease charges related to closed units of \$0.9 million.

Accounts Receivable:

Accounts receivable consist primarily of receivables generated from franchise royalties. The Company records a provision for doubtful receivables to allow for any amounts that may be unrecoverable based upon an analysis of the Company's prior collection experience, customer creditworthiness and current economic trends. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. Finance charges may be accrued at a rate of 18% per year, or up to the maximum amount allowed by law, on past due receivables. The interest income recorded from finance charges is immaterial.

Notes Receivable:

Notes receivable primarily consist of promissory notes arising from franchisee agreements. The majority of amounts and terms are evidenced by formal promissory notes and personal guarantees. All notes allow for early payment without penalty. Fixed principle and interest payments are due monthly. Interest income is recognized monthly. Notes receivable mature at various dates through 2022 and bear interest at a weighted average rate of 4.8% at June 30, 2019.

Management evaluates the creditworthiness of franchisees by considering credit history and sales to evaluate credit risk. Management determines interest rates based on credit risk of the underlining franchisee. The Company monitors payment history to determine whether or not a loan should be placed on a nonaccrual status or impaired. The Company charges off notes receivable based on an account-by-account analysis of the borrower's current economic conditions, monthly payments history and historical loss experience. The allowance for doubtful notes receivable is netted within notes receivable.

The principal balance outstanding on the notes receivable and expected principal collections for the next three years were as follows as of June 30, 2019 (in thousands):

	Notes Receivable	
2020	\$	389
2021		542
2022		193
	\$	<u>1,124</u>

Income Taxes:

Income taxes are accounted for using the asset and liability method pursuant to the authoritative guidance on *Accounting for Income Taxes*. Deferred taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement and carrying amounts and the tax bases of existing assets and liabilities. The effect on deferred taxes for a change in tax rates is recognized in income in the period that includes the enactment date. The Company recognizes future tax benefits to the extent that realization of such benefits is more likely than not.

The Company continually reviews the realizability of its deferred tax assets, including an analysis of factors such as future taxable income, reversal of existing taxable temporary differences, and tax planning strategies. The Company has assessed whether the valuation allowance should be maintained against its deferred tax assets based on consideration of all available evidence, using a "more likely than not" standard. In assessing the need for the valuation allowance, the Company considered both positive and negative evidence related to the likelihood of realization of deferred tax assets. Future sources of taxable income were also considered in determining the amount of the recorded valuation allowance. Based on the Company's review of this evidence, management determined it was appropriate to maintain the existing partial valuation allowance against the Company's deferred tax assets.

Income tax benefit of \$0.1 million for fiscal 2019 represents \$0.1 million in state and foreign tax expense and a \$0.2 million benefit on other deferred taxes. At the end of tax year ended June 30, 2019, the Company had net operating loss carryforwards totaling \$23.9 million that are available to reduce future taxable income and will begin to expire in 2032. Under the Tax Cuts and Jobs Act, approximately \$0.3 million of the loss carryforwards are limited to 80% and do not expire.

Under ASC 740, we recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. From time to time, the Company may be assessed interest and penalties by taxing authorities. In those cases, the charges are recorded as income tax expense in the Consolidated Statements of Operations. There were no such charges or accruals for the years ended June 30, 2019 and June 24, 2018.

Pre-Opening Expense:

The Company's pre-opening costs are expensed as incurred and generally include payroll and other direct costs associated with training new managers and employees prior to opening a new restaurant, rent and other unit operating expenses incurred prior to opening, and promotional costs associated with the opening.

Related Party Transactions:

On December 22, 2016, the Company obtained a \$1.0 million loan from its largest shareholder, Newcastle Partners, LP ("Newcastle"), evidenced by a promissory note. The loan bore interest at 10% per annum and was originally due and payable on April 30, 2017. On May 8, 2017, the Company renewed and extended the promissory note on the same terms until the earlier of September 1, 2017, or the Company's receipt of at least \$2.0 million in additional debt or equity capital. The note was paid in full in fiscal 2018. Newcastle is an affiliate of the Company's Chairman, Mark E. Schwarz.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases. ASU 2016-02 amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets. The new lease standard is effective for public companies for fiscal years, (including interim periods therein), beginning after December 15, 2018. Application of ASU 2016-02 will be required beginning in the first quarter of our fiscal 2020. Early adoption of ASU 2016-02 as of its issuance is permitted. This new guidance requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The Company believes this will have a material impact on the financial statements as it relates to its corporate office lease and various lease obligations for store locations.

Revenue Recognition:

Revenue is measured based on consideration specified in contracts with customers and excludes incentives and amounts collected on behalf of third parties, primarily sales tax. The Company recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a customer, are excluded from revenue.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"), which supersedes nearly all existing revenue recognition guidance under GAAP, including industry-specific requirements, and provides companies with a single framework for recognizing revenue from contracts with customers. This update and subsequently issued amendments require companies to recognize revenue at amounts that reflect the consideration to which the companies expect to be entitled in exchange for those goods or services at the time of transfer. Topic 606 requires that we assess contracts to determine each separate and distinct performance obligation. If a contract has multiple performance obligations, we allocate the transaction price using our best estimate of the standalone selling price to each distinct good or service in the contract.

The Company adopted ASU 2014-09 and Topic 606 using the modified retrospective transition method effective June 25, 2018. Results for reporting periods beginning after June 25, 2018 are presented in accordance with Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historical accounting under Topic 605, Revenue Recognition.

The adoption of Topic 606 did not impact the recognition and reporting of our two largest sources of revenue: franchise royalties and supplier and distributor incentives. The items impacted by the adoption include the timing of franchise and development revenue recognition and the presentation of advertising funds and supplier convention contributions.

The following describes principal activities, separated by major product or service, from which the Company generates its revenues:

Restaurant Sales

Revenue from restaurant sales is recognized when food and beverage products are sold in Company-owned restaurants. The Company reports revenue net of sales taxes collected from customers and remitted to governmental taxing authorities.

Franchise Revenues

Franchise revenues consist of 1) franchise royalties, 2) supplier and distributor incentive revenues, 3) franchise license fees, 4) area development exclusivity fees and foreign master license fees, 5) advertising funds, and 6) supplier convention funds.

Franchise royalties, which are based on a percentage of franchise restaurant sales, are recognized as sales occur.

Supplier and distributor incentive revenues are recognized when title to the underlying commodities transfer.

Franchise license fees are typically billed upon execution of the franchise agreement and amortized over the term of the franchise agreement which can range from five to 20 years. Fees received for renewal periods are amortized over the life of the renewal period.

Area development exclusivity fees and foreign master license fees are typically billed upon execution of the area development and foreign master license agreements. Area development exclusivity fees are included in deferred revenue in the Consolidated Balance Sheets and allocated on a pro rata basis to all stores opened under that specific development agreement. Area development exclusivity fees that include rights to subfranchise are amortized as revenue over the term of the contract.

For periods prior to adoption of Topic 606, revenue was recognized when we performed our obligations related to such fees, primarily the store opening date for initial franchise fees and area development fees, or the date the renewal option was effective for renewal fees.

Advertising fund contributions for Pie Five units represent contributions collected where we have control over the activities of the fund. Contributions are based on a percentage of net retail sales. The adoption of Topic 606 revises the determination of whether these arrangements are considered principal versus agent. For Pie Five, we have determined that we are the principal in these arrangements, and advertising fund contributions and expenditures are, therefore, reported on a gross basis in the Consolidated Statements of Income. In general, we expect such advertising fund contributions and expenditures to be largely offsetting and, therefore, do not expect a significant impact on our reported income before income taxes. Our obligation related to these funds is to develop and conduct advertising activities. Pie Five marketing fund contributions are billed and collected weekly.

Supplier convention funds are deferred until the obligations of the agreement are met and the event takes place.

Total revenues consist of the following (in thousands):

	Fiscal Year Ended	
	June 30, 2019	June 24, 2018
Restaurant Sales	\$ 889	\$ 4,254
Franchise Royalties	4,814	4,997
Supplier and Distributor Incentive Revenues	4,519	4,752
Franchise License Fees	1,031	278
Area Development Fees and Foreign Master License Fees	41	835
Advertising Funds	684	-
Supplier Convention Funds	294	-
Other	47	4
	<u>\$ 12,319</u>	<u>\$ 15,120</u>

The following chart presents the specific line items impacted by the cumulative adjustment to opening retained earnings:

<i>(In thousands, except share amounts)</i>	As Reported June 24, 2018	Total Adjustment	Adjusted Balance Sheet June 25, 2018
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 1,386	\$ -	\$ 1,386
Accounts receivable, less allowance for bad debts of \$158	1,518	-	1,518
Other receivable	300	-	300
Notes receivable	712	-	712
Inventories	6	-	6
Income tax receivable	5	-	5
Property held for sale	539	-	539
Deferred contract charges	-	10	10
Prepaid expenses and other	273	-	273
Total current assets	<u>4,739</u>	<u>10</u>	<u>4,749</u>
LONG-TERM ASSETS			
Property, plant and equipment, net	1,510	-	1,510
Intangible assets definite-lived, net	212	-	212
Long-term notes receivable	803	-	803
Deferred tax asset, net	3,479	-	3,479
Long term deferred contract charges	-	182	182
Deposits and other	243	-	243
Total assets	<u>\$ 10,986</u>	<u>\$ 192</u>	<u>\$ 11,178</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable - trade	\$ 421	\$ -	\$ 421
Accounts payable - lease termination impairments	353	-	353
Accrued expenses	1,109	(4)	1,105
Deferred rent	32	-	32
Deferred revenues	65	243	308
Total current liabilities	<u>1,980</u>	<u>239</u>	<u>2,219</u>
LONG-TERM LIABILITIES			
Convertible notes	1,562	-	1,562
Deferred rent, net of current portion	433	-	433
Deferred revenues, net of current portion	670	1,575	2,245
Other long-term liabilities	42	-	42
Total liabilities	<u>4,687</u>	<u>1,814</u>	<u>6,501</u>
COMMITMENTS AND CONTINGENCIES (SEE NOTE 3)			
SHAREHOLDERS' EQUITY			
Common stock, \$.01 par value; authorized 26,000,000 shares; issued 22,166,674 shares outstanding 15,047,470 shares	222	-	222
Additional paid-in capital	33,206	-	33,206
Accumulated deficit	(2,493)	(1,622)	(4,115)
Treasury stock at cost			
Shares in treasury: 7,119,204	(24,636)	-	(24,636)
Total shareholders' equity	<u>6,299</u>	<u>(1,622)</u>	<u>4,677</u>
Total liabilities and shareholders' equity	<u>\$ 10,986</u>	<u>\$ 192</u>	<u>\$ 11,178</u>

The following charts present the specific line items impacted by the application of Topic 606 in fiscal 2019.

<i>(In thousands, except share amounts)</i>	As Reported June 30, 2019	Total Adjustment	Balance Sheet Without Adoption of Topic 606
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 2,264	\$ -	\$ 2,264
Accounts receivable, less allowance for bad debts of \$209	1,191	-	1,191
Other receivable	-	-	-
Notes receivable, less allowance of bad debt of \$916	389	-	389
Inventories	7	-	7
Income tax receivable	4	-	4
Property held for sale	231	-	231
Deferred contract charges	38	(38)	-
Prepaid expenses and other	346	-	346
Total current assets	<u>4,470</u>	<u>(38)</u>	<u>4,432</u>
LONG-TERM ASSETS			
Property, plant and equipment, net	500	-	500
Intangible assets definite-lived, net	196	-	196
Long-term notes receivable	735	-	735
Deferred tax asset, net	4,060	-	4,060
Long term deferred contract charges	232	(232)	-
Deposits and other	233	-	233
Total assets	<u>\$ 10,426</u>	<u>\$ (270)</u>	<u>\$ 10,156</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable - trade	\$ 400	\$ -	\$ 400
Accounts payable - lease termination impairments	832	-	832
Accrued expenses	834	4	838
Deferred rent	37	-	37
Deferred revenues	275	(275)	-
Total current liabilities	<u>2,378</u>	<u>(271)</u>	<u>2,107</u>
LONG-TERM LIABILITIES			
Convertible notes	1,584	-	1,584
Deferred rent, net of current portion	397	-	397
Deferred revenues, net of current portion	1,561	(1,124)	437
Other long-term liabilities	72	-	72
Total liabilities	<u>5,992</u>	<u>(1,395)</u>	<u>4,597</u>
COMMITMENTS AND CONTINGENCIES (SEE NOTE 3)			
SHAREHOLDERS' EQUITY			
Common stock, \$.01 par value; authorized 26,000,000 shares; issued 22,208,141 outstanding 15,090,837	222	-	222
Additional paid-in capital	33,327	-	33,327
Accumulated deficit	(4,483)	1,125	(3,358)
Treasury stock at cost			
Shares in treasury: 7,117,304	(24,632)	-	(24,632)
Total shareholders' equity	<u>4,434</u>	<u>1,125</u>	<u>5,559</u>
Total liabilities and shareholders' equity	<u>\$ 10,426</u>	<u>\$ (270)</u>	<u>\$ 10,156</u>

	As Reported Fiscal Year Ended June 30, 2019	Total Adjustments	Income Statement Without Adoption of Topic 606
REVENUES:	\$ 12,319	\$ (1,398)	\$ 10,921
COSTS AND EXPENSES:			
Cost of sales	1,120	-	1,120
General and administrative expenses	5,274	-	5,274
Franchise expenses	3,778	(901)	2,877
Gain on sale of assets	(551)	-	(551)
Impairment of long-lived assets and other lease charges	1,664	-	1,664
Bad debt	1,265	-	1,265
Interest expense	104	-	104
Depreciation and amortization expense	466	-	466
Total costs and expenses	<u>13,120</u>	<u>(901)</u>	<u>12,219</u>
LOSS FROM CONTINUING OPERATIONS BEFORE TAXES	(801)	(497)	(1,298)
Income tax benefit	(51)	-	(51)
LOSS FROM CONTINUING OPERATIONS	<u>(750)</u>	<u>(497)</u>	<u>(1,247)</u>
Loss from discontinued operations, net of taxes	-	-	-
NET LOSS	<u>\$ (750)</u>	<u>\$ (497)</u>	<u>\$ (1,247)</u>
INCOME PER SHARE OF COMMON STOCK - BASIC:			
Loss from continuing operations	\$ (0.05)	\$ (0.03)	\$ (0.08)
Loss from discontinued operations	-	-	-
Net loss	<u>\$ (0.05)</u>	<u>\$ (0.03)</u>	<u>\$ (0.08)</u>
INCOME PER SHARE OF COMMON STOCK - DILUTED:			
Loss from continuing operations	\$ (0.05)	\$ (0.03)	\$ (0.08)
Loss from discontinued operations	-	-	-
Net loss	<u>\$ (0.05)</u>	<u>\$ (0.03)</u>	<u>\$ (0.08)</u>
Weighted average common shares outstanding - basic	<u>15,070</u>	<u>15,070</u>	<u>15,070</u>
Weighted average common and potential dilutive common shares outstanding	<u>15,070</u>	<u>15,070</u>	<u>15,070</u>

Stock-Based Compensation:

The Company accounts for stock options using the fair value recognition provisions of the authoritative guidance on share-based payments. The Company uses the Black-Scholes formula to estimate the value of stock-based compensation for options granted to employees and directors and expects to continue to use this acceptable option valuation model in the future. The authoritative guidance also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow.

Restricted stock units (“RSU’s”) represent the right to receive shares of common stock upon the satisfaction of vesting requirements, performance criteria and other terms and conditions. Compensation cost for RSU’s is measured as an amount equal to the fair value of the RSU’s on the date of grant and is expensed over the vesting period if achievement of the performance criteria is deemed probable, with the amount of the expense recognized based on the best estimate of the ultimate achievement level.

Fair Value of Financial Instruments:

The carrying amounts of accounts receivable and accounts payable approximate fair value because of the short maturity of these instruments.

Contingencies:

Provisions for legal settlements are accrued when payment is considered probable and the amount of loss is reasonably estimable in accordance with the authoritative guidance on *Accounting for Contingencies*. If the best estimate of cost can only be identified within a range and no specific amount within that range can be determined more likely than any other amount within the range, and the loss is considered probable, the minimum of the range is accrued. Legal and related professional services costs to defend litigation are expensed as incurred.

Use of Management Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company’s management to make estimates and assumptions that affect its reported amounts of assets, liabilities, revenues, expenses and related disclosure of contingent liabilities. The Company bases its estimates on historical experience and other various assumptions that it believes are reasonable under the circumstances. Estimates and assumptions are reviewed periodically. Actual results could differ materially from estimates.

Fiscal Year:

The Company's fiscal year ends on the last Sunday in June. The fiscal year ended June 30, 2019 contained 53 weeks and the fiscal year ended June 24, 2018 contained 52 weeks.

Discontinuation of Norco Distribution Division:

During the fiscal quarter ended December 24, 2017, the Company discontinued its Norco distribution division and revised its arrangements with third party suppliers and distributors of food, equipment and supplies. As a result, sale of food, equipment and supplies is no longer recognized as revenue and the cost of such items is no longer included in cost of sales. The Company now recognizes incentives received from third party suppliers and distributors as revenue.

NOTE B – PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS:

Property, and plant and equipment consist of the following (in thousands):

	Estimated Useful Lives	June 30, 2019	June 24, 2018
Equipment, furniture and fixtures	3 - 7 yrs	\$ 867	\$ 1,090
Software	5 yrs	810	778
Leasehold improvements	10 yrs or lease term, if shorter	434	1,033
		2,111	2,901
Less: accumulated depreciation/amortization		(1,611)	(1,391)
		<u>\$ 500</u>	<u>\$ 1,510</u>

Depreciation and amortization expense was approximately \$0.5 million and \$0.9 million for the fiscal years ended June 30, 2019 and June 24, 2018, respectively.

Intangible assets consist of the following (in thousands):

	Estimated Useful Lives	June 30, 2019			June 24, 2018		
		Acquisition Cost	Accumulated Amortization	Net Value	Acquisition Cost	Accumulated Amortization	Net Value
Trademarks and tradenames	10 years	\$ 278	\$ (153)	\$ 125	\$ 264	\$ (127)	\$ 137
Name change	15 years	70	(21)	49	70	(16)	54
Prototypes	5 years	230	(208)	22	218	(197)	21
		<u>\$ 578</u>	<u>\$ (382)</u>	<u>\$ 196</u>	<u>\$ 552</u>	<u>\$ (340)</u>	<u>\$ 212</u>

Amortization expense for intangible assets was approximately \$43 thousand and \$39 thousand for the fiscal years ended June 30, 2019 and June 24, 2018, respectively.

NOTE C - ACCRUED EXPENSES:

Accrued expenses consist of the following (in thousands):

	June 30, 2019	June 24, 2018
Compensation	\$ 265	\$ 654
Other	478	404
Professional fees	83	43
Insurance loss reserves	8	8
	<u>\$ 834</u>	<u>\$ 1,109</u>

NOTE D - CONVERTIBLE NOTES:

On March 3, 2017, the Company completed a registered shareholder rights offering of its 4% Convertible Senior Notes due 2022 (“Notes”). Shareholders exercised subscription rights to purchase all 30,000 of the Notes at the par value of \$100 per Note, resulting in gross offering proceeds to the Company of \$3.0 million.

The Notes bear interest at the rate of 4% per annum on the principal or par value of \$100 per note, payable annually in arrears on February 15 of each year, commencing February 15, 2018. Interest is payable in cash or, at the Company’s discretion, in shares of Company common stock. The Notes mature on February 15, 2022, at which time all principal and unpaid interest will be payable in cash or, at the Company’s discretion, in shares of Company common stock. The Notes are secured by a pledge of all outstanding equity securities of our two primary direct operating subsidiaries.

Noteholders may convert their notes to common stock as of the 15th day of any calendar month, unless the Company sooner elects to redeem the notes. The conversion price is \$2.00 per share of common stock. Accrued interest will be paid through the effective date of the conversion in cash or, at the Company's sole discretion, in shares of Company common stock.

The Company determined that the Notes contained a beneficial conversion feature of \$0.1 million since the market price of the Company's common stock was higher than the effective conversion price of the notes when issued. The beneficial conversion feature and the issuance costs of the notes aggregated \$0.2 million and were considered a debt discount and are accreted into interest expense using the effective interest method over the debt maturity period.

During fiscal 2019, \$4 thousand in par value of the Notes were converted to common shares. At the end of fiscal 2019, \$1.7 million in par value of the Notes were outstanding, offset by \$0.1 million of unamortized debt issue costs and unamortized debt discounts.

NOTE E - INCOME TAXES:

Provision for income taxes from continuing operations consists of the following (in thousands):

	Fiscal Year Ended	
	June 30, 2019	June 24, 2018
Current - Federal	\$ -	\$ (33)
Current - Foreign	131	51
Current - State	15	30
Deferred - Federal	(189)	(3,370)
Deferred - State	(8)	-
Provision for income taxes	<u>\$ (51)</u>	<u>\$ (3,322)</u>

The effective income tax rate varied from the statutory rate for the fiscal years ended June 30, 2019 and June 24, 2018 as reflected below (in thousands):

	June 30, 2019	June 24, 2018
Federal income taxes based on a statutory rate of 21.0% and 27.6%, respectively of pre-tax loss	\$ (168)	\$ (291)
State income tax, net of federal effect	93	51
Foreign taxes	15	30
Permanent adjustments	8	35
Rate change	-	3,416
Change in valuation allowance	-	(6,597)
Other	1	34
	<u>\$ (51)</u>	<u>\$ (3,322)</u>

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

	<u>June 30, 2019</u>	<u>June 24, 2018</u>
Current		
Reserve for bad debt	\$ 48	\$ 36
Deferred fees	17	15
Other reserves and accruals	795	562
	<u>860</u>	<u>613</u>
Non Current		
Credit carryforwards	156	152
Net operating loss carryforwards	5,206	5,122
Depreciable assets	263	17
	<u>6,485</u>	<u>5,904</u>
Total gross deferred tax asset	6,485	5,904
Valuation allowance	<u>(2,425)</u>	<u>(2,425)</u>
Net deferred tax asset	<u>\$ 4,060</u>	<u>\$ 3,479</u>

At the end of tax year ended June 30, 2019, the Company had net operating loss carryforwards totaling \$23.9 million that are available to reduce future taxable income and will begin to expire in 2032. Under the Tax Cuts and Jobs Act, approximately \$0.3 million of the loss carryforwards are limited to 80% and do not expire.

As discussed in Note A above, the Company continually reviews the realizability of its deferred tax assets, including an analysis of factors such as future taxable income, reversal of existing taxable temporary differences, and tax planning strategies. Following the Company's exit from substantially all Company-owned restaurants in 2017 and 2018, the Company assessed whether the valuation allowance should be maintained against its deferred tax assets based on consideration of all available evidence, using a "more likely than not" standard. In assessing the need for the valuation allowance, the Company considered both positive and negative evidence related to the likelihood of realization of deferred tax assets, including an evaluation of negative evidence consisting of the Company's recent history of cumulative losses in recent years together with the Company's historically profitable Pizza Inn Franchising and Pie Five Franchising operations. Based on the Company's review of this evidence, management determined that the historical profitability of its franchising operations together with its exit from its unprofitable Company-owned restaurant operations and forecasts of future income provided sufficient basis for the Company to reverse a portion of the valuation allowance against deferred taxes during the year ended June 24, 2018. The Company will continue to monitor the realization of its tax assets each reporting period.

On December 22, 2017 H.R. 1, originally known as the Tax Act was enacted. Among the significant changes to the U.S. Internal Revenue Code, the Tax Act lowers the U.S. federal corporate income tax rate ("Federal Tax Rate") from 35% to 21% effective January 1, 2018. In December 2017, the Securities and Exchange Commission staff issued Staff Accounting Bulletin No. 118 (SAB 118), which addresses how a company recognizes provisional amounts when a company does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete its accounting for the effect of the changes in the Tax Act. The measurement period ends when a company has obtained, prepared and analyzed the information necessary to finalize its accounting, but cannot extend beyond one year. Accounting for the income tax effects of the Tax Act was completed by the Company during the year ended June 24, 2018. The remeasurement of the Company's deferred tax assets and liabilities resulted in a \$3.4 million discrete tax expense which increased the effective tax rate by 1,173% in the year ended June 24, 2018.

NOTE F - LEASES:

Premises occupied by Company-owned restaurants are leased for initial terms of five to ten years, and each has multiple renewal terms. Certain lease agreements contain either a provision requiring additional rent if sales exceed specified amounts or an escalation clause based upon a predetermined multiple.

The Company leases its 19,576 square foot corporate office facility with average annual lease payments of approximately \$17.50 per square foot. This lease began on January 2, 2017 and has a ten year term.

Future minimum rental payments under active non-cancelable leases with initial or remaining terms of one year or more at June 30, 2019 were as follows (in thousands):

	Operating Leases
2020	\$ 1,862
2021	1,927
2022	1,865
2023	1,659
2024	856
Thereafter	2,348
	<u>\$ 10,517</u>

Future minimum sublease rental income under active non-cancelable leases with initial or remaining terms of one year or more at June 30, 2019 were as follows (in thousands):

	Sublease Rental Income
2020	\$ 168
2021	174
2022	175
2023	177
2024	128
Thereafter	53
	<u>\$ 875</u>

Rental expense consisted of the following (in thousands):

	Fiscal Year Ended	
	June 30, 2019	June 24, 2018
Minimum rentals	757	\$ 1,114
Sublease rentals	(149)	(161)
	<u>608</u>	<u>\$ 953</u>

NOTE G - EMPLOYEE BENEFITS:

The Company has a tax advantaged savings plan that is designed to meet the requirements of Section 401(k) of the Internal Revenue Code (the “Code”). The current plan is a modified continuation of a similar savings plan established by the Company in 1985. Employees who have completed six months of service and are at least 21 years of age are eligible to participate in the plan. The plan provides that participating employees may elect to have between 1% and 15% of their compensation deferred and contributed to the plan subject to certain IRS limitations. Effective June 27, 2005, the Company has a discretionary matching contribution. For calendar years 2018 and 2019, the Company contributed on behalf of each participating employee an amount equal to 50% of the employee’s contributions up to 4% of compensation. Separate accounts are maintained with respect to contributions made on behalf of each participating employee. Employer matching contributions and earnings thereon are invested in the same investments as each participant’s employee deferral. The plan is subject to the provisions of the Employee Retirement Income Security Act, as amended, and is a profit sharing plan as defined in Section 401(k) of the Code.

For the fiscal years ended June 30, 2019 and June 24, 2018, total matching contributions to the tax advantaged savings plan by the Company on behalf of participating employees were approximately \$39,000 and \$44,000, respectively.

NOTE H - STOCK BASED COMPENSATION PLANS:

In June 2005, the 2005 Employee Incentive Stock Option Award Plan (the “2005 Employee Plan”) was approved by the Company’s shareholders with a plan effective date of June 23, 2005. Under the 2005 Employee Plan, officers and employees of the Company were eligible to receive options to purchase shares of the Company’s common stock. Options were granted at market value of the stock on the date of grant, were subject to various vesting and exercise periods as determined by the Compensation Committee of the board of directors and could be designated as non-qualified or incentive stock options. A total of 1,000,000 shares of common stock were authorized for issuance under the 2005 Employee Plan. The 2005 Employee Plan expired by its terms on June 23, 2015.

The shareholders also approved the 2005 Non-Employee Directors Stock Award Plan (the “2005 Directors Plan”) in June 2005, to be effective as of June 23, 2005. Directors not employed by the Company were eligible to receive stock options under the 2005 Directors Plan. Options for common stock equal to twice the number of shares of common stock acquired during the previous fiscal year, up to 40,000 shares per year, were automatically granted to each non-employee director on the first day of each fiscal year. Options were granted at market value of the stock on the first day of each fiscal year, with vesting periods beginning at a minimum of six months and with exercise periods up to ten years. A total of 650,000 shares of Company common stock were authorized for issuance pursuant to the 2005 Directors Plan. The 2005 Directors Plan expired by its terms on June 23, 2015.

The 2015 Long Term Incentive Plan (the “2015 LTIP”) was approved by the Company’s shareholders on November 18, 2014 and became effective June 1, 2015. Officers, employees and non-employee directors of the Company are eligible to receive awards under the 2015 LTIP. A total of 1,200,000 shares of common stock are authorized for issuance under the 2015 LTIP. Awards authorized under the 2015 LTIP include incentive stock options, non-qualified stock options, restricted shares, restricted stock units and rights (either with or without accompanying options). The 2015 LTIP provides for options to be granted at market value of the stock on the date of grant and have exercise periods determined by the Compensation Committee of the board of directors. The Compensation Committee may also determine the vesting periods, performance criteria and other terms and conditions of all awards under the 2015 LTIP. The Compensation Committee has adopted resolutions under the 2015 LTIP automatically granting to each non-employee director on the first day of each fiscal year options to purchase twice the number of shares of common stock acquired during the previous fiscal year, up to a maximum of 40,000 shares. Such options are exercisable at the market value of the stock on the first day of the fiscal year, vest six months from the date of grant and expire 10 years from the date of grant.

Share based compensation expense is included in general and administrative expense in the statement of operations.

Stock Options:

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

	Fiscal Year Ended	
	June 30, 2019	June 24, 2018
	<u>Shares</u>	<u>Shares</u>
Outstanding at beginning of year	478,056	478,056
Granted	-	-
Exercised	-	-
Forfeited/Canceled/Expired	<u>(261,506)</u>	<u>-</u>
Outstanding at end of period	<u>216,550</u>	<u>478,056</u>
Exercisable at end of period	<u>216,550</u>	<u>478,056</u>

	Fiscal Year Ended	
	June 30, 2019	June 24, 2018
	<u>Weighted- Average Exercise Price</u>	<u>Weighted- Average Exercise Price</u>
Outstanding at beginning of year	\$ 4.16	\$ 4.16
Granted	-	-
Exercised	-	-
Forfeited/Canceled/Expired	<u>4.27</u>	<u>-</u>
Outstanding at end of period	<u>\$ 4.82</u>	<u>4.16</u>
Exercisable at end of year	<u>\$ 4.82</u>	<u>4.16</u>

At June 30, 2019, the intrinsic value of options outstanding was \$0.1 million.

The following table provides information on options outstanding and options exercisable as of June 30, 2019:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Options Outstanding at June 30, 2019	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Shares Exercisable at June 30, 2019	Weighted-Average Exercise Price
\$1.55 - 1.95	9,800	1.0	\$ 1.87	9,800	\$ 1.87
\$2.36 - 2.75	40,000	2.0	\$ 2.71	40,000	\$ 2.71
\$2.76 - 3.30	55,000	3.0	\$ 3.11	55,000	\$ 3.11
\$3.31 - 3.95	50,000	7.0	\$ 3.95	50,000	\$ 3.95
\$5.51 - 5.74	8,664	4.0	\$ 5.74	8,664	\$ 5.74
\$5.95 - 6.25	28,800	5.0	\$ 6.23	28,800	\$ 6.23
\$6.26 - 13.11	24,286	6.0	\$ 13.11	24,286	\$ 13.11
	<u>216,550</u>	<u>4.3</u>	<u>\$ 4.82</u>	<u>216,550</u>	<u>\$ 4.09</u>

We determine fair value following the authoritative guidance as follows:

Valuation and Amortization Method. We estimate the fair value of share-based awards granted using the Black-Scholes option valuation model. We amortize the fair value of all awards on a straight-line basis over the requisite service periods, which are generally the vesting periods.

Expected Life. The expected life of awards granted represents the period of time that they are expected to be outstanding. Unless a life is specifically stated, we determine the expected life using the “simplified method” in accordance with Staff Accounting Bulletin No. 110 since we do not have sufficient historical share option exercise experience.

Expected Volatility. Using the Black-Scholes option valuation model, we estimate the volatility of our common stock at the date of grant based on the historical volatility of our common stock.

Risk-Free Interest Rate. We base the risk-free interest rate used in the Black-Scholes option valuation model on the implied yield currently available on U.S. Treasury zero-coupon issues with an equivalent remaining term equal to the expected life of the award.

Expected Dividend Yield. We have not paid any cash dividends on our common stock in the last ten years and we do not anticipate paying any cash dividends in the foreseeable future. Consequently, we use an expected dividend yield of zero in the Black-Scholes option valuation model.

Expected Forfeitures. We use historical data to estimate pre-vesting option forfeitures. We record stock-based compensation only for those awards that are expected to vest.

At June 30, 2019, the Company had no unvested options. Stock compensation expense related to stock options of zero and \$35 thousand was recognized in fiscal years 2019 and 2018, respectively.

Restricted Stock Units:

Restricted stock units awarded under the 2015 LTIP represent the right to receive shares of common stock upon the satisfaction of vesting requirements, performance criteria and other terms and conditions. During fiscal 2019, there were no grants of performance-based restricted stock units. During fiscal 2018, an aggregate of 488,723 performance-based restricted stock units were granted to certain employees.

The restricted stock units granted to each recipient are allocated among performance criteria pertaining to various aspects of the Company's business, as well as its overall operations, measured based on the second fiscal year following the date of grant. Achievement of the various performance criteria entitles the recipient to receive shares of common stock in amounts ranging from 50% to 150% of the number of restricted stock units granted. Grantees of restricted stock units do not have any rights of a stockholder, and do not participate in any distributions on our common stock, until the award fully vests upon satisfaction of the vesting schedule, performance criteria and other conditions set forth in their award agreement. Therefore, unvested restricted stock units are not considered participating securities under ASC 260, "Earnings Per Share," and are not included in the calculation of basic or diluted earnings per share.

Compensation cost is measured as an amount equal to the fair value of the restricted stock units on the date of grant and is expensed over the vesting period if achievement of the performance criteria is deemed probable, with the amount of the expense recognized based on the best estimate of the ultimate achievement level.

A summary of the status of restricted stock units as of June 30, 2019 and June 24, 2018, and changes during the fiscal years then ended is presented below:

	June 30, 2019	June 24, 2018
Outstanding at beginning of year	908,293	487,950
Granted during the year	-	488,723
Forfeited during the year	(753,187)	(68,380)
Outstanding at end of year	<u>155,106</u>	<u>908,293</u>
Vested at beginning of year	-	-
Vested during the year	-	-
Vested at end of year	-	-
Unvested at end of year	155,106	908,293

NOTE I - SHAREHOLDERS' EQUITY:

On April 22, 2009, the board of directors of the Company amended the stock repurchase plan first authorized on May 23, 2007, and previously amended on June 2, 2008, by increasing the aggregate number of shares of common stock the Company may repurchase under the plan to a total of 3,016,000 shares. No shares were repurchased during fiscal 2019 and, as of June 30, 2019, there were 848,425 shares available to repurchase under the plan.

On December 5, 2017, the Company entered into an At Market Issuance Sales Agreement with B. Riley FBR, Inc. ("B. Riley FBR") pursuant to which the Company may offer and sell shares of its common stock having an aggregate offering price of up to \$5,000,000 from time to time through B. Riley FBR acting as agent (the "2017 ATM Offering"). The 2017 ATM Offering is being undertaken pursuant to Rule 415 and a shelf Registration Statement on Form S-3 which was declared effective by the SEC on November 6, 2017. Through June 30, 2019, the Company had sold an aggregate of 191,478 shares in the 2017 ATM Offering, realizing aggregate gross proceeds of \$0.3 million.

The Company pays to B. Riley FBR a fee equal to 3% of the gross sales price in addition to reimbursing certain costs. The Company had \$4 thousand in expenses associated with the 2017 ATM Offering in fiscal 2019.

NOTE J - COMMITMENTS AND CONTINGENCIES:

The Company is subject to various claims and contingencies related to employment agreements, franchise disputes, lawsuits, taxes, food product purchase contracts and other matters arising out of the normal course of business. Management believes that any such claims and actions currently pending are either covered by insurance or would not have a material adverse effect on the Company's annual results of operations or financial condition if decided in a manner that is unfavorable to us.

NOTE K - EARNINGS PER SHARE:

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

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).

	Fiscal Year Ended	
	June 30, 2019	June 24, 2018
Income/(loss) from continuing operations	\$ (750)	\$ 2,274
Loss from discontinued operations	-	(362)
Net income/(loss) available to common stockholders	<u>\$ (750)</u>	<u>\$ 1,912</u>
Interest saved on convertible notes of \$1,584 at 4%	\$ 63	\$ 90
Adjusted net income/(loss)	<u>\$ (687)</u>	<u>\$ 2,002</u>
BASIC:		
Weighted average common shares	15,070	13,854
Income/(loss) from continuing operations per common share	\$ (0.05)	\$ 0.17
Loss from discontinued operations per common share	-	(0.03)
Net income/(loss) per common share	<u>\$ (0.05)</u>	<u>\$ 0.14</u>
DILUTED:		
Weighted average common shares	15,070	13,854
Convertible notes	-	1,129
Dilutive stock options	-	-
Weighted average common shares outstanding	<u>15,070</u>	<u>14,983</u>
Income/(loss) from continuing operations per common share	\$ (0.05)	\$ 0.16
Loss from discontinued operations per common share	-	(0.03)
Net income/(loss) per common share	<u>\$ (0.05)</u>	<u>\$ 0.13</u>

We had 216,550 and 478,056 shares of common stock potentially issuable upon exercise of employee stock options for years ended June 30, 2019 and June 24, 2018, respectively, that were excluded from the weighted average number of shares outstanding on a diluted basis because the effect of such options would be anti-dilutive. These instruments expire at varying times from fiscal 2020 through fiscal 2026.

NOTE L– SEGMENT REPORTING:

The Company has three reportable operating segments as determined by management using the “management approach” as defined by the authoritative guidance on *Disclosures about Segments of an Enterprise and Related Information*: (1) Pizza Inn Franchising, (2) Pie Five Franchising and (3) Company-Owned Restaurants. These segments are a result of differences in the nature of the products and services sold. Corporate administration costs, which include, but are not limited to, general accounting, human resources, legal and credit and collections, are partially allocated to the three operating segments. Other revenue consists of nonrecurring items.

The Pizza Inn and Pie Five Franchising segments establish franchisees, licensees and territorial rights. Revenue for this segment is derived from franchise royalties, franchise fees, sale of area development and foreign master license rights and incentive payments from third party suppliers and distributors. Assets for this segment include equipment, furniture and fixtures.

The Company-Owned Restaurants segment includes sales and operating results for all Company-owned restaurants. Assets for this segment include equipment, furniture and fixtures for the Company-owned restaurants.

Corporate administration and other assets primarily include cash and short-term investments, as well as furniture and fixtures located at the corporate office and trademarks and other intangible assets. All assets are located within the United States.

Summarized in the following tables are net sales and operating revenues, depreciation and amortization expense, income from continuing operations before taxes, capital expenditures and assets for the Company's reportable segments as of and for the fiscal years ended June 30, 2019 and June 24, 2018 (in thousands):

	Fiscal Year Ended	
	June 30, 2019	June 24, 2018
Net sales and operating revenues:		
Pizza Inn Franchising	\$ 7,192	\$ 6,892
Pie Five Franchising	4,192	3,970
Company-Owned Restaurants (1)	887	4,254
Corporate administration and other	48	4
Consolidated revenues	<u>\$ 12,319</u>	<u>\$ 15,120</u>
Depreciation and amortization:		
Pizza Inn Franchising	\$ -	\$ -
Pie Five Franchising	-	-
Company-Owned Restaurants (1)	123	459
Combined	<u>123</u>	<u>459</u>
Corporate administration and other (2)	343	415
Depreciation and amortization	<u>\$ 466</u>	<u>\$ 874</u>
Income/(Loss) from continuing operations before taxes:		
Pizza Inn Franchising	\$ 5,512	\$ 5,594
Pie Five Franchising	2,094	2,623
Company-Owned Restaurants (1)	(2,001)	(1,763)
Combined	<u>5,605</u>	<u>6,454</u>
Corporate administration and other	(6,406)	(7,502)
Income/(loss) from continuing operations before taxes	<u>\$ (801)</u>	<u>\$ (1,048)</u>

Notes:

(1) Company stores that were closed are included in discontinued operations in the accompanying Condensed Consolidated Statement of Operations.

(2) Portions of corporate administration and other have been allocated to segments.

The following table provides information on our foreign and domestic revenues:

Geographic information (revenues):		
United States	\$ 12,086	\$ 14,566
Foreign countries	233	554
Consolidated total	<u>\$ 12,319</u>	<u>\$ 15,120</u>

LEASE AGREEMENT

Basic Lease Provisions

- 1.01 **Premises:** 3551 Plano Parkway, Suite 100, The Colony, Texas 75056
- 1.02 **Lease Term:** The Term of this Lease shall be one hundred twenty (120) months
- 1.03 **Base Rental:**

Term (Months)	Annual Base Rental Rate/RSF	Monthly Base Rental
1-3	\$0.00	\$0.00*
4-12	\$17.50 NNN	\$27,381.67
13-24	\$17.50 NNN	\$27,381.67
25-36	\$18.00 NNN	\$28,164.00
37-48	\$18.00 NNN	\$28,164.00
49-60	\$18.50 NNN	\$28,946.33
61-72	\$18.50 NNN	\$28,946.33
73-84	\$19.00 NNN	\$29,728.67
85-96	\$19.00 NNN	\$29,728.67
97-108	\$19.50 NNN	\$30,511.00
109-120	\$19.50 NNN	\$30,511.00
Description	Amount	Expires
TI Allowance	\$300,000	12/31/2017

*In addition to the abatement of Monthly Base Rental during the first three (3) months of the Term, Landlord shall abate the payment by Tenant of Operating Expenses and Electrical Expenses during said three (3) month period.

- 1.04 **Base Year:** 2017
- 1.05 **Tenant's Proportionate Share:** 49.24% (based upon a building containing 38,130 rentable square feet)
- 1.06 **Security Deposit:** \$0.00 (to be deposited upon Tenant's execution of this Lease).
- 1.07 **Notice Addresses:**

Landlord: A&H Properties Partnership 510 Regal Row Dallas, Texas 75247	Tenant: Rave Restaurant Group, Inc 3551 Plano Parkway, Suite 100 The Colony, Texas 75056
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- 1.08 **Exhibits:**

Exhibit "1"	Terms and Conditions
Exhibit "A"	Premises
Exhibit "B"	Land
Exhibit "C"	Rules and Regulations
Exhibit "D"	Parking
Exhibit "E"	Work Letter

In consideration of the mutual covenants and agreements set forth in this Lease, and other good and valuable consideration, Landlord does hereby demise and lease to Tenant, and Tenant does hereby lease from Landlord, the Premises upon the terms and conditions stated in these Basic Lease Provisions and all Exhibits.

EXECUTED this 1st day of Nov, 2016.

Landlord:

A&H PROPERTIES PARTNERSHIP
 a Texas partnership

By: /s/ Ali Khoshgowari
 Ali Khoshgowari
 General Partner

Tenant:

RAVE RESTAURANT GROUP, INC.,
 a Texas corporation

By: /s/ Clinton Coleman
 Name: Clinton Coleman
 Title: Chief Executive Officer

Exhibit I

TERMS AND CONDITIONS

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OFFICE LEASE AGREEMENT

1. DEFINITIONS AND BASIC PROVISIONS.

- A. "Landlord": **A&H PROPERTIES PARTNERSHIP,**
a Texas general partnership
- B. Address of Landlord: 510 Regal Row
Dallas, TX 75247
- Landlord's Telephone: 214.630.2300
Landlord's Facsimile: 214.630.6932
Contact Person: Ali Khoshgowari
- With Copies to:
Vincent Serafino Geary Waddell Jenevein, PC
1601 Elm Street, Suite 4100
Dallas, Texas 75201
Attn: Kelly R. Fisher
- With rent checks payable to: A&H Properties Partnership
- C. "Tenant": **RAVE RESTAURANT GROUP, INC.,** a Texas corporation
- D. Address of Tenant: 3551 Plano Parkway, Suite 100, The Colony, Texas 75056
Tenant's Telephone: _____
Tenant's Facsimile: _____

E. "Building": The structure commonly known as 3551 Plano Parkway and which is located at 3551 Plano Parkway, The Colony, Texas 75056, on the tract of land (the "Land") more particularly described on Exhibit "B" attached hereto and made a part hereof for all purposes, containing approximately 38,130 rentable square feet.

F. "Premises": Commonly known as Suite 100 and containing approximately 18,776 square feet of rentable area on the first (1st) floor of the Building, as outlined on the floor plan attached hereto as Exhibit "A" and made a part hereof for all purposes. Measurement and calculation of rentable area has been performed in accordance with the Building Owners and Managers Association standards. Landlord and Tenant hereby stipulate that notwithstanding anything herein to the contrary, the Premises shall be deemed to consist of approximately 18,776 rentable square feet, and that no shortage or overage in the rentable square feet of the Premises purported by either party shall be the basis for changing the number of rentable square feet herein stipulated.

G. "Rentable area in the Building" shall be 38,130 square feet of rentable area, unless modified as provided herein.

H. "Commencement Date" shall mean January 2, 2017. Upon request of either party hereto, Landlord and Tenant agree to execute and deliver a written declaration in recordable form expressing the Commencement Date hereof.

L. "Term": Commencing on the Commencement Date and ending one hundred twenty (120) months after the Commencement Date, plus any partial calendar month following the Commencement Date, unless sooner terminated as provided herein. In addition, so long as Tenant is not in default of this Lease, Tenant shall have the right to extend the Term of this Lease for a period of sixty (60) additional months (the "Renewal Term") upon delivery of written notice to Landlord no later than twelve (12) months prior to the expiration of the original Term. In the event Tenant properly and timely exercises Tenant's right to the Renewal Term, Landlord and Tenant shall mutually agree upon the market Base Rental for such Renewal Term. In the event Landlord and Tenant cannot agree upon the Base Rental for the Premises within sixty (60) days following Tenant's notice of exercise to Landlord, the appraisal process below shall be deemed to have been implemented by Tenant. Once the appraisal process is implemented, Landlord and Tenant shall each appoint, by written notice to the other, a licensed real estate broker who has had, within the immediately preceding seven (7) years, at least five (5) years of commercial office building leasing experience in the Dallas, Texas area, or a licensed real estate appraiser who has had, within the immediately preceding seven (7) years, at least five (5) years of commercial office appraisal experience in the Dallas, Texas area, neither of which broker or appraiser shall have a conflict of interests in representing either Landlord or Tenant. If either party fails to appoint such a real estate broker/appraiser within ten (10) days following the expiration of the fifteen (15) day period within which Landlord and Tenant tried to agree on the market Base Rental, then the broker/appraiser who is appointed shall select the second broker/appraiser. Such two broker/appraisers shall proceed to determine the market Base Rental using the factors as described above. If such two broker/appraisers are unable to agree upon a market Base Rental then they shall jointly appoint a third licensed appraiser meeting the required qualifications and the market Base Rental shall be that amount upon which any two of such three broker/appraisers agree. The market Base Rental, as determined by the process described hereinabove shall be binding on both Landlord and Tenant. Each party shall have the responsibility for paying the broker/appraiser who was, or who should have been, appointed by such party, and each shall pay one-half (1/2) of the costs and expenses of the third broker/appraiser if one is appointed.

J. "Base Rental": As set forth in Section 1.03 of the Basic Lease Provisions.

Each such monthly installment shall be due and payable on the first day of each calendar month, monthly in advance without demand and without setoff or deduction whatsoever.

K. "Prepaid Rental": \$0.00, to be applied to the first accruing monthly installment of Base Rental and Operating Expenses.

L. "Security Deposit": As set forth in Section 1.06 of the Basic Lease Provisions.

M. "Permitted Use": The Premises shall be used only for general office and permitted test kitchen purposes.

N. "Common Area": That part of the Building and other improvements now or hereafter placed, constructed or erected on the land on which the Building is located (the "Land") designated by Landlord from time to time for the common use of all tenants, including among other facilities, sidewalks, service corridors, curbs, truckways, loading areas, private streets and alleys, lighting facilities, mechanical and electrical rooms, janitors' closets, halls, lobbies, delivery passages, elevators, drinking fountains, meeting rooms, public toilets, parking areas and garages, decks and other parking facilities, landscaping, and other common rooms and common facilities.

O. "Prime Rate": The rate published as such by *The Wall Street Journal, Southwest Edition*, (or its successor or assign) in its listing of "Money Rates".

P. "Broker": CBRE, Inc. (Landlord's broker) and Square Foot, Inc. (Tenant's Broker).

Q. "Base Operating Expenses Rate": The Actual Operating Expenses Rate for the 2017 calendar year.

R. "Base Year": As set forth in Section 1.04 of the Basic Lease Provisions.

S. "Project" shall mean the Building, the parking facilities, parking garage and other structures (if any), improvements, landscaping, fixtures, appurtenances and other common areas now and hereafter placed, constructed or erected on the tract of land which is described on Exhibit "B".

Each of the foregoing definitions and basic provisions shall be construed in conjunction with the references thereto contained in the other provisions of this Lease and shall be limited by such other provisions. Each reference in this Lease to any of the foregoing definitions and basic provisions shall be construed to incorporate each term set forth above under such definition or provision.

2. GRANTING CLAUSE. Landlord, in consideration of the covenants and agreements to be performed by Tenant and upon the terms and conditions hereinafter stated, does hereby lease, demise and let unto Tenant, and Tenant does hereby lease from Landlord, the Premises specified in Section 1.F, hereof to have and to hold for the Term of this Lease, as specified in Section 1.I, hereof.

3. EARLY OCCUPANCY. Upon Landlord's written consent, Tenant may occupy the Premises prior to the Commencement Date. Such early occupancy of the Premises by Tenant prior to the Commencement Date shall be subject to all of the terms and provisions of this Lease excepting only those requiring the payment of Base Rental or Tenant's Proportionate Share of Actual Operating Expenses (as such term is defined below) during such early occupancy period. However, Tenant shall be obligated to pay Tenant's Share of Electrical Costs (as such term is defined below) during such early occupancy period.

Notwithstanding the foregoing, if this Lease is executed before the Premises becomes vacant, or if any present tenant or occupant of the Premises holds over and Landlord cannot acquire possession thereof prior to the Commencement Date, then Landlord shall not be deemed in default hereunder, and Tenant agrees to accept possession of the Premises at such time as Landlord is able to tender the same and, in such event, the date of such tender by Landlord shall be deemed to be the Commencement Date, and Landlord hereby waives the payment of rental and other charges covering any period prior to the date of such tender.

4. RENTAL. As rental for the lease and use of the Premises, Tenant will pay Landlord or Landlord's assigns, at the address of Landlord specified in Section 1.B, hereof, without demand and without deduction, abatement or setoff (except as otherwise expressly provided for herein), the Base Rental in the manner specified in Section 1.J, hereof, in lawful money of the United States. If the Term of this Lease does not commence on the first day of a calendar month, Tenant shall pay to Landlord in advance a pro rata part of such sum as rental for such first partial month. Tenant shall not pay any installment of rental more than one (1) month in advance. All past due installments of rental or other payment specified herein shall bear interest at the highest lawful rate per annum from the date due until paid.

In addition, Tenant hereby acknowledges that late payment of rent and other sums due hereunder will cause Landlord to incur costs and other financial hardships not contemplated by this Lease, the exact amount of which will be difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges and late charges which may be imposed on Landlord by the terms of any mortgage or trust deed covering the Building. Accordingly, if any installment of rent or any other sum due from Tenant shall not be received by Landlord or Landlord's designee within ten (10) days after such amount shall be due, Tenant shall pay to Landlord a late charge equal to ten percent (10%) of such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Landlord will incur by reason of late payment by Tenant. Acceptance of such late charge by Landlord shall in no event constitute a waiver of Tenant's default with respect to such overdue payment, nor be construed as liquidated damages, nor prevent Landlord from exercising any of the other rights and remedies granted hereunder. The failure of Tenant to pay such charge as herein stated shall, at Landlord's option, be an Event of Default hereunder.

If Tenant fails to timely pay two (2) consecutive installments of Base Rental, or other payment specified herein, or any combination thereof, Landlord may require Tenant to pay (in addition to any interest) Base Rental and other payments specified herein (as estimated by Landlord, if necessary) quarterly in advance, and, in such event, all future payments shall be made on or before the due date in cash or by cashier's check or money order, and the delivery of Tenant's personal or corporate check shall no longer constitute payment thereof. Any acceptance of Tenant's personal or corporate check thereafter by Landlord shall not be construed as a waiver of the requirement that such payments be made in cash or by cashier's check or money order. Any amount so estimated by Landlord and paid by Tenant shall be adjusted promptly after actual figures become available and paid or credited to Landlord or Tenant, as the case may be.

5. USE. Tenant shall use the Premises solely for the Permitted Use specified in Section 1.M, hereof and for no other business or purpose. Tenant shall be responsible to contract directly and pay at Tenant's sole cost and expense with the service provider for telephone service, cable/telecommunications service and alarm system installation and monitoring. In addition, Tenant shall be responsible for the cost of all other utilities consumed at the Premises.

6. SERVICES TO BE PROVIDED BY LANDLORD.

A. Subject to the rules and regulations hereinafter referred to, Landlord shall furnish Tenant, at Landlord's expense, while Tenant is occupying the Premises and is not in default hereunder, the following services during the Term of this Lease:

(1) Air conditioning and heating in season, at such times as Landlord normally furnishes such services to other tenants in the Building, and at such temperatures and in such amounts as are considered by Landlord to be standard, but such service on Saturday afternoons, Sundays and holidays to be furnished only upon the request of Tenant, who shall bear the cost thereof. Tenant acknowledges that such service and temperature may be subject to change by local, county, state or federal regulation. Whenever machines or equipment that generate abnormal heat are used in the Premises which affect the temperature otherwise maintained by the air conditioning system, Landlord shall have the right to install supplemental air conditioning in the Premises, and the cost thereof, including the cost of installation, operation, use and maintenance, shall be paid by Tenant to Landlord as additional rental upon demand.

(2) Water at those points of supply provided for general use.

(3) Landlord shall not provide janitor service to the Premises, which janitor service shall be contracted for by Tenant at Tenant's sole cost and expense; however, Tenant shall pay the additional costs attributable to the cleaning of improvements within the Premises other than building standard improvements if determined to be reasonably necessary by Landlord.

(4) Elevators for ingress to and egress from the Building as may in the judgment of Landlord be reasonably required. Landlord may reasonably limit the number of elevators in operation after usual and customary business hours and on Saturday afternoons, Sundays and legal holidays.

(5) Proper facilities to furnish sufficient electrical power for building standard lighting, personal computers and other machines of similar low electrical consumption, but not including electricity required for electronic data processing equipment, special lighting in excess of building standard, or any other item of electrical equipment which singly consumes more than 0.25 kilowatts per hour at rated capacity or requires a voltage other than 120 volts single phase. Landlord shall have the right at any time and from time to time during the Term of this Lease to install equipment within the Premises for the purpose of measuring or estimating Tenant's electrical usage therein.

(6) As an Operating Expense, upon Tenant's request, Landlord shall purchase and install replacement lamps of types generally commercially available (including, but not limited to, incandescent and fluorescent) used in the Premises.

B. Landlord's obligations to furnish services under Section 6.A. shall be subject to the rules and regulations of the supplier of such services and governmental rules and regulations. No interruption or malfunction of any of such services shall constitute an eviction or disturbance of Tenant's use and possession of the Premises or the Building or a breach by Landlord of any of Landlord's obligations hereunder or render Landlord liable for damages or entitle Tenant to be relieved from any of Tenant's obligations hereunder (including the obligation to pay rental) or grant Tenant any right of setoff or recoupment. In the event of any such interruption, however, Landlord shall use reasonable diligence during normal business hours to restore such service or cause same to be restored in any circumstances in which such restoration is within the reasonable control of Landlord and the interruption was not caused in whole or in part by Tenant's fault

C. Without limiting the generality of the immediately preceding paragraphs, Tenant acknowledges that **LANDLORD MAKES NO REPRESENTATION OR WARRANTY REGARDING WHETHER OR NOT LANDLORD WILL PROVIDE SECURITY SERVICES, OR IF SO, WHAT FORM OF SECURITY SERVICES WILL BE PROVIDED.**

7. REPAIR AND MAINTENANCE.

A. Landlord shall, except as may be provided elsewhere herein, maintain the structural portions of the Building, the Building systems and the Common Area of the Building in a manner consistent with comparable buildings within the vicinity of the Building. Landlord shall, at Landlord's sole cost and expense, make necessary repairs of damage to the Building corridors, lobby, replacement of roof, structural members of the Building and equipment used to provide the services referred to in Section 6 hereof, unless any such damage is caused in whole or in part by negligence of Tenant, or Tenant's agents or employees, in which event Tenant shall bear the cost of such repairs. Tenant shall promptly give Landlord notice of any damage in the Premises requiring repair by Landlord, as aforesaid. Unless otherwise stipulated herein, Landlord shall not be required to make any improvements or repairs of any kind or character on the Premises during the Lease Term.

B. Tenant shall maintain the Premises in a clean, attractive, safe, operable condition and in good repair, except as to damage required to be repaired by Landlord, as provided in Section 7.A. hereof Tenant shall not commit or allow any waste or damage to be committed on any portion of the Premises or Building. Tenant shall not in any manner deface or injure the Premises or the Building but shall, at its sole cost and expense, maintain the Premises and make all needed repairs and replacements, including, without limitation, replacement or repair of all fixtures installed by Tenant and all plate glass, walls, carpeting and other floor covering placed or found therein. Tenant shall repair or replace, at Tenant's cost and expense, any damage done to the Premises, the Building, and the Common Area, or any part thereof, arising out of or in connection with the use of the Premises, the Building, and/or the Common Area by Tenant, Tenant's agents, employees, invitees, visitors, and Tenant agrees to restore the Premises, the Building, and the Common Area to the same or as good a condition as it was prior to such damage. All repairs and replacements shall be effected in compliance with all building and fire codes and other applicable laws and regulations. If Tenant fails to make such repairs or replacements within thirty (30) days after delivery of notice to Tenant, Landlord may, at its option, make the repairs or replacements, and Tenant shall pay the cost thereof to Landlord within thirty (30) days after Landlord has delivered to Tenant an invoice thereof. Any repairs required to be made by Tenant to the mechanical, electrical, sanitary, heating, ventilating, air conditioning or other system of the Building shall be performed only by contractor(s) designated by Landlord and only upon the prior written approval of Landlord as to the work to be performed and materials to be furnished in connection therewith. Any other repairs in or to the Building, the Complex, and the facilities and systems thereof for which Tenant is responsible shall be performed by Landlord at Tenant's expense; but Landlord may, at Landlord's option, before commencing any such work or at any time thereafter, require Tenant to furnish to Landlord such security, in form (including, without limitation, a bond issued by a corporate surety licensed to do business in the state in which the Building is situated) and in such amount as Landlord shall deem necessary to assure the payment for such work by Tenant. Upon the expiration of the Term of this Lease, Tenant shall surrender and deliver up the Premises with all improvements located thereon (except as provided in Section II.B. hereof) to Landlord broom-clean and in the same condition in which they existed at the commencement of the Lease, excepting only ordinary wear and tear and damage arising from any cause not required to be repaired by Tenant, failing which Landlord may restore the Premises to such condition, and Tenant shall pay the cost thereof

C. This Section 7 shall not apply in the case of damage or destruction by fire or other casualty which is covered by insurance maintained by Landlord on the Building (as to which Section 8 hereof shall apply), or damage resulting from an eminent domain taking (as to which Section 15 hereof shall apply).

8. FIRE AND OTHER CASUALTY.

A. Tenant shall give prompt written notice to Landlord of any damage caused to the Premises by fire or other casualty.

B. In the event the Premises or any portion of the Building shall be damaged or destroyed by fire or casualty, Landlord shall have the election to terminate this Lease or to repair and reconstruct the Premises and the Building to substantially the same condition to which it existed prior to such damage or destruction, except that Landlord shall not be required to rebuild, repair or replace any part of the partitions, fixtures, furniture, equipment, and other improvements which may have been installed by Tenant or other tenants within the Building. Landlord's obligation to rebuild and repair under this Section 8 shall in any event be limited to the extent of insurance proceeds available to Landlord for such restoration.

C. Tenant agrees that during any period of reconstruction or repair of the Premises it will continue the operation of its business within the Premises to the extent practicable. During the period from the occurrence of the casualty until Landlord's repairs are completed, the Base Rental shall be reduced to such extent as may be fair and reasonable under the circumstances; however, there shall be no abatement of the other charges provided for herein. If Landlord has elected to repair and restore the Premises, this Lease shall continue in full force and effect and such repairs shall be made within a reasonable time thereafter, subject to delays arising from shortages of labor or material, acts of God, war or other conditions beyond Landlord's reasonable control.

D. In the event that this Lease is terminated as herein permitted, Landlord shall refund to Tenant the prepaid rental (unaccrued as of the date of damage or destruction) less any sum then owing Landlord by Tenant. If Landlord has elected to repair and reconstruct the Premises, then the Term of this Lease shall be extended by a period of time equal to the period of such repair and reconstruction. Any insurance which may be carried by Landlord or Tenant against loss or damage to the Building or to the Premises shall be for the sole benefit of the party carrying such insurance under its control, and it is understood that Landlord shall in no event be obligated to carry insurance on Tenant's contents. Tenant shall use proceeds from insurance carried by Tenant to repair and restore Tenant's property.

E. If the Premises or any other portion of the Building be damaged by fire or other casualty resulting from the fault or negligence of Tenant or any of Tenants agents, employees, or invitees, the Base Rent shall not be diminished during the repair of such damage, and Tenant shall be liable to Landlord for the cost and expense of the repair and restoration of the Building caused thereby to the extent such cost and expense is not covered by insurance proceeds.

9. **COMPLIANCE WITH LAWS AND USAGE.** Tenant, at Tenant's own expense, (a) shall comply with all federal, state, municipal, fire underwriting and other laws, ordinances, orders, rules and regulations applicable to the Premises and the business conducted therein by Tenant, (b) shall not engage in any activity which would cause Landlord's fire and extended coverage insurance to be cancelled or the rate therefor to be increased (or, at Landlord's option, Tenant shall pay any such increase to Landlord immediately upon demand as additional rental in the event of such rate increase by reason of such activity), (c) shall not commit, and shall cause Tenant's agents, employees and invitees not to commit, any act which is a nuisance or annoyance to Landlord or to other tenants, or which might, in the exclusive judgment of Landlord, damage Landlord's goodwill or reputation, or tend to injure or depreciate the Building, (d) shall not commit or permit waste in the Premises or the Building, (e) shall comply with rules and regulations from time to time promulgated by Landlord applicable to the Premises and/or the Building, (f) shall not paint, erect or display any sign, advertisement, placard or lettering which is visible in the corridors or lobby of the Building or from the exterior of the Building without Landlord's prior written approval, and (g) shall not occupy or use, or permit any portion of the Premises to be occupied or used, for any business or purpose other than the Permitted Use specified in Section LM, hereof. If a controversy arises concerning Tenant's compliance with any federal, state, municipal or other laws, ordinances, orders, rules or regulations applicable to the Premises and the business conducted therein by Tenant, Landlord may retain consultants of recognized standing to investigate Tenant's compliance. If it is determined that Tenant has not complied as required, Tenant shall reimburse Landlord on demand for all consulting and other costs incurred by Landlord in such investigation. Landlord and Tenant acknowledge that, in accordance with the provisions of the Americans with Disabilities Act of 1990 and the Texas Elimination of Architectural Barriers Act, each as amended from time to time, and all regulations and guidelines issued by authorized agencies with respect thereto (collectively, the "ADA" and the "EAB", respectively), responsibility for compliance with the terms and conditions of Title III of the ADA and the EAB may be allocated as between Landlord and Tenant. Notwithstanding anything to the contrary contained in the Lease, Landlord and Tenant agree that the responsibility for compliance with the ADA and the EAB shall be allocated as follows: (i) Tenant shall be responsible for compliance with the provisions of Title III of the ADA and with the provisions of the EAB with respect to the Premises, including restrooms within the Premises, and (ii) Landlord shall be responsible for compliance with the provisions of Title III of the ADA and with the provisions of the EAB with respect to the exterior of the Building, parking areas, sidewalks and walkways, and any and all areas appurtenant thereto, together with all common areas of the Building not included within the Premises. The allocation of responsibility for ADA and EAB compliance between Landlord and Tenant, and the obligations of Landlord and Tenant established by such allocations, shall supersede any other provisions of the Lease that may contradict or otherwise differ from the requirements of this Section.

10. LIABILITY AND INDEMNITY.

A. Tenant agrees to indemnify and save Landlord harmless from all claims (including costs and expenses of defending against such claims) arising or alleged to arise from any act or omission of Tenant or Tenant's agents, employees, contractors, or arising from any injury to any person or damage to the property of any person occurring during the Term of this Lease in or about the Premises. Tenant agrees to use and occupy the Premises and other facilities of the Building at Tenant's own risk and hereby releases Landlord, Landlord's agents or employees, from all claims for any damage or injury to the full extent permitted by law, **REGARDLESS OF CAUSE OR ORIGIN, INCLUDING NEGLIGENCE OF LANDLORD, ITS AGENTS, OFFICERS, OR EMPLOYEES BUT EXCEPTING THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF LANDLORD, ITS AGENTS, OFFICERS, OR EMPLOYEES.**

B. Tenant waives any and all rights of recovery, claim, action, or cause of action, against Landlord, its agents, officers, or employees, for any loss or damage that may occur to the Premises, or any improvements thereto, or the Building, or any improvements thereto, or any personal property of such party therein, by reason of fire, the elements, or any other cause which could be insured against under the terms of standard fire and extended coverage insurance policies, **REGARDLESS OF CAUSE OR ORIGIN, INCLUDING NEGLIGENCE OF LANDLORD, ITS AGENTS, OFFICERS, OR EMPLOYEES BUT EXCEPTING THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF LANDLORD, ITS AGENTS, OFFICERS, OR EMPLOYEES,** and Tenant covenants that no insurer shall hold any right of subrogation against Landlord and all such insurance policies shall be amended or endorsed to reflect such waiver of subrogation.

C. Tenant, to the extent permitted by law, waives all claims Tenant may have against Landlord, and against Landlord's agents and employees for injury to person or damage to or loss of property sustained by Tenant or by any occupant of the Premises, or by any other person, resulting from any part of the Building or any equipment or appurtenances becoming out of repair, or resulting from any accident in or about the Building or resulting directly or indirectly from any act or neglect of any tenant or occupant of any part of the Building or of any other person, **REGARDLESS OF CAUSE OR ORIGIN, INCLUDING NEGLIGENCE OF LANDLORD, ITS AGENTS, OFFICERS, OR EMPLOYEES,** unless such damage is a result of the gross negligence or willful misconduct of Landlord, or Landlord's agents or employees. If any damage results from any act or neglect of Tenant, Landlord may, at Landlord's option, repair such damage, and Tenant shall thereupon pay to Landlord the total cost of such repair. All personal property belonging to Tenant or any occupant of the Premises that is in or on any part of the Building shall be there at the risk of Tenant or of such other person only, and Landlord, Landlord's agents and employees shall not be liable for any damage thereto or for the theft or misappropriation thereof, **REGARDLESS OF CAUSE OR ORIGIN, INCLUDING NEGLIGENCE OF LANDLORD, ITS AGENTS, OFFICERS, OR EMPLOYEES,** unless such damage, theft or misappropriation is a result of the gross negligence or willful misconduct of Landlord or Landlord's agents or employees. Tenant agrees to indemnify and hold Landlord harmless from and against any and all loss, cost, claim and liability (including reasonable attorneys' fees) for injuries to all persons and for damage to or loss of property occurring in or about the Building, due to any act or negligence or default under this Lease by Tenant, Tenant's contractors, agents or employees.

D. Landlord hereby indemnifies and holds Tenant harmless from and against any and all claims, demands, liabilities, and expenses, including attorneys' fees, arising from (i) the breach of this Lease by Landlord. In the event any action or proceeding shall be brought against Tenant by reason of any such claim, Landlord shall defend the same at Landlord's expense by counsel reasonably satisfactory to Tenant.

11. ADDITIONS AND FIXTURES.

A. Tenant will make no alteration, change, improvement, repair, replacement or physical addition in or to the Premises without the prior written consent of Landlord. If such prior written consent of Landlord is granted, the work in such connection shall be at Tenant's expense but by workmen of Landlord or by workmen and contractors approved in advance in writing by Landlord and in a manner and upon terms and conditions and at times satisfactory to and approved in advance in writing by Landlord. In any instance where Landlord grants such consent, Landlord may grant such consent contingent and conditioned upon Tenant's contractors, laborers, materialmen and others furnishing labor or materials for Tenant's job working in harmony and not interfering with any labor utilized by Landlord, Landlord's contractors or mechanics or by any other tenant or such other tenant's contractors or mechanics; and if at any time such entry by one (1) or more persons furnishing labor or materials for Tenant's work shall cause disharmony or interference for any reason whatsoever without regard to fault, the consent granted by Landlord to Tenant may be withdrawn at any time upon written notice to Tenant.

B. Tenant, if Tenant so elects, may remove Tenant's trade fixtures, office supplies and movable office furniture and equipment not attached to the Building provided (i) such removal is made prior to the expiration of the Term of this Lease, (ii) Tenant is not in default of any obligation or covenant under this Lease at the time of such removal, and (iii) Tenant promptly repairs all damage caused by such removal. All other property at the Premises and any alteration or addition to the Premises (including wall-to-wall carpeting, paneling or other wall covering) and any other article attached or affixed to the floor, wall or ceiling of the Premises shall become the property of Landlord shall be in good condition, normal wear and tear excepted, and shall remain upon and be surrendered with the Premises as part thereof at the expiration of the Term of this Lease, Tenant hereby waiving all rights to any payment or compensation therefor. If, however, Landlord so requests in writing, Tenant will, prior to the termination of this Lease, remove in a good and workmanlike manner any and all alterations, additions, fixtures, equipment and property placed or installed by Tenant in the Premises and will repair any damage occasioned by such removal.

12. ASSIGNMENT AND SUBLETTING.

A. Neither Tenant nor Tenant's legal representatives or successors in interest by operation of law or otherwise shall assign this Lease or sublease the Premises or any part thereof or mortgage, pledge or hypothecate its leasehold interest or grant any concession or license within the Premises without the prior express written permission of Landlord, such written permission not to be unreasonably, withheld, conditioned delayed and any attempt to do any of the foregoing without the prior express written permission of Landlord shall be void and of no effect. In the event Tenant requests Landlord's prior express permission as to any such assignment, sublease or other transaction, Landlord shall have the right and option, as of the requested effective date of such assignment, sublease or other transaction (but no obligation), to cancel and terminate this Lease as to the portion of the Premises with respect to which Landlord has been requested to permit such assignment, sublease or other transaction, and if Landlord elects to cancel and terminate this Lease as to the aforesaid portion of the Premises, then the rental and other charges payable hereunder shall thereafter be proportionately reduced. In the event of any such attempted assignment or attempted sublease, or should Tenant, in any other nature of transaction, permit or attempt to permit anyone to occupy the Premises (or any portion thereof) without the prior express written permission of Landlord, Landlord shall thereupon have the right and option to cancel and terminate this Lease effective upon ten (10) days' notice to Tenant given by Landlord at any time thereafter either as to the entire Premises or as to only the portion thereof which Tenant shall have attempted to assign or sublease or otherwise permitted some other party's occupancy without Landlord's prior express written permission, and if Landlord elects to cancel and terminate this Lease as to the aforesaid portion of the Premises, then the rental and other charges payable hereunder shall thereafter be proportionately reduced. This prohibition against assignment or subletting shall be construed to include a prohibition against any assignment or subletting by operation of law.

B. Notwithstanding that the prior express written permission of Landlord to any of the aforesaid transactions may have been obtained, the following shall apply:

(1) In the event of an assignment, contemporaneously with the granting of Landlord's aforesaid consent, Tenant shall cause the assignee to expressly assume in writing and agree to perform all of the covenants, duties and obligations of Tenant hereunder, and such assignee shall be jointly and severally liable therefor along with Tenant; Tenant shall further cause such assignee to grant Landlord an express first and prior contract lien and security interest in the manner hereinafter stated as applicable to Tenant;

(2) In any case where Landlord consents to an assignment, sublease, grant of a concession or license or mortgage, pledge or hypothecation of the leasehold, the undersigned Tenant will nevertheless remain directly and primarily liable for the performance of all of the covenants, duties and obligations of Tenant hereunder (including, without limitation, the obligation to pay all rental and other sums herein provided to be paid), and Landlord shall be permitted to enforce the provisions of this Lease against the undersigned Tenant and/or any assignee, sublessee, concessionaire, licensee or other transferee without demand upon or proceeding in any way against any other person; and

(3) If the rental due and payable by a sublessee under any such permitted sublease (or a combination of the rental payable under such sublease plus any bonus or other consideration therefor or incident thereto) exceeds the hereinabove provided rental payable under this Lease, or if with respect to a permitted assignment, permitted license or other transfer by Tenant permitted by Landlord, the consideration payable to Tenant by the assignee, licensee or other transferee exceeds the rental payable under this Lease, then Tenant shall be bound and obligated to pay Landlord fifty percent (50%) such excess rental and other excess consideration within ten (10) days following receipt thereof by Tenant from such sublessee, assignee, licensee or other transferee, as the case might be.

C. Consent by Landlord to a particular assignment or sublease or other transaction shall not be deemed a consent to any other or subsequent transaction. If this Lease is assigned, or if the Premises are subleased (whether in whole or in part), or in the event of the mortgage, pledge or hypothecation of the leasehold interest or grant of any concession or license within the Premises without the prior express written permission of Landlord, or if the Premises are occupied in whole or in part by anyone other than Tenant without the prior express written permission of Landlord, then Landlord may nevertheless collect rental and other charges from the assignee, sublessee, mortgagee, pledgee, party to whom the leasehold interest was hypothecated, concessionaire or licensee or other occupant and apply the net amount collected to the rental and other charges payable hereunder, but no such transaction or collection of rental and other charges or application thereof by Landlord shall be deemed a waiver of these provisions or a release of Tenant from the further performance by Tenant of Tenant's covenants, duties and obligations hereunder.

13. SUBORDINATION. Tenant accepts this Lease subject and subordinate to any ground lease, mortgage, deed of trust or other lien presently existing or hereafter placed upon the Premises or upon the Building or any part thereof, and to any renewals, modifications, extensions and refinancings thereof, which might now or hereafter constitute a lien upon the Building or any part thereof, and to zoning ordinances and other building and fire ordinances and governmental regulations relating to the use of the Premises, but Tenant agrees that any such ground lessor, mortgagee and/or beneficiary of any deed of trust or other lien ("Landlord's Mortgagee") and/or Landlord shall have the right at any time to subordinate such ground lease, mortgage, deed of trust or other lien to this Lease on such terms and subject to such conditions as such Landlord's Mortgagee may deem appropriate in its discretion. Upon demand Tenant agrees to execute such further instruments subordinating this Lease, as Landlord may request, and such nondisturbance and attornment agreements, as any such Landlord's Mortgagee shall request, in form satisfactory to Landlord's Mortgagee. In the event that Tenant shall fail to execute any such instrument within ten (10) days after requested, Tenant hereby irrevocably appoints Landlord as Tenant's attorney-in-fact to execute such instrument in Tenant's name, place and stead, it being stipulated by Landlord and Tenant that such agency is coupled with an interest in Landlord and is, accordingly, irrevocable. Upon foreclosure of the Building or upon acceptance of a deed in lieu of such foreclosure, Tenant hereby agrees to attorn to the new owner of such property after such foreclosure or acceptance of a deed in lieu of foreclosure, if so requested by such new owner of the Building.

14. OPERATING EXPENSES & ELECTRICAL EXPENSES.

A. For purposes of this Section 14, the following definitions and calculations shall apply:

(1) The term “Project” shall mean the Building, the parking facilities, parking garage and other structures, improvements, landscaping, fixtures, appurtenances and other common areas now and hereafter placed, constructed or erected on the tract of land which is described on Exhibit “B”,

(2) The term “Operating Expenses” shall mean all reasonable expenses, costs and disbursements of every kind and nature which Landlord shall pay or become obligated to pay because of or in connection with the ownership, operation, maintenance, repair, replacement, protection and security of the Project, determined on an accrual basis in accordance with generally accepted accounting principles, including, without limitation, the following:

(i) Salaries and wages of all employees of Landlord and/or Landlord’s agents (whether paid directly by Landlord itself or reimbursed by Landlord to such other party) engaged in the operation, maintenance, leasing, and security of the Project and personnel who may provide traffic control relating to ingress and egress to the parking areas of the Building to the surrounding public streets, All taxes, insurance and benefits for the employees providing these services are also included (including pension, retirement and fringe benefits);

(ii) Cost of all supplies and materials used in the operation and maintenance of the Project;

(iii) Cost of all water, gas and sewage service supplied to, and all heating, lighting, air conditioning and ventilating of, the Project;

(iv) Cost of all maintenance, janitorial and service agreements for the Project and the equipment therein, including, without limitation, alarm service, parking facilities, window cleaning, janitorial service, landscaping, fire protection, sprinklers, traffic control, security services, and elevator maintenance;

(v) Cost of all insurance relating to the Project, including the cost of casualty, rental and liability insurance applicable to the Project and Landlord’s personal property used in connection therewith;

(vi) All taxes, assessments and governmental charges (foreseen or unforeseen, general or special, ordinary or extraordinary) whether federal, state, county or municipal and whether levied by taxing districts or authorities presently taxing the Project or by others subsequently created or otherwise, and any other taxes and assessments attributable to the Project or its operation, and all taxes of whatsoever nature that are imposed in substitution for or in lieu of any of the taxes, assessments or other charges herein defined, including Landlord’s margin taxes; provided, It is agreed that Tenant will be responsible for ad valorem taxes on its personal property and on the value of leasehold improvements to the extent that the same exceed standard Building allowances,

(vii) Cost of repairs and general maintenance, including, without limitation, reasonable depreciation charges applicable to all equipment used in repairing and maintaining the Project, but specifically excluding repairs and general maintenance paid by proceeds of insurance or by Tenant or by other third parties;

(viii) Cost of capital improvement items, including installation thereof, which are acquired primarily for the purpose of reducing Operating Expenses; and capital improvements that are required to comply with any governmental law or regulation; provided, however, capital expenditures relating to replacement of the roof or parking lot shall not be considered an Operating Expense (although repairs and maintenance of the roof and parking lot shall be deemed an Operating Expense),

(ix) Reasonable management fees paid by Landlord to third parties or management companies owned by, or management divisions of, Landlord, not to exceed the then prevailing market rate for the management of high quality class A office buildings comparable to the Project. The current management fee for operation of the Project shall be four (4.00%) of the total Operating Expenses and Base Rental for the Project, and such management fee shall not exceed 4% of the total Operating Expenses during the Term,

To the extent that any Operating Expenses are attributable to the Project and other projects of Landlord, a fair and reasonable allocation of such Operating Expenses shall be made between the Project and such other projects,

(3) The term “Base Operating Expenses Rate” is stipulated to be the rate specified in Section 1.Q, hereof per square foot of rentable area in the Premises,

(4) The term “Actual Operating Expenses” shall mean, with respect to each calendar year during the Term of this Lease, the actual Operating Expenses for such year. The term “Actual Operating Expenses Rate” shall mean, with respect to each calendar year during the Term of this Lease, the Actual Operating Expenses attributable to each square foot of rentable area in the Building, and shall be calculated by dividing the Actual Operating Expenses by the total number of square feet of rentable area in the Building, as specified in Section 1.G, hereof. The term “Tenant’s Proportionate Share of Actual Operating Expenses” shall mean, with respect to each calendar year during the Term of this Lease, an amount equal to the product of (i) the positive difference (if any) obtained by subtracting the Base Operating Expenses Rate from the Actual Operating Expenses Rate, multiplied by (ii) the weighted average number of square feet of rentable area in the Premises in such year; provided, however, if the Actual Operating Expenses Rate is determined on the basis of a partial calendar year, then in making the foregoing calculation, the Base Operating Expenses Rate shall be multiplied by a fraction, the numerator of which is the number of days in such partial calendar year and the denominator of which is 365, and the foregoing weighted average shall be calculated only on the basis of the portion of such calendar year covered by the Term of this Lease.

For example, if the Actual Operating Expenses Rate for a calendar year is \$8.20 and the Base Operating Expenses Rate is \$8.00, and the Premises contains 1,000 square feet of rentable area during the entire calendar year, Tenant’s Proportionate Share of Actual Operating Expenses is \$200.00, calculated as follows: $(\$8.20 - \$8.00) \times 1,000 = \$200.00$,

B. If the Actual Operating Expenses Rate during any calendar year is greater than the Base Operating Expenses Rate, Tenant shall be obligated to pay to Landlord as additional rental an amount equal to Tenant’s Proportionate Share of Actual Operating Expenses. To implement the foregoing, Landlord shall provide to Tenant within one hundred twenty (120) days (or as soon thereafter as reasonably possible) after the end of the calendar year in which the Commencement Date occurs, a statement of the Actual Operating Expenses for such calendar year, the Actual Operating Expenses Rate for such calendar year, and Tenant’s Proportionate Share of Actual Operating Expenses. If the Actual Operating Expenses Rate for such calendar year exceeds the Base Operating Expenses Rate, Tenant shall pay to Landlord, within thirty (30) days after Tenant’s receipt of such statement, an amount equal to Tenant’s Proportionate Share of Actual Operating Expenses for such calendar year.

C. Beginning with the Commencement Date of this Lease (or as soon thereafter as reasonably possible), Landlord shall provide to Tenant a statement of the projected annual Operating Expenses per square foot of rentable area in the Project (the “Projected Operating Expenses Rate”), which estimate is currently \$8.32 per rentable square foot per annum. Tenant shall pay to Landlord on the first day of each month an amount (the “Projected Operating Expenses Installment”) equal to one-twelfth (1/12) of the product of (i) the positive difference (if any) obtained by subtracting the Base Operating Expenses Rate from the Projected Operating Expenses Rate for such calendar year, multiplied by (ii) the number of square feet of rentable area in the Premises on the first day of the prior month. Until Tenant has received the statement of the Projected Operating Expenses Rate from Landlord, Tenant shall continue to pay Projected Operating Expenses Installments to Landlord in the same amount (if any) as required for the last month of the prior calendar year. Upon Tenant’s receipt of such statement of the Projected Operating Expenses Rate, Tenant shall pay to Landlord, or Landlord shall pay to Tenant (whichever is appropriate), the difference between the amount paid by Tenant prior to receiving such statement and the amount payable by Tenant as set forth in such statement. Landlord shall provide Tenant a statement within one hundred twenty (120) days (or as soon thereafter as reasonably possible) after the end of each calendar year, showing the Actual Operating Expenses Rate as compared to the Projected Operating Expenses Rate for such calendar year. If Tenant’s Proportionate Share of Actual Operating Expenses for such calendar year exceeds the aggregate of the Projected Operating Expenses Installments collected by Landlord from Tenant, Tenant shall pay to Landlord, within thirty (30) days following Tenant’s receipt of such statement, the amount of such excess. If Tenant’s Proportionate Share of Actual Operating Expenses for such calendar year is less than the aggregate of the Projected Operating Expenses Installments collected by Landlord from Tenant, Landlord shall credit such overpayment to Tenant’s next accruing rental installments, but if the Lease has expired and there are no existing defaults by Tenant, Landlord shall pay such overpayment to Tenant, within thirty (30) days following Tenant’s receipt of such statement, the amount of such excess. Landlord shall have the right from time to time during each calendar year to revise the Projected Operating Expenses Rate and provide Tenant with a revised statement thereof, and thereafter Tenant shall pay Projected Operating Expenses Installments on the basis of the revised statement. If the Commencement Date of this Lease is not the first day of a calendar year, or the expiration or termination date of this Lease is not the last day of a calendar year, then Tenant’s Proportionate Share of Actual Operating Expenses shall be prorated. The foregoing adjustment provisions shall survive the expiration or termination of the Term of this Lease.

D. Notwithstanding any other provision herein to the contrary, it is agreed that if the Project is not at least 95% occupied during any calendar year an adjustment shall be made in computing the Actual Operating Expenses and Electrical Costs for such year so that the Actual Operating Expenses and Electrical Costs are computed as though the Project had been at least 95% occupied during such year. The foregoing adjustment shall be applied only to Electrical Costs and those items of Actual Operating Expenses which vary with the level of occupancy of the Project.

15. EMINENT DOMAIN. If there shall be taken by exercise of the power of eminent domain during the Term of this Lease any part of the Premises or the Building, Landlord may elect to terminate this Lease or to continue same in effect. If Landlord elects to continue this Lease, the rental shall be reduced in proportion to the area of the Premises so taken, and Landlord shall repair any damage to the Premises or the Building resulting from such taking. All sums awarded or agreed upon between Landlord and the condemning authority for the taking of the interest of Landlord or Tenant, whether as damages or as compensation, will be the property of Landlord without prejudice, however, to claims of Tenant against the condemning authority on account of the unamortized cost of leasehold improvements paid for by Tenant taken by the condemning authority. If this Lease should be terminated under any provision of this Section 15, rental shall be payable up to the date that possession is taken by the condemning authority, and Landlord will refund to Tenant any prepaid unaccrued rental less any sum then owing by Tenant to Landlord.

16. ACCESS BY LANDLORD. Landlord, Landlord’s agents and employees shall have access to and the right to enter upon any and all parts of the Premises at any reasonable time (except in cases of emergency, defined to be any situation in which Landlord perceives imminent danger of injury to person and/or damage to or loss of property, in which case Landlord may enter upon any and all parts of the Premises at any time) to examine the condition thereof, to clean, to make any repairs, alterations or additions required to be made by Landlord hereunder, to show the Premises to prospective purchasers or tenants or mortgage lenders (prospective or current) and for any other purpose deemed reasonable by Landlord, and Tenant shall not be entitled to any abatement or reduction of rental by reason thereof.

17. LANDLORD’S LIEN. In addition to the statutory landlord’s lien, Landlord shall have at all times a valid security interest to secure payment of all rentals and other sums of money becoming due hereunder from Tenant, and to secure payment of any damages or loss which Landlord may suffer by reason of the breach by Tenant of any covenant, agreement or condition contained herein, upon all goods, wares, equipment, fixtures, furniture, improvements and other personal property of Tenant presently, or which may hereafter be, situated in the Premises, and all proceeds therefrom, and such property shall not be removed therefrom without the consent of Landlord until all arrearages in rental as well as any and all other sums of money then due to Landlord hereunder shall first have been paid and discharged and all the covenants, agreements and conditions hereof have been fully complied with and performed by Tenant. Upon the occurrence of an Event of Default as set forth in Section 18 hereof by Tenant, Landlord may, to the extent permitted by law and in addition to any other remedies provided herein, enter upon the Premises and take possession of any and all goods, wares, equipment, fixtures, furniture, improvements and other personal property of Tenant situated in the Premises, without liability for trespass or conversion, and sell the same at public or private sale, with or without having such property at the sale, after giving Tenant reasonable notice of the time and place of any public sale or of the time after which any private sale is to be made, at which sale Landlord or Landlord’s assigns may purchase unless otherwise prohibited by law. Unless otherwise provided by law, and without intending to exclude any other manner of giving Tenant reasonable notice, the requirement of reasonable notice shall be met if such notice is given in the manner prescribed in this Lease at least ten (10) days before the time of sale. Any sale made pursuant to the provisions of this Section 17 shall be deemed to have been a public sale conducted in a commercially reasonable manner if held in the Premises or where the property is located after the time, place and method of sale and a general description of the types of property to be sold have been advertised in a daily newspaper published in the county in which the Building is located, for five (5) consecutive days before the date of the sale. The proceeds from any such disposition, less any and all expenses connected with the taking of possession, holding and selling of the property (including reasonable attorneys’ fees) shall be applied as a credit against the indebtedness secured by the security interest granted in this Section 17. Any surplus shall be paid to Tenant or as otherwise required by law: Tenant shall pay any deficiencies forthwith. Upon request of Landlord, Tenant agrees to execute Uniform Commercial Code financing statements relating to the aforesaid security interest.

Notwithstanding the foregoing, in the event that an Event of Default has not occurred or is continuing at the time of Tenant’s request, Landlord shall subordinate its landlord’s liens to a bona-fide third party lender upon terms and conditions reasonably acceptable to Landlord and said lender.

18. DEFAULTS.

A. Each of the following acts or omissions of Tenant or occurrences shall constitute an “Event of Default”:

- (1) Failure or refusal by Tenant to pay rental or other payments hereunder within ten (10) days after receipt of written notice from Landlord.
- (2) Failure to perform or observe any covenant or condition of this Lease by Tenant to be performed or observed upon the expiration of a period of thirty (30) days following written notice to Tenant of such failure.
- (3) Tenant shall cease to conduct its business in the Premises or shall vacate, abandon or desert any substantial portion of the Premises, whether or not rent continues to be paid.
- (4) The filing or execution or occurrence of any one of the following: (i) a petition in bankruptcy or other insolvency proceeding by or against Tenant, (ii) petition or answer seeking relief under any provision of the Bankruptcy Act, (iii) an assignment for the benefit of creditors or composition, (iv) a petition or other proceeding by or against Tenant for the appointment of a trustee, receiver or liquidator of Tenant or any of Tenant’s property, or (v) a proceeding by any governmental authority for the dissolution or liquidation of Tenant.

(5) Tenant's leasehold interest hereunder shall be taken in execution or other process of laws in any action against the Tenant.

B. This Lease and the Term and estate hereby granted and the demise hereby made are subject to the limitation that if and whenever any Event of Default shall occur, Landlord may, at Landlord's option, in addition to all other rights and remedies given hereunder or by law or equity, do any one (1) or more of the following without notice or demand, any such notice or demand being hereby waived:

- (1) Terminate this Lease, in which event Tenant shall immediately surrender possession of the Premises to Landlord.
- (2) Enter upon and take possession of the Premises and expel or remove Tenant and any other occupant therefrom, with or without having terminated the Lease.
- (3) Alter locks and other security devices at the Premises.

C. Exercise by Landlord of any one (1) or more remedies hereunder granted or otherwise available shall not be deemed to be an acceptance of surrender of the Premises by Tenant, whether by agreement or by operation of law, it being understood that such surrender can be effected only by the written agreement of Landlord and Tenant. No such alteration of security devices and no removal or other exercise of dominion by Landlord over the property of Tenant or others at the Premises shall be deemed unauthorized or constitute a conversion, Tenant hereby consenting, after any Event of Default, to the aforesaid exercise of dominion over Tenant's property within the Building. All claims for damages by reason of such re-entry and/or possession and/or alteration of locks or other security devices are hereby waived, as are all claims for damages by reason of any distress warrant, forcible detainer proceedings, sequestration proceedings or other legal process. Tenant agrees that any re-entry by Landlord may be pursuant to judgment obtained in forcible detainer proceedings or other legal proceedings or without the necessity for any legal proceedings, as Landlord may elect, and Landlord shall not be liable in trespass or otherwise.

D. In the event that Landlord elects to terminate this Lease by reason of an Event of Default, then, notwithstanding such termination, Tenant shall be liable for and shall pay to Landlord, at the address specified in Section 1.B, hereof, the sum of all rental and other indebtedness accrued to the date of such termination, plus, as damages, an amount equal to the then present value of the rental reserved hereunder for the remaining portion of the Term of this Lease (had such Term not been terminated by Landlord prior to the expiration of the Term of this Lease), less the then present value of the fair rental value of the Premises for such period.

In the event that Landlord elects to terminate the Lease by reason of an Event of Default, in lieu of exercising the rights of Landlord under the preceding paragraph of this Section 18.D, Landlord may instead hold Tenant liable for all rental and other indebtedness accrued to the date of such termination, plus such rental and other indebtedness as would otherwise have been required to be paid by Tenant to Landlord during the period following termination of the Term of this Lease measured from the date of such termination by Landlord until the expiration of the Term of this Lease (had Landlord not elected to terminate the Lease on account of such Event of Default) diminished by any net sums thereafter received by Landlord through reletting the Premises during said period (after deducting expenses incurred by Landlord as provided in Section 18.F, hereof). Actions to collect amounts due by Tenant provided for in this paragraph of this Section 18.D, may be brought from time to time by Landlord during the aforesaid period, on one (1) or more occasions, without the necessity of Landlord's waiting until the expiration of such period, and in no event shall Tenant be entitled to any excess of rental (or rental plus other sums) obtained by reletting over and above the rental provided for in this Lease.

E. In the event that Landlord elects to repossess the Premises without terminating this Lease, then Tenant shall be liable for and shall pay to Landlord, at the address specified in Section 1.B, hereof, all rental and other indebtedness accrued to the date of such repossession, plus rental required to be paid by Tenant to Landlord during the remainder of the Term of this Lease until the expiration of the Term of this Lease, diminished by any net sums thereafter received by Landlord through reletting the Premises during said period (after deducting expenses incurred by Landlord as provided in Section 18.F, hereof). In no event shall Tenant be entitled to any excess of any rental obtained by reletting over and above the rental herein reserved. Actions to collect amounts due by Tenant as provided in this Section 18.E, may be brought from time to time, on one (1) or more occasions, without the necessity of Landlord's waiting until the expiration of the Term of this Lease.

F. In case of an Event of Default, Tenant shall also be liable for and shall pay to Landlord, at the address specified in Section J.B, hereof, in addition to any sum provided to be paid above: (i) broker's fees incurred by Landlord in connection with reletting the whole or any part of the Premises, (ii) the cost of removing and storing Tenant's or other occupant's property, (iii) the cost of repairing, altering, remodeling or otherwise putting the Premises into condition acceptable to a new tenant or tenants, and (iv) all reasonable expenses incurred by Landlord in enforcing Landlord's remedies, including reasonable attorneys' fees. Past due rental and other past due payments shall bear interest from maturity at the highest lawful rate per annum until paid.

G. Tenant acknowledges that Landlord has entered into this Lease in reliance upon, among other matters, Tenant's agreement and continuing obligation to pay all rental due throughout the Term. As a result, Tenant hereby knowingly and voluntarily waives, after advice of competent counsel, any duty of Landlord (and any affirmative defense based upon such duty) following any default to relet the Premises or otherwise mitigate Landlord's damages arising from such default. If such waiver is not effective under then applicable law or Landlord otherwise elects, at Landlord's sole option, to attempt to relet all or any part of the Premises, Tenant agrees that Landlord has no obligation to: (i) relet the Premises prior to leasing any other space within the Building; (ii) relet the Premises (A) at a rental rate or otherwise on terms below market, as then determined by Landlord in its sole discretion; (B) to any entity not satisfying Landlord's then standard financial credit risk criteria; (C) for a use (1) not consistent with Tenant's use prior to default; (2) which would violate then applicable law or any restrictive covenant or other lease affecting the Building; (3) which would impose a greater burden upon the Building's parking, HVAC or other facilities; and/or (4) which would involve any use of hazardous substances; (iii) divide the Premises, install new demising walls or otherwise reconfigure the Premises to make same more marketable; (iv) pay any leasing or other commissions arising from such reletting, unless Tenant unconditionally delivers Landlord, in good and sufficient funds, the full amount thereof in advance; (v) pay, and/or grant any allowance for, tenant finish or other costs associated with any new lease, even though same may be amortized over the applicable lease term, unless Tenant unconditionally delivers Landlord, in good and sufficient funds, the full amount thereof in advance; and/or (vi) relet the Premises, if to do so, Landlord would be required to alter other portions of the Building, make ADA-type modifications or otherwise install or replace any sprinkler, security, safety, HVAC or other Building operating systems. Tenant further acknowledges that if Tenant, notwithstanding Tenant's waiver above, raises Landlord's mitigation as an affirmative defense to a claim made by Landlord prior to any actual reentry of the Premises by Landlord then, in such event, Tenant will be deemed to have automatically waived, and released and discharged Landlord from and against, any and all other claims and defenses to the payment of rental.

H. If Tenant should fail to make any payment or cure any default hereunder within the time herein permitted, Landlord, without being under any obligation to do so and without thereby waiving such default, may make such payment and/or remedy such other default for the account of Tenant (and enter the Premises for such purpose), and thereupon Tenant shall be obligated to, and hereby agrees to, pay Landlord, upon demand, all costs, expenses and disbursements (including reasonable attorneys' fees) incurred by Landlord in taking such remedial action.

I. In the event of any default by Landlord, Tenant's exclusive remedy shall be an action for damages (Tenant hereby waiving the benefit of any laws granting Tenant a lien upon the property of Landlord and/or upon rental due Landlord), but prior to any such action Tenant will give Landlord written notice specifying such default with particularity, and Landlord shall thereupon have thirty (30) days (plus such additional reasonable period as may be required in the exercise by Landlord of due diligence) in which to cure any such default. Unless and until Landlord fails to so cure any default after such notice, Tenant shall not have any remedy or cause of action by reason thereof. All obligations of Landlord hereunder will be construed as covenants, not conditions; and all such obligations will be binding upon Landlord only during the period of Landlord's possession of the Building and not thereafter.

J. **Landlord Default; Tenant Remedies.** If Landlord fails to perform any of Landlord's obligations under this Lease, which failure continues for a period of more than thirty (30) days after Tenant's delivery of written notice to Landlord specifying such failure, or if such failure is of a nature as to require more than thirty (30) days for remedy and continues beyond the time reasonably necessary to cure (and Landlord has not undertaken procedures to cure the failure within such thirty (30) day period and diligently pursued such efforts to complete such cure), Tenant may, in addition to any other remedy available at law or in equity, at its option, upon written notice incur any reasonable expense necessary to perform the obligation of Landlord specified in such notice and invoice Landlord for the reasonable cost of such performance. If Landlord fails to pay such reasonable costs within thirty (30) days following written notice from Tenant, then Tenant shall have the right to deduct such expense from the Rent, Additional Rent and other charges next becoming due. Tenant agrees to give any first institutional mortgagee of the Building, which may by written notice to Tenant so request, a duplicate notice of any notice of default to Landlord and Tenant further agrees that such mortgagee shall thereafter have the same simultaneous time to cure such default as provided Landlord hereunder.

The term "Landlord" shall mean only the owner, for the time being, of the Building, and in the event of the transfer by such owner of its interest in the Building, such owner shall thereupon be released and discharged from all covenants and obligations of the Landlord thereafter accruing, but such covenants and obligations shall be binding during the Term of this Lease upon each new owner for the duration of such owner's ownership.

19. **NONWAIVER.** Neither acceptance of rental or other payments by Landlord nor failure by Landlord to complain of any action, nonaction or default of Tenant shall constitute a waiver of any of Landlord's rights hereunder. Waiver by Landlord of any right for any default of Tenant shall not constitute a waiver of any right for either a subsequent default of the same obligation or any other default. Receipt by Landlord of Tenant's keys to the Premises shall not constitute an acceptance of surrender of the Premises.

20. **HOLDING OVER.** If Tenant should remain in possession of the Premises after the expiration of the Term of this Lease, without the execution by Landlord and Tenant of a new lease or an extension of this Lease, then Tenant shall be deemed to be occupying the Premises on a month to month lease, subject to all the covenants and obligations of this Lease and at a daily rental of 150% of the per day rental provided for the last month of the Term of this Lease, computed on the basis of a thirty (30) day month. The inclusion of the preceding sentence shall not be construed as Landlord's consent for Tenant to hold over. No holding over by Tenant after the expiration of the Lease Term shall be construed to extend the Lease term; and in the event of any unauthorized holding over, Tenant shall indemnify, defend and hold harmless Landlord from and against all claims for damages (and reimburse Landlord upon demand for any sums paid in settlement of any such claims) by any other Tenant or prospective Tenant to whom Landlord may have leased all or part of the Premises effective before or after the expiration of the Lease Term and by any broker claiming any commission or fee in respect of any such lease or offer to lease. Tenant shall also pay Landlord all of Landlord's direct and consequential damages relating to Tenant's holdover. If any property not belonging to Landlord remains at the Premises -after the expiration of the Term of this Lease, Tenant hereby authorizes Landlord to make such disposition of such property as Landlord may desire without liability for compensation or damages to Tenant in the event that such property is the property of Tenant; and in the event that such property is the property of someone other than Tenant, Tenant agrees to indemnify and hold Landlord harmless from all suits, actions, liability, loss, damages and expenses in connection with or incident to any removal, exercise or dominion over and/or disposition of such property by Landlord.

21. **COMMON AREA.** The Common Area, as defined in Section 1.N, hereof, shall be subject to Landlord's sole management and control and shall be operated and maintained in such manner as Landlord in Landlord's discretion shall determine. Landlord reserves the right to change from time to time the dimensions and location of the Common Area, to construct additional stories on the Building and to place, construct or erect new structures or other improvements on any part of the Land without the consent of Tenant. Tenant, and Tenant's employees and invitees shall have the nonexclusive right to use the Common Area as constituted from time to time, such use to be in common with Landlord, other tenants of the Building and other persons entitled to use the same, and subject to such reasonable rules and regulations governing use as Landlord may from time to time prescribe. Tenant shall not solicit business or display merchandise within the Common Area, or distribute handbills therein, or take any action which would interfere with the rights of other persons to use the Common Area. Landlord may temporarily close any part of the Common Area for such periods of time as may be necessary to prevent the public from obtaining prescriptive rights or to make repairs or alterations.

22. **RULES AND REGULATIONS.** Tenant, and Tenant's agents, employees and invitees shall comply fully with all requirements of the rules and regulations of the Building which are attached hereto as Exhibit C and made a part hereof Landlord shall at all times have the right to change such rules and regulations or to amend or supplement them in such manner as may be deemed advisable for the safety, care and cleanliness of the Premises and the Building and for preservation of good order therein, all of which rules and regulations, changes and amendments shall be forwarded to Tenant and shall be carried out and observed by Tenant. Tenant shall further be responsible for the compliance with such rules and regulations by the employees, agents and invitees of Tenant.

23. **TAXES.** Tenant shall be liable for the timely payment of all taxes levied or assessed against personal property, furniture or fixtures or equipment placed by Tenant in the Premises. If any such taxes for which Tenant is liable are levied or assessed against Landlord or Landlord's property and if Landlord elects to pay the same, or if the assessed value of Landlord's property is increased by inclusion of personal property, furniture or fixtures or equipment placed by Tenant in the Premises, and Landlord elects to pay the taxes based on such increase, Tenant shall pay to Landlord upon demand that part of such taxes for which Tenant is liable hereunder.

24. **INSURANCE.** Tenant shall at its expense procure and maintain throughout the Term the following insurance policies: (i) comprehensive general liability insurance in amounts of not less than \$1,000,000 each occurrence, \$2,000,000 aggregate, insuring Tenant, Landlord and Landlord's managing agent against all liability for injury to or death of a person or persons or damage to property arising from the use and occupancy of the Premises, (ii) worker's compensation insurance in no less than the minimum limits prescribed by statute, and (iii) all-risk casualty insurance covering Tenant's leasehold betterments and improvements and Tenant's furniture, fixtures, equipment and other personalty within the Premises, with replacement value coverage. Tenant's insurance shall provide primary coverage to Landlord when any policy issued to Landlord provides duplicate or similar coverage, and in such circumstance Landlord's policy will be excess over Tenant's policy. Tenant shall obtain the necessary endorsements to have Landlord named as an additional insured on Tenant's policy. Tenant shall furnish copies of such endorsements and certificates of such insurance indicating Landlord as additional insured and such other evidence satisfactory to Landlord of the maintenance of all insurance coverages required hereunder. Tenant shall obtain a written obligation on the part of each insurer to notify Landlord at least fifteen (15) days prior to modification or cancellation of such insurance. In the event Tenant shall not have delivered to Landlord a policy or certificate evidencing such insurance at least fifteen (15) days prior to the Commencement Date and at least fifteen (15) days prior to the expiration dates of each expiring policy, Landlord may obtain such insurance as Landlord may reasonably require to protect Landlord's interest. The cost for such policies shall be paid by Tenant to Landlord as additional rental upon demand plus an administrative charge as determined by Landlord. All such insurance policies shall be in form, and issued by companies, reasonably satisfactory to Landlord.

25. **PERSONAL LIABILITY.** The liability of Landlord to Tenant for any default by Landlord under the terms of this Lease shall be limited to the proceeds of sale on execution of the interest of Landlord in the Building and in the Land, and neither Landlord, nor any party comprising Landlord, its partners, officers or shareholders shall be personally liable for any deficiency. This clause shall not be deemed to limit or deny any remedies which Tenant may have in the event of default by Landlord hereunder which do not involve the personal liability of Landlord.

26. NOTICE. Any notice which may or shall be given under the terms of this Lease shall be in writing and shall be either delivered by hand (including commercially recognized messenger and express mail service) or sent by United States Mail, registered or certified, return receipt requested, postage prepaid, if for Landlord, to the Building office and at the address specified in Section 1.B, hereof, or if for Tenant, to the Premises or, if prior to the Commencement Date, at the address specified in Section 1.D, hereof, or at such other addresses as either party may have theretofore specified by written notice delivered in accordance herewith. Such address may be changed from time to time by either party by giving notice as provided herein. Notice shall be deemed given when delivered (if delivered by hand) or, whether actually received or not, when postmarked (if sent by mail). If the term "Tenant" as used in this Lease refers to more than one (1) person and/or entity, and notice given as aforesaid to any one of such persons and/or entities shall be deemed to have been duly given to Tenant.

27. LANDLORD'S MORTGAGEE. If the Building and/or Premises are at any time subject to a ground lease, mortgage, deed of trust or other lien, then in any instance in which Tenant gives notice to Landlord alleging default by Landlord hereunder, Tenant will also simultaneously give a copy of such notice to each Landlord's Mortgagee (provided Landlord or Landlord's Mortgagee shall have advised Tenant of the name and address of Landlord's Mortgagee) and each Landlord's Mortgagee shall have the right (but no obligation) to cure or remedy such default during the period that is permitted to Landlord hereunder, plus an additional period of thirty (30) days, then Tenant will accept such curative or remedial action (if any) taken by Landlord's Mortgagee with the same effect as if such action had been taken by Landlord.

28. BROKERAGE. Tenant represents and warrants that it has dealt with no broker, agent or other person in connection with this transaction and that no broker, agent or other person brought about this transaction, other than Broker specified in Section 1.P, hereof, and Tenant agrees to indemnify and hold Landlord harmless from and against any claims by any other broker, agent or other person claiming a commission or other form of compensation by virtue of having dealt with Tenant with regard to this leasing transaction. The provisions of this Section 28 shall survive the termination of this Lease.

29. PREPAID RENTAL: SECURITY DEPOSIT. Landlord hereby acknowledges receipt from Tenant of the sum stated in Section 1.K, hereof to be applied to the first accruing monthly installments of rental. Landlord further acknowledges receipt from Tenant of a Security Deposit in the amount stated in Section 1.L, hereof to be held by Landlord as security for the performance by Tenant of Tenant's covenants and obligations under this Lease, it being expressly understood that such deposit shall not be considered an advance payment of rental or a measure of Landlord's damages in case of default by Tenant. The Security Deposit shall be held by Landlord without liability to Tenant for interest, and Landlord may commingle such deposit with any other funds held by Landlord. If Tenant should be late in the making of any payment of rental or other sum due under this Lease, Tenant agrees that, upon request of Landlord, Tenant will increase forthwith the amount of the Security Deposit to a sum double the existing amount thereof. Upon the occurrence of any Event of Default, Landlord may, from time to time, without prejudice to any other remedy, use such fund to the extent necessary to make good any arrears of rental and any other damage, injury, expense or liability caused to Landlord by such Event of Default. Following any such application of the Security Deposit, Tenant shall pay to Landlord on demand the amount so applied in order to restore the Security Deposit to the amount thereof immediately prior to such application. If Tenant is not then in default hereunder, any remaining balance of such deposit shall be returned by Landlord to Tenant upon termination of this Lease; provided, however, Landlord shall have the right to retain and expend such remaining balance for cleaning and repairing the Premises if Tenant shall fail to deliver up the same at the expiration or earlier termination of this Lease in the condition required by the provisions of this Lease. If Landlord transfers Landlord's interest in the Premises during the Term of this Lease (including any renewal thereof), Landlord may assign the Security Deposit to the transferee and thereafter shall have no further liability for the return of the Security Deposit.

30. HAZARDOUS SUBSTANCES. Tenant shall not cause or permit any Hazardous Substances to be brought upon, produced, stored, used, discharged or disposed of in or near the Project unless Landlord has consented to such storage or use in its sole discretion. "Hazardous Substances" include those hazardous substances described in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. Section 9601 et seq., the Resource Conservation and Recovery Act, as amended, 42 U.S.C. Section 6901 et seq., any other applicable federal, state or local law, and the regulations adopted under these laws.

31. ERISA AND UBTI RESTRICTIONS. Notwithstanding anything to the contrary contained herein, including, without limitation, Section 24 above, no assignment or subletting by Tenant, nor any other transfer or vesting of Tenant's interest hereunder (whether by merger, operation of law or otherwise), shall be permitted if:

A. Landlord, or any person designated by Landlord as having an interest therein, directly or indirectly, controls, is controlled by, or is under common control with (i) the proposed assignee, sublessee or successor-in-interest of Tenant or (ii) any person which, directly or indirectly, controls, is controlled by or is under common control with, the proposed assignee, sublessee or successor-in-interest of Tenant;

B. the proposed assignment or sublease (i) provides for a rental or other payment for the leasing, use, occupancy or utilization of all or any portion of the Premises based, in whole or in part, on the income or profits derived by any person from the property so leased, used, occupied or utilized other than an amount based on a fixed percentage or percentages of gross receipts or sales or (ii) does not provide that such assignee or subtenant shall not enter into any lease, sublease, license, concession or other agreement for the use, occupancy or utilization of all or any portion of the Premises which provides for a rental or other payment for such use, occupancy or utilization based, in whole or in part, on the income or profits derived by any person from the property so leased, used, occupied or utilized other than an amount based on a fixed percentage or percentages of gross receipts or sales; or

C. in the reasonable opinion of Landlord and Landlord's counsel, such proposed assignment, subletting or other transfer or vesting of Tenant's interest hereunder (whether by merger, operation at law or otherwise) will (i) cause a violation of the Employee Retirement Income Security Act of 1974 by Landlord, or by any person which, directly or indirectly, controls, is controlled by, or is under common control with, Landlord or any person who controls Landlord or (ii) result or may in the future result in Landlord, or any person which, directly or indirectly, has an interest in Landlord, receiving "unrelated business taxable income" (as defined in the Internal Revenue Code).

32. DISCLAIMER. TENANT ACKNOWLEDGES AND AGREES THAT, EXCEPT TO THE EXTENT SPECIFICALLY SET FORTH IN THIS LEASE, LANDLORD HAS NOT MADE, DOES NOT MAKE AND SPECIFICALLY NEGATES AND DISCLAIMS (AND TENANT HAS NOT RELIED ON) ANY REPRESENTATIONS, WARRANTIES, PROMISES, COVENANTS, AGREEMENTS OR GUARANTEES, EXPRESS OR IMPLIED, OF ANY KIND OR CHARACTER WHATSOEVER CONCERNING OR WITH RESPECT TO (I) THE VALUE, NATURE, QUALITY OR CONDITION (INCLUDING, WITHOUT LIMITATION, THE ENVIRONMENTAL CONDITION) OF THE PREMISES; (II) THE SUITABILITY OF THE PREMISES FOR ANY AND ALL ACTIVITIES AND USES WHICH TENANT MAY CONDUCT THEREON; (III) THE COMPLIANCE OF THE PREMISES WITH ANY LAWS; (IV) THE HABITABILITY, MERCHANTABILITY, MARKETABILITY, PROFITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OF THE PREMISES; (V) THE MANNER OR QUALITY OF THE CONSTRUCTION OR MATERIALS INCORPORATED INTO THE PREMISES; (VI) THE MANNER, QUALITY, STATE OF REPAIR OR LACK OF REPAIR OF THE PREMISES; (VII) THE LAWFULNESS, EITHER NOW OR IN THE FUTURE, OF THE USE OF THE PREMISES FOR THE PERMITTED USE SET FORTH IN SECTION 1.M, OF THE DEFINITIONS AND BASIC PROVISIONS; OR (VIII) ANY OTHER MATTER WITH RESPECT TO THE PREMISES, IT BEING AGREED THAT ALL RISKS INCIDENT TO ALL OF THESE MATTERS ARE TO BE BORNE BY TENANT. TENANT FURTHER ACKNOWLEDGES AND AGREES THAT TENANT HAS INSPECTED THE PREMISES AND TENANT HAS RELIED AND SHALL RELY SOLELY ON ITS OWN INVESTIGATION OF THE PREMISES AND NOT ON ANY INFORMATION PROVIDED OR TO BE PROVIDED BY LANDLORD. TENANT FURTHER ACKNOWLEDGES AND AGREES THAT ANY INFORMATION PROVIDED OR TO BE PROVIDED BY OR ON BEHALF OF LANDLORD WITH RESPECT TO THE PREMISES, WAS OBTAINED FROM A VARIETY OF SOURCES AND THAT LANDLORD HAS NOT MADE ANY INDEPENDENT INVESTIGATION OR VERIFICATION OF SUCH INFORMATION AND MAKES NO REPRESENTATIONS AS TO THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION. TENANT FURTHER ACKNOWLEDGES AND AGREES THAT, EXCEPT TO THE EXTENT SPECIFICALLY SET FORTH IN THIS LEASE, THE LEASING OF THE PREMISES AS PROVIDED FOR HEREIN IS MADE ON AN "AS-IS", "WHERE-IS" CONDITION AND BASIS WITH ALL FAULTS. IN THE EVENT OF ANY DEFECT OR DEFICIENCY IN ANY NATURE IN THE PREMISES, WHETHER PATENT OR LATENT, LANDLORD SHALL HAVE NO RESPONSIBILITY OR LIABILITY WITH RESPECT THERETO (EXCEPT AS OTHERWISE EXPRESSLY PROVIDED IN THIS LEASE) OR FOR ANY INCIDENTAL OR CONSEQUENTIAL DAMAGES ARISING THEREFROM. TENANT AND ANYONE CLAIMING BY, THROUGH OR UNDER TENANT HEREBY FULLY AND IRREVOCABLY RELEASE LANDLORD AND THE LANDLORD INDEMNIFIED PARTIES FROM ANY AND ALL DAMAGE TO PROPERTY AND INJURY TO PERSONS AND ALL OTHER CLAIMS THAT IT MAY NOW HAVE OR HEREAFTER ACQUIRE AGAINST THEM ARISING FROM OR RELATED TO ANY CONSTRUCTION DEFECTS, ERRORS, OMISSIONS OR OTHER CONDITIONS NOW OR HEREAFTER AFFECTING THE PREMISES, INCLUDING, BUT NOT LIMITED TO, ENVIRONMENTAL MATTERS AND HAZARDOUS MATERIALS, EXCEPT TO THE EXTENT THAT LANDLORD HAS, PURSUANT TO THE TERMS OF THIS LEASE, EXPRESSLY ASSUMED AN OBLIGATION WITH RESPECT TO SUCH CONDITIONS. THIS RELEASE INCLUDES CLAIMS OF WHICH TENANT IS PRESENTLY UNAWARE OR WHICH TENANT DOES NOT PRESENTLY SUSPECT TO EXIST IN ITS FAVOR WHICH, IF KNOWN BY TENANT, WOULD MATERIALLY AFFECT TENANT'S RELEASE OF LANDLORD AND THE LANDLORD INDEMNIFIED PARTIES.

33. RESERVED RIGHTS. Without limiting in any way Landlord's right to promulgate rules and regulations, Landlord shall have the following rights, exercisable upon at least five (5) days' written notice and without liability to Tenant for damage or injury to property, persons or business and without effecting an eviction, constructive or actual, or disturbance of Tenant's use or possession or giving rise to any claim for set off or abatement of rent:

- A. To change the Building's and/or the Complex's name, design or street address.
- B. To approve, restrict, install, affix, maintain, and remove any and all signs on the exterior and interior of the Building.
- C. To designate and approve, prior to installation, all types of window shades, blinds, drapes, awnings, window ventilators and other similar equipment and to control all internal lighting that may be visible from the exterior of the Building.
- D. To retain at all times, and to use in appropriate instances, keys to all doors within and to the Premises.
- E. To decorate and to make repairs, alterations, additions, changes or improvements, whether structural or otherwise, in and about the Building, or any part thereof, and for such purposes to enter upon the Premises and, during the continuance of any such work, to temporarily close doors, entryways, public space and corridors in the Building, to interrupt or temporarily suspend Building services and facilities and to change the arrangement and location of entrances or passageways, doors and doorways, corridors, elevators, stairs, toilets or other public parts of the Building, all without abatement of rent or affecting any of Tenant's obligations hereunder, so long as the Premises are reasonably accessible.
- F. To have and retain a paramount title to the Premises free and clear of any act of Tenant purporting to burden or encumber them.
- G. To grant to anyone the exclusive right to conduct any business or render any service in or to the Building, provided such exclusive right shall not operate to exclude Tenant from the use expressly permitted herein.
- H. To approve the weight, size and location of safes and other heavy equipment and articles in and about the Premises and the Building, and to require all such items and furniture and similar items to be moved into and out of the Building and the Premises only at such times and in such manner as Landlord shall direct in writing. Movements of Tenant's property into or out of the Building and within the Building are entirely at the risk and responsibility of Tenant, and Landlord reserves the right to require permits before allowing any such property to be moved into or out of the Building.
- I. To have access for Landlord and other Tenants of the Building to any mail chutes located on the Premises according to the rules of the United States Postal Service.
- J. To take all such reasonable measures as Landlord may deem advisable for the security of the Building and its occupants, including without limitation, the closing of the Building after normal business hours and on Saturdays, Sundays and holidays; subject, however, to Tenant's right to admittance when the Building is closed after normal business hours under such reasonable regulations as Landlord may prescribe from time to time which may include, by way of example but not of limitation, that persons entering or leaving the Building, whether or not during normal business hours, identify themselves to a security officer by registration or otherwise and that such persons establish their right to enter or leave the Building.

34. MISCELLANEOUS.

A. Provided Tenant complies with Tenant's covenants, duties and obligations hereunder, within any notice, grace or cure periods Tenant shall quietly have, hold and enjoy the Premises subject to the terms and provisions of this Lease without hindrance from Landlord or any person or entity claiming by, through or under Landlord.

B. In any circumstance where Landlord is permitted to enter upon the Premises during the Term of this Lease, whether for the purpose of curing any default of Tenant, repairing damage resulting from fire or other casualty or an eminent domain taking or is otherwise permitted hereunder or by law to go upon the Premises, no such entry shall constitute an eviction or disturbance of Tenant's use and possession of the Premises or a breach by Landlord of any of Landlord's obligations hereunder or render Landlord liable for damages for loss of business or otherwise or entitle Tenant to be relieved from any of Tenant's obligations hereunder or grant Tenant any right of setoff or recoupment or other remedy; and in connection with any such entry incident to performance of repairs, replacements, maintenance or construction, all of the aforesaid

provisions shall be applicable notwithstanding that Landlord may elect to take building materials in, to or upon the Premises that may be required or utilized in connection with such entry by Landlord.

C. Landlord may restrain or enjoin any breach or threatened breach of any covenant, duty or obligation of Tenant herein contained without the necessity of proving the inadequacy of any legal remedy or irreparable harm. The remedies of Landlord hereunder shall be deemed cumulative, and no remedy of Landlord, whether exercised by Landlord or not, shall be deemed to be in exclusion of any other. Except as may be otherwise herein expressly provided, in all circumstances under this Lease where prior consent or permission of one (1) party ("first party") is required before the other party ("second party") is authorized to take any particular type of action, the matter of whether to grant such consent or permission shall be within the sole and exclusive judgment and discretion of the first party; and it shall not constitute any nature of breach by the first party hereunder or any defense to the performance of any covenant, duty or obligation of the second party hereunder that the first party delayed or withheld the granting of such consent or permission, whether or not the delay or withholding of such consent or permission was prudent or reasonable or based on good cause.

D. In all instances where Tenant is required to pay any sum or do any act at a particular indicated time or within an indicated period, it is understood that time is of the essence.

E. Except as otherwise set forth in this Lease to the contrary, the obligation of Tenant to pay all rental and other sums hereunder provided to be paid by Tenant and the obligation of Tenant to perform Tenant's other covenants and duties hereunder constitute independent, unconditional obligations to be performed at all times provided for hereunder, save and except only when an abatement thereof or reduction therein is hereinabove expressly provided for and not otherwise. Tenant waives and relinquishes all rights which Tenant might have to claim any nature of lien against or withhold, or deduct from or offset against any rental and other sums provided hereunder to be paid Landlord by Tenant. Tenant waives and relinquishes any right to assert, either as a claim or as a defense, that Landlord is bound to perform or is liable for the nonperformance of any implied covenant or implied duty of Landlord not expressly herein set forth.

F. Under no circumstances whatsoever shall Landlord ever be liable hereunder for consequential damages or special damages.

G. Landlord retains the exclusive right to create any additional improvements to structural and/or mechanical systems, interior and exterior walls and/or glass, which Landlord deems necessary without the prior consent of Tenant.

R. All monetary obligations of Landlord and Tenant (including, without limitation, any monetary obligation of Landlord or Tenant for damages for any breach of the respective covenants, duties or obligations of Landlord or Tenant hereunder) are performable exclusively in the county in which the Building is located.

L. The laws of the State in which the Building is located shall govern the interpretation, validity, performance and enforcement of this Lease.

J. If any clause or provision of this Lease is or becomes illegal, invalid, or unenforceable because of present or future laws or any rule or regulation of any governmental body or entity, effective during the Term of this Lease, the intention of the parties hereto is that the remaining parts of this Lease shall not be affected thereby.

K. IT IS MUTUALLY AGREED BY AND BETWEEN LANDLORD AND TENANT THAT THE RESPECTIVE PARTIES HERETO SHALL AND THEY HEREBY DO WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM BROUGHT BY EITHER OF THE PARTIES HERETO AGAINST THE OTHER ON ANY MATTERS WHATSOEVER ARISING OUT OF OR IN ANY WAY CONNECTED WITH THIS LEASE, THE RELATIONSHIP OF LANDLORD AND TENANT, TENANT'S USE OR OCCUPANCY OF THE PREMISES, AND ANY EMERGENCY STATUTORY OR ANY OTHER STATUTORY REMEDY

L. [Reserved]

M. No receipt of money by Landlord from Tenant after the expiration of the Term of this Lease, or after the service of any notice, or after the commencement of any suit, or after final judgment for possession of the Premises, shall reinstate, continue or extend the Term of this Lease or affect any such notice, demand or suit or imply consent for any action for which Landlord's consent is required.

N. Words of any gender used in this Lease shall be held and construed to include any other gender, and words in the singular number shall be held to include the plural, unless the context otherwise requires. The headings of the Paragraphs of this Lease have been inserted for convenience only and are not to be considered in any way in the construction or interpretation of this Lease.

O. Tenant agrees that Tenant shall from time-to-time, within ten (10) days of a request by Landlord and/or Landlord's Mortgagee, execute and deliver to Landlord a statement in recordable form certifying (i) that the Lease is unmodified and in full force and effect (or, if there have been modifications, that the same is in full force and effect as so modified), (ii) the dates to which rental and other charges payable under this Lease have been paid, and (iii) that Landlord is not in default hereunder (or, if Landlord is in default, specifying the nature of such default). Tenant further agrees that Tenant shall from time to time upon request by Landlord execute and deliver to Landlord an instrument in recordable form acknowledging Tenant's receipt of any notice of assignment of this Lease by Landlord.

P. In no event shall Tenant have the right to create or permit there to be established any lien or encumbrance of any nature against the Premises or the Building for any improvement or improvements by Tenant, and Tenant shall fully pay the cost of any improvement or improvements made or contracted for by Tenant. Any mechanic's lien filed against the Premises or the Building for work claimed to have been done, or materials claimed to have been furnished to Tenant, shall be duly discharged by Tenant within twenty (20) days after the filing of the lien.

Q. Whenever a period of time is herein prescribed for action to be taken by Landlord, Landlord shall not be liable or responsible for, and there shall be excluded from the computation for any such period of time, any delays due to strikes, riots, acts of God, shortages of labor or materials, war, governmental laws, regulations or restrictions, or any other causes of any kind whatsoever which are beyond the reasonable control of Landlord.

R. This Lease shall not be recorded by either party without the consent of the other.

S. Nothing herein contained shall be deemed or construed by the parties hereto, nor by any third party, as creating the relationship of principal and agent, or of partnership or of joint venture between the parties hereto, it being understood and agreed that neither the method of the computation of rental, nor any other provision contained herein, nor any acts of the parties hereto, shall be deemed to create any relationship between the parties hereto other than the relationship of landlord and tenant.

T. Whenever it is provided herein that a monetary sum shall be due to Landlord together with interest at the highest lawful rate, if at such time there shall be no highest rate prescribed by applicable law, interest shall be due at the rate of six percent (6%) in excess of Prime Rate as defined in Section 1.0, hereof.

U. Tenant warrants that Tenant is, and shall remain throughout the Term of this Lease, authorized to do business and in good standing in the State in which the Building is located. Tenant agrees, upon request by Landlord, to furnish Landlord satisfactory evidence of Tenant's authority for entering into this Lease.

V. In case it should be necessary or proper for Landlord to bring any action under this Lease (including specifically, without limitation, for the review of instruments evidencing a proposed assignment, subletting or other transfer by Tenant submitted to Landlord for consent) or the enforcement of any of Landlord's rights hereunder, Tenant agrees to pay to Landlord reasonable attorneys' fees as may be awarded by a court of competent jurisdiction.

W. In the event Tenant requests from Landlord the written consent of Landlord to any proposed action for which this Lease requires such consent, Landlord may require (in addition to the payment of reasonable attorney's or professional fees) the payment by Tenant of a fee representing the administrative costs incurred by Landlord in processing such request, regardless of whether such consent is granted. Such fee shall be payable by Tenant at the time such request is made by Tenant.

X. Submission of this Lease for examination does not constitute an offer, right of first refusal, reservation of, or option for, the Premises or any other premises in the Building. This Lease shall become effective only upon execution and delivery by both Landlord and Tenant.

Y. If Tenant is composed of more than one (I) person or entity, each person and/or entity comprising Tenant shall be jointly and severally liable for the performance of the obligations of Tenant under this Lease, including specifically, without limitation, the payment of rental and all other sums payable hereunder.

Z. Any charges against Tenant by Landlord for services or for work done on the Premises by order of Tenant, or otherwise accruing under this Lease, shall be considered as rental due and shall be included in any lien for rental.

AA. Tenant has no right to protest the real estate tax rate assessed against the Project and/or the appraised value of the Project determined by any appraisal review board or other taxing entity with authority to determine tax rates and/or appraised values (each a "Taxing Authority"). Tenant hereby knowingly, voluntarily and intentionally waives and releases any right, whether created by law or otherwise, to (a) file or otherwise protest before any Taxing Authority any such rate or value determination even though Landlord may elect not to file any such protest; (b) receive, or otherwise require Landlord to deliver, a copy of any reappraisal notice received by Landlord from any Taxing Authority; and (c) appeal any order of a Taxing Authority which determines any such protest. The foregoing waiver and release covers and includes any and all rights, remedies and recourse of Tenant, now or at any time hereafter, under Section 41.413 and Section 42.015 of the Texas Tax Code (as currently enacted or hereafter modified) together with any other or further laws, rules or regulations covering the subject matter thereof. Tenant acknowledges and agrees that the foregoing waiver and release was bargained for by Landlord and Landlord would not have agreed to enter into this Lease in the absence of this waiver and release.

BB. The parties acknowledge that the parties and their counsel have reviewed and revised this Lease and that the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Lease or any exhibits or amendments hereto.

CC. Tenant represents and warrants to Landlord that neither Tenant nor any of its affiliates, nor any of their respective partners, members, shareholders or other equity owners, and none of their respective employees, officers, directors, representatives or agents, is a person or entity with whom U.S. persons or entities are restricted from doing business under regulations of the Office of Foreign Asset Control ("OFAC") of the Department of the Treasury (including those named on OFAC's Specially Designated and Blocked Persons List) or under any statute, executive order (including the September 24, 2001, Executive Order Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism), or other governmental action.

35. ENTIRE AGREEMENT AND BINDING EFFECT. This Lease and any contemporaneous work letter, addenda or exhibits signed by the parties constitute the entire agreement between Landlord and Tenant; no prior written or prior contemporaneous oral promises or representations shall be binding. This Lease shall not be amended, changed or extended except by written instrument signed by both parties hereto. The provisions of this Lease shall be binding upon and inure to the benefit of the heirs, personal representatives, successors and assigns of the parties, but this provision shall in no way alter the restriction herein in connection with assignment, subletting and other transfer by Tenant.

36. EXHIBITS AND ADDENDA. Exhibits A through F and any other exhibits, riders and addenda attached hereto are incorporated herein and made a part of this Lease for all purposes.

[Exhibits to Follow]

EXHIBIT A

DIAGRAM OF PREMISES

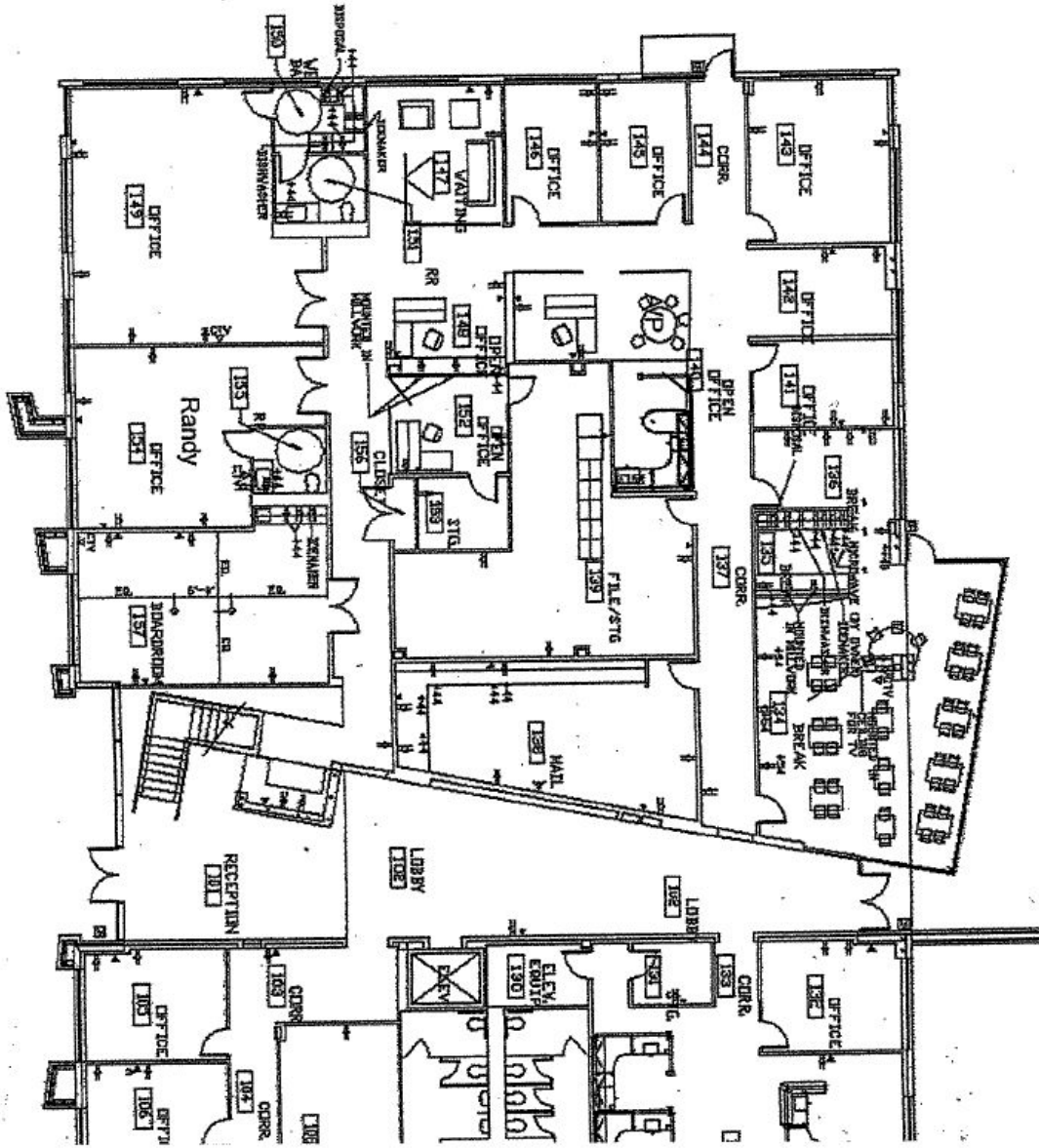


EXHIBIT B

LEGAL DESCRIPTION OF LAND

Pizza Inn Corporate Addn Blk 1 Lot 1r-1

The Colony, Texas

Exhibit B - Page 1

EXHIBIT C

RULES AND REGULATIONS

1. Except as specifically provided for in this Lease, no sign, placard, picture, advertisement, name or notice will be inscribed, displayed or printed or affixed on or to any part of the outside or inside of the Building or the Premises without the written consent of Landlord first having been obtained.
2. Any directory of the Building provided by Landlord will be exclusively for the display of the name and location of tenants in the Building, and Landlord reserves the right to exclude any other names therefrom and may limit the number of listings per tenant. Tenant will pay Landlord's standard charge for Tenant's listing thereon and for any changes by Tenant.
3. Tenant will not place anything or allow anything to be placed near the glass of any window, door, partition or wall which may appear unsightly from outside the Premises. No awnings or other projections will be attached to the outside walls and roof of the Building without prior written consent of Landlord. No curtains, blinds, shades or screens will be attached to or hung in or used in connection with any window or door of the Premises without the prior consent of Landlord.
4. "Normal Business Hours" for purposes of Landlord's obligation to provide air conditioning (both heating and cooling) will mean 7:00 a.m. to 6:00 p.m. Monday through Friday and 8:00 a.m. to 1:00 p.m. on Saturday except for the following holidays: New Year's Day, Presidents' Day, Memorial Day, Independence Day, Labor Day, Columbus Day, Veterans' Day, Thanksgiving and Christmas.
5. The Premises will not be used for the manufacturing or storage of merchandise except as such storage may be incidental to the use of the Premises for the purposes permitted in this Lease. The Premises will not be used for lodging or sleeping, or for any illegal purposes.
6. The sidewalks, halls, passages, exits, entrances, elevators and stairways will not be obstructed by any of the tenants or be used by them for any purpose other than for ingress to and egress from their respective Premises. The halls, passages, exits, entrances, elevators, stairways, terraces and roof are not for the use of the general public, and Landlord will in all cases retain the right to control and prevent access thereto by all persons whose presence, in the judgment of Landlord, will be prejudicial to the safety, character, reputation and interest of the Building and its tenants, provided that nothing herein contained will be construed to prevent such access to persons with whom Tenant normally deals in the ordinary course of business, unless such persons are engaged in illegal activities. No tenant and no employee or invitee of any tenant will go upon the roof of the Building.
7. Except as expressly permitted in writing by Landlord, no additional locks or bolts of any kind will be placed upon any of the doors or windows by Tenant, nor will any changes be made to existing locks or the mechanisms thereof. Landlord will furnish two (2) keys for each lock it installs on the Premises without charge to Tenant. Landlord will make a reasonable charge for any additional keys requested by Tenant, and Tenant will not duplicate or obtain keys from any other source. Tenant will upon the termination of the Term of this Lease return to Landlord all keys so issued. The Tenant will bear the cost for the replacing or changing of any lock or locks due to any keys issued to Tenant being lost.
8. The toilets and wash basins and other plumbing fixtures will not be used for any purpose other than those for which they were constructed, and no sweepings, rubbish, rags or foreign substances will be thrown therein.
9. No furniture, freight or equipment of any kind will be brought into the Building without the consent of Landlord, and all moving of the same into or out of the Building will be done at such time and in such manner as Landlord will designate. No furniture, packages, supplies, equipment or merchandise will be received in the Building or carried up or down in the elevators except between such hours and in such elevators that will be designated by Landlord. There will not be used in any space or in the public areas of the Building, either by Tenant or others, any hand trucks except those equipped with rubber tires and side guards.
10. No tenant will make or permit to be used any unseemly or disturbing noises, or disturb or interfere with occupants of this or neighboring buildings or Premises, whether by the use of any musical instrument, radio, phonograph, unusual noise or in any other way. No Tenant will throw anything out of doors or down the passage ways.
11. Tenant will not use or keep in the Premises or the Building any kerosene, gasoline, or any inflammable, combustible or explosive fluid, chemical or substance or use any method of heating or air conditioning other than those supplied or approved by Landlord.
12. Tenant will see that the windows and doors of the Premises are closed and securely locked before leaving the Building. No tenant will permit or suffer any windows to be opened in the Premises while the air conditioning is in operation except at the direction of Landlord. Tenant must observe strict care and caution that all water faucets and other apparatus are entirely shut off before Tenant and Tenant's employees leave the Building. For any default or carelessness, Tenant will make good all injuries sustained by all other tenants or occupants of the Building or Landlord.
13. Landlord reserves the right to exclude or expel from the Building any person who, in the judgment of Landlord, is intoxicated or under the influence of liquor or drugs, or who will in any manner do any act in violation of any of the rules or regulations of the Building.
14. The requirements of Tenant will be attended to only upon application at the Building's office. Employees of the Landlord will not perform any work or do anything outside of their regular duties unless under special instructions from Landlord, and no employees will admit any person (Tenant or otherwise) to any office without specific instructions from Landlord.
15. No tenant will disturb, solicit, or canvass any occupant of the Building, nor will Tenant permit or cause others to do so, and Tenant will co-operate to prevent same by others.
16. No vending machine or machines of any description will be installed, maintained or operated upon the Premises without the written consent of Landlord. Tenant will not permit in the Premises any cooking or the use of apparatus for the preparation of any food or beverages (except where the Landlord has approved the installation of cooking facilities as part of the Tenant's leasehold improvements), nor the use of any electrical apparatus likely to cause an overload of the electrical circuits.

17. All persons entering and leaving the Building at any time other than during normal business hours will register in the books kept by Landlord at or near the night entrance or entrances, and Landlord will have the right to prevent any persons entering or leaving the Building unless provided with a key to the premises to which such person seeks entrance, and a pass in a form to be approved by Landlord and provided at Tenant's expense. Any persons found in the Building at such times without such keys or passes will be subject to the surveillance of the employees and agents of Landlord. Landlord will be under no responsibility for failure to enforce this rule.
18. Tenant will not use any janitor closets or telephone or electrical closets for anything other than their originally intended purposes. In the event Tenant purchases privately owned communications equipment for which telephone closets were not installed in connection with initial occupancy of Tenant, such equipment will not be installed in existing telephone closets.
19. Tenant's right to have heavy furnishings, equipment, and files in the Premises will be limited to items weighing less than the load-bearing limits of floors within the Premises as established by Landlord. Heavy items must be placed in locations approved in advance by Landlord. Upon written demand from Landlord, Tenant will promptly remove from the Premises any items which, in the judgment of Landlord, constitute a structural overload on floors within the Premises. If Landlord approves the presence of a heavy item for which reinforcement of the floor or other precautionary measures are necessary, Tenant will bear the entire cost of such reinforcement or other precautionary measures. If the services of a structural engineer are, in the judgment of Landlord, necessary to determine the location for and/or precautionary measures to be taken in connection with any heavy load, Landlord will engage such engineer, but the fees and expenses of such engineer will be paid by Tenant upon demand.
20. Tenant will not, without the prior written consent of Landlord, use the name or any photograph, drawing or other likeness of the Building for any purpose other than as the address of the business to be conducted by Tenant in the Premises, nor will Tenant do or permit anything to be done in connection with Tenant's business or advertising which, in the reasonable judgment of Landlord, might mislead the public as to any apparent connection or relationship between Landlord, the Building and Tenant.
21. Tenant, its invitees, and employees shall be allowed to smoke only in those designated smoking areas outside the Building.

EXHIBIT D

PARKING

Unreserved Parking Spaces.

Landlord hereby grants to Tenant and persons designated by Tenant a license to the non-exclusive use of sixty (60) spaces in the parking lot (the "Lot") adjacent to the Building on a first come, first served basis, at no charge. The spaces in the parking lot are collectively referred to herein as the "Spaces".

The term of such license(s) will commence on the Commencement Date and will continue until the earlier to occur of the expiration date under the Lease or termination of the Lease or Tenant's abandonment of the Premises.

Control of Parking.

Tenant shall at all times comply with all applicable ordinances, rules, regulations, codes, laws, statutes and requirements of all federal, state, county and municipal governmental bodies or their subdivisions respecting the use of the Lot. Landlord reserves the right from time to time to adopt, modify and enforce reasonable rules governing the use of the Lot, including any key-card, sticker or other identification or entrance system, and hours of operation. Landlord may refuse to permit any person who violates such rules to park in the Lot, and any violation of the rules will subject the car to removal from same.

Liability.

The spaces hereunder will be provided on an unreserved "first-come, first-served" basis. Tenant acknowledges that Landlord has or may arrange for the Lot to be operated by an independent contractor, not affiliated with Landlord. In such event, Tenant acknowledges that Landlord will have no liability for claims arising through acts or omissions of such independent contractor. Landlord will have no liability whatsoever for any damage to property or any other items located in the Lot, nor for any personal injuries or death arising out of any use of the Lot, and in all events, Tenant agrees to look first to its insurance carrier and to require that Tenant's employees look first to their respective insurance carriers for payment of any losses sustained in connection with any use of the Lot. Tenant hereby waives on behalf of Tenants insurance carriers all rights of subrogation against Landlord or Landlord's agents. Landlord reserves the right to assign specific spaces, and to reserve spaces for visitors, small cars, handicapped persons and for other tenants, guests of tenants or other parties, and Tenant and persons designated by Tenant hereunder will not park in any such assigned or reserved spaces. Landlord also reserves the right to close all or any portion of the Lot in order to make repairs or perform maintenance services, or to alter, modify, restripe or renovate the Lot, or if required by casualty, strike, condemnation, act of God, governmental law or requirement or other reason beyond Landlord's reasonable control. If, for any other reason, Tenant or persons properly designated by Tenant, are denied access to the Lot, and Tenant or such persons will have complied with this Exhibit D, Landlord's liability will be limited to parking charges (excluding tickets for parking violations) incurred by Tenant or such persons in utilizing alternative parking, which amount Landlord will pay upon presentation of documentation supporting Tenants claims in connection therewith.

Default. Remedies.

If Tenant defaults under this Exhibit D, Landlord will have the right to remove from the Lot any vehicles hereunder which are involved or are owned or driven by parties involved in causing such default, without liability therefor whatsoever. In addition, if Tenant defaults under this Exhibit D, Landlord will have the right to cancel Tenant's parking spaces (including Reserved Spaces) on ten (10) days' written notice. If Tenant defaults with respect to the same term or condition under this Exhibit D, more than three (3) times during any twelve (12) month period, the next default of such term or condition, will, at Landlord's election, constitute an incurable default of the parking arrangements. Such cancellation right will be cumulative and in addition to any other rights or remedies available to Landlord at law or equity, or provided under this Lease.

EXHIBIT E

WORK LETTER

TENANT HEREBY ACCEPTS THE PREMISES IN THEIR AS IS, WHERE IS CONDITION, WITH NO OBLIGATION OF LANDLORD TO RENOVATE OR IMPROVE THE PREMISES IN ANY WAY, NOR IS LANDLORD OBLIGATED TO PAY FOR ANY SUCH RENOVATION OR REMODELING. TENANT ACKNOWLEDGES AND AGREES THAT THE PREMISES IS BEING LEASED TO TENANT "AS IS", "WHERE IS", AND "WITH ALL FAULTS", WITH TENANT ACCEPTING ALL FAULTS AND DEFECTS, IF ANY, THEREIN; AND LANDLORD MAKES NO REPRESENTATION OR WARRANTY OF ANY KIND, EXPRESS OR IMPLIED, WITH RESPECT TO THE PREMISES, INCLUDING, WITHOUT LIMITATION, LANDLORD MAKES NO, AND EXPRESSLY DISCLAIMS ANY, WARRANTY AS TO HABITABILITY, FITNESS OR SUITABILITY OF THE PREMISES FOR A PARTICULAR PURPOSE, PROFITABILITY OR OTHER TENANTS IN THE BUILDING, NOR AS TO THE ABSENCE OF ANY TOXIC OR HAZARDOUS SUBSTANCES. TENANT FURTHER ACKNOWLEDGES AND AGREES THAT TENANT HAS BEEN GIVEN THE OPPORTUNITY TO INSPECT THE PREMISES PRIOR TO EXECUTION OF THIS LEASE.

Tenant Improvement Allowance:

Landlord shall provide Tenant with the above-mentioned Tenant Improvement Allowance (in the amount of \$300,000.00) to be applied towards all hard and soft costs associated with work in the Premises. Tenant shall provide drawings to Landlord prior to commencement of work for Landlord's review, which shall not be unreasonably withheld.

Tenant's contractors shall perform the work, and Landlord shall reimburse Tenant within twenty (20) days upon receipt of invoices.

Tenant's access to such allowance shall expire on December 31, 2017.

Restoration:

Upon the expiration of the Term, Tenant shall restore the kitchen and non-office standard portions to standard whitebox condition, unless otherwise noted by Landlord. Such work shall be completed within 60 days of the expiration of the Term.

Server Room:

Tenant shall have 24/7 access to the existing 2nd floor server room.

FIRST AMENDMENT TO LEASE AND EXPANSION

This **FIRST AMENDMENT TO LEASE AND EXPANSION** (this "Amendment") is made this 7/25/2017 day of July, 2017 but effective as of July 1, 2017 (the "Effective Date"), by and between **A&H PROPERTIES PARTNERSHIP**, a Texas partnership ("Landlord") and **RAVE RESTAURANT GROUP, INC.**, a Texas corporation ("Tenant"), with reference to the following facts and objectives:

RECITALS

WHEREAS, Landlord and Tenant entered into that certain Lease Agreement, dated January 1, 2017 (as amended, the "Lease"), in which Landlord leased to Tenant, those certain premises located at 3551 Plano Parkway, Suite 100, The Colony, Texas 75056, consisting of approximately eighteen thousand seven hundred seventy six (18,776) square feet as more particularly described in the Lease (the "Premises").

WHEREAS, Landlord and Tenant desire to amend the Lease to expand the original premises by adding an additional 800 square feet of warehouse space located at 3553 Plano Parkway, The Colony, Texas 75056 (the "Expansion Space"), as depicted on **Exhibit "A"** attached hereto and incorporated herein for all purposes.

NOW, THEREFORE, for good and valuable consideration the receipt and adequacy of which is hereby acknowledged, Landlord and Tenant hereby agree as follows:

1. Expansion of Premises; Term of Expansion Space:

Landlord and Tenant hereby agree to expand the Premises by adding the Expansion Space to the Premises on July 1, 2017 (the "Expansion Commencement Date"). It is the intention of Landlord and Tenant that the term of the Expansion Space shall be co-terminus with the Term of the Premises.

2. **Minimum Guaranteed Rental:**

Commencing on the Expansion Commencement Date, in addition to the Monthly Base Rent paid under the Lease, Tenant shall pay the amounts below for the Expansion Space:

Sq. Ft.	800		
Term (Months)	Annual Base Rental Rate/RSF	Annual Base Rental	Monthly Base Rent
7/1/17-12/31/17	\$17.50 NNN	\$7,000.00	\$1,166.67
1/1/18-12/31/18	\$17.50 NNN	\$14,000.00	\$1,166.67
1/1/19-12/31/19	\$18.00 NNN	\$14,400.00	\$1,200.00
1/1/20-12/31/20	\$18.00 NNN	\$14,400.00	\$1,200.00
1/1/21-12/31/21	\$18.50 NNN	\$14,800.00	\$1,233.33
1/1/22-12/31/22	\$18.50 NNN	\$14,800.00	\$1,233.33
1/1/23-12/31/23	\$19.00 NNN	\$15,200.00	\$1,266.67
1/1/24-12/31/24	\$19.00 NNN	\$15,200.00	\$1,266.67
1/1/25-12/31/25	\$19.50 NNN	\$15,600.00	\$1,300.00
1/1/26-12/31/26	\$19.50 NNN	\$15,600.00	\$1,300.00
Total		\$141,000.00	

3. **Additional Rent:**

In lieu of operating expenses and electricity costs on the Expansion Space, Tenant shall pay one-half (1/2) of the natural gas consumption on the building in which the Expansion Space is located.

4. **Condition of the Expansion Space:**

Landlord shall deliver, and Tenant shall accept the Expansion Space in current "as is, where is" condition, with no obligation of Landlord to construct or pay for any improvements to the Expansion Space.

5. Integration into Lease:

Upon execution, this Amendment will be integrated into and made a part of the Lease. Except as otherwise provided herein, all other terms and conditions of the Lease, as hereby amended, are ratified and shall remain unchanged and in full force and effect. In the event of any conflict between this Amendment and the Lease, the terms and conditions of this Amendment shall prevail. Capitalized terms used but not defined in this Amendment shall have the meanings given them in the Lease.

[Signature Page to Follow]

IN WITNESS WHEREOF, this Amendment has been duly executed by the parties hereto as of the dates noted below.

Landlord:

A&H PROPERTIES PARTNERSHIP,

a Texas partnership

By: /s/ Ali Khoshgowari

Ali Khoshgowari

General Partner

Tenant:

RAVE RESTAURANT GROUP, INC.,

a Texas corporation

By: /s/ Scott Crane

Name: Scott Crane

Title: CEO

Exhibit "A"

Expansion Space

Exhibit 21.1

SUBSIDIARIES OF RAVE RESTAURANT GROUP, INC.

Name of Subsidiary	Jurisdiction of Organization
Pizza Inn, Inc.* (d/b/a Pizza Inn)	Missouri
Pie Five Pizza Company, Inc.* (d/b/a Pie Five Pizza Company or Pie Five)	Texas
Pie Five Restaurants, Inc.*	Texas
PIBC Holding, Inc.*	Texas
Pizza Inn Beverage Corp.*	Texas
Pie Five Beverage Corp.*	Texas

* Does business under its corporate name as well as any referenced assumed name.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Rave Restaurant Group, Inc.
The Colony, Texas

We hereby consent to the incorporation by reference in the Registration Statements on Forms S-8 (Nos. 033-71700, 333-77617, 333-76296, 333-177436 and 333-207428) and Forms S-3 (Nos. 333-219483 and 333-221169) of Rave Restaurant Group, Inc. of our report dated September 30, 2019, relating to the consolidated financial statements, which appears in this Form 10-K.

Baker Tilly Virchow Krause, LLP
Plano, TX

September 30, 2019

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
Pursuant to section 3.02 of the Sarbanes-Oxley Act of 2002**

I, Robert W. Bafundo, certify that:

1. I have reviewed this Annual Report on Form 10-K of Rave Restaurant Group, Inc. (“the Registrant”);
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 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 financial 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 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.

Date: September 30, 2019

By: /s/ Robert W. Bafundo
Robert W. Bafundo
President
(Principal Executive Officer)

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
Pursuant to Section 3.02 of the Sarbanes-Oxley Act of 2002

I, Mark E. Schwarz, certify that:

1. I have reviewed this Annual Report on Form 10-K of Rave Restaurant Group, Inc. (“the Registrant”);
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 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 financial 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 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.

Date: September 30, 2019

By: /s/ Mark E. Schwarz
Mark E. Schwarz
Director and Chairman of the Board
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

The undersigned officer of Rave Restaurant Group, Inc. (the "Company"), does hereby certify, to such officer's knowledge, that the accompanying Annual Report on Form 10-K for the fiscal year ended June 30, 2019, and filed with the Securities and Exchange Commission on the date hereof (the "Form 10-K") 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-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 30, 2019

By: /s/ Robert W. Bafundo
President
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

The undersigned officer of Rave Restaurant Group, Inc. (the "Company"), does hereby certify, to such officer's knowledge, that the accompanying Annual Report on Form 10-K for the fiscal year ended June 30, 2019, and filed with the Securities and Exchange Commission on the date hereof (the "Form 10-K") 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-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 30, 2019

By: /s/ Mark E. Schwarz
Mark E. Schwarz
Director and Chairman of the Board
(Principal Financial Officer)
