

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

(Mark One)

- Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 29, 2020
- Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 0-12919

RAVE RESTAURANT GROUP, INC.

(Exact name of registrant as specified in its charter)

Missouri
(State or other jurisdiction of Incorporation or organization)

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

3551 Plano Parkway
The Colony, Texas 75056
(Address of principal executive offices)

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

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

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 and post 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 June 29, 2020, 15,463,022 shares of the issuer's common stock were outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>March 29, 2020</u>	<u>March 24, 2019</u>	<u>March 29, 2020</u>	<u>March 24, 2019</u>
REVENUES:	\$ 2,705	\$ 3,070	\$ 8,411	\$ 9,256
COSTS AND EXPENSES:				
Cost of sales	104	382	353	715
General and administrative expenses	1,655	1,569	4,583	4,623
Franchise expenses	860	888	2,564	2,841
Loss (gain) on sale of assets	18	104	7	(250)
Impairment of long-lived assets and other lease charges	495	219	836	389
Bad debt	11	16	39	211
Interest expense	24	26	75	77
Depreciation and amortization expense	45	120	141	385
Total costs and expenses	<u>3,212</u>	<u>3,324</u>	<u>8,598</u>	<u>8,991</u>
INCOME (LOSS) BEFORE TAXES	(507)	(254)	(187)	265
Income tax expense	4,008	9	4,077	188
NET INCOME (LOSS)	<u>(4,515)</u>	<u>(263)</u>	<u>(4,264)</u>	<u>77</u>
INCOME (LOSS) PER SHARE OF COMMON STOCK - BASIC:	<u>\$ (0.30)</u>	<u>\$ (0.02)</u>	<u>\$ (0.28)</u>	<u>\$ 0.01</u>
INCOME (LOSS) PER SHARE OF COMMON STOCK - DILUTED:	<u>\$ (0.30)</u>	<u>\$ (0.02)</u>	<u>\$ (0.28)</u>	<u>\$ 0.01</u>
Weighted average common shares outstanding - basic	<u>15,133</u>	<u>15,071</u>	<u>15,123</u>	<u>15,069</u>
Weighted average common and potential dilutive common shares outstanding	<u>15,133</u>	<u>15,071</u>	<u>15,123</u>	<u>15,902</u>

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	<u>March 29,</u> <u>2020</u>	<u>June 30,</u> <u>2019</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,535	\$ 2,264
Accounts receivable, less allowance for bad debts of \$254 and \$209, respectively	1,214	1,191
Notes receivable, less allowance for bad debt of \$916 and \$916, respectively	802	389
Inventories	-	7
Income tax receivable	4	4
Property held for sale	-	231
Deferred contract charges	44	38
Prepaid expenses and other	413	346
Total current assets	<u>4,012</u>	<u>4,470</u>
LONG-TERM ASSETS		
Property, plant and equipment, net	399	500
Operating lease right of use asset, net	3,712	-
Intangible assets definite-lived, net	164	196
Long-term notes receivable	200	735
Deferred tax asset, net	-	4,060
Long-term deferred contract charges	241	232
Deposits and other	240	233
Total assets	<u>\$ 8,968</u>	<u>\$ 10,426</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable - trade	\$ 299	\$ 400
Accounts payable - lease termination impairments	376	832
Accrued expenses	1,154	834
Deferred rent	-	37
Operating lease liability, current	620	-
Deferred revenues	154	275
Total current liabilities	<u>2,603</u>	<u>2,378</u>
LONG-TERM LIABILITIES		
Convertible notes	1,542	1,584
Deferred rent, net of current portion	-	397
Operating lease liability, net of current portion	3,635	-
Deferred revenues, net of current portion	996	1,561
Other long-term liabilities	51	72
Total liabilities	<u>8,827</u>	<u>5,992</u>
COMMITMENTS AND CONTINGENCIES (SEE NOTE 5)		
SHAREHOLDERS' EQUITY		
Common stock, \$.01 par value; authorized 26,000,000 shares; issued 22,231,014 and 22,208,141 shares, respectively; outstanding 15,145,860 and 15,090,837 shares, respectively	222	222
Additional paid-in capital	33,203	33,327
Accumulated deficit	(8,747)	(4,483)
Treasury stock at cost		
Shares in treasury: 7,085,154 and 7,117,304, respectively	(24,537)	(24,632)
Total shareholders' equity	<u>141</u>	<u>4,434</u>
Total liabilities and shareholders' equity	<u>\$ 8,968</u>	<u>\$ 10,426</u>

See accompanying Notes to Unaudited Condensed Consolidated Financial Statement.

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

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Treasury Stock</u>		<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			<u>Shares</u>	<u>Amount</u>	
Balance, June 24, 2018	22,167	\$ 222	\$ 33,206	\$ (2,493)	(7,119)	\$ (24,636)	\$ 6,299
ASC 606 cumulative adjustment				(1,622)			(1,622)
Stock compensation expense	-	-	101	-	-	-	101
Issuance of common stock	24	-	36	-	-	-	36
Net income	-	-	-	108	-	-	108
Balance, September 23, 2018	22,191	\$ 222	\$ 33,343	\$ (4,007)	(7,119)	\$ (24,636)	\$ 4,922
Stock compensation expense	-	-	180	-	-	-	180
Equity issue cost - ATM Offering	-	-	(3)	-	-	-	(3)
Net Income	-	-	-	232	-	-	232
Balance, December 23, 2018	22,191	222	\$ 33,520	\$ (3,775)	(7,119)	\$ (24,636)	\$ 5,331
Stock compensation expense	-	-	129	-	-	-	129
Equity issue cost - ATM Offering	-	-	(1)	-	-	-	(1)
Net Income	-	-	-	(263)	-	-	(263)
Balance, March 24, 2019	22,191	222	\$ 33,648	\$ (4,038)	(7,119)	\$ (24,636)	\$ 5,196

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Treasury Stock</u>		<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			<u>Shares</u>	<u>Amount</u>	
Balance, June 30, 2019	22,208	\$ 222	\$ 33,327	\$ (4,483)	(7,117)	\$ (24,632)	\$ 4,434
Conversion of senior notes, net	-	-	(31)	-	32	95	64
Equity issue costs - ATM Offering	-	-	(2)	-	-	-	(2)
Net Income	-	-	-	237	-	-	237
Balance, September 29, 2019	22,208	\$ 222	\$ 33,294	\$ (4,246)	(7,085)	\$ (24,537)	\$ 4,733
Stock compensation expense	-	-	(85)	-	-	-	(85)
Issuance of common stock	9	-	-	-	-	-	-
Equity issue costs - ATM Offering	-	-	1	-	-	-	1
Net Income	-	-	-	14	-	-	14
Balance, December 29, 2019	22,217	\$ 222	\$ 33,210	\$ (4,232)	(7,085)	\$ (24,537)	\$ 4,663
Stock compensation expense	-	-	(19)	-	-	-	(19)
Issuance of common stock	14	-	14	-	-	-	14
Equity issue costs - ATM Offering	-	-	(2)	-	-	-	(2)
Net Income	-	-	-	(4,515)	-	-	(4,515)
Balance, March 29, 2020	22,231	\$ 222	\$ 33,203	\$ (8,747)	(7,085)	\$ (24,537)	\$ 141

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Nine Months Ended	
	March 29, 2020	March 24, 2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (4,264)	\$ 77
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Impairment of fixed assets and other assets	836	389
Stock compensation expense	(104)	410
Depreciation and amortization	109	353
Amortization of operating lease asset	(396)	-
Amortization of intangible assets definite-lived	32	32
Amortization of debt issue costs	22	19
Gain on the sale of assets	7	(250)
Provision for bad debt	39	25
Provision for bad debt (notes receivable)	-	186
Deferred income tax	4,060	151
Changes in operating assets and liabilities:		
Accounts receivable	(62)	202
Operating notes receivable	14	-
Inventories	7	(10)
Prepaid expenses, deposits and other, net	(74)	(201)
Deferred revenue	(661)	(758)
Accounts payable - trade	(101)	(19)
Accounts payable - lease termination impairments	(972)	(64)
Operating lease liability	380	-
Accrued expenses, deferred rent and other	325	(121)
Cash (used in) provided by operating activities	(803)	421
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments received on notes receivable from fixed asset sales	117	-
Proceeds from sale of assets	-	169
Purchase of property, plant and equipment	(53)	(76)
Cash provided by investing activities	64	93
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of stock	14	36
Equity issuance costs	(4)	(4)
Cash provided by financing activities	10	32
Net (decrease)/increase in cash and cash equivalents	(729)	546
Cash and cash equivalents, beginning of period	2,264	1,386
Cash and cash equivalents, end of period	\$ 1,535	\$ 1,932

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

CASH PAID FOR:

Interest	\$ 66	\$ 71
Income taxes	\$ 18	\$ 145
Non-cash activities:		
Conversion of notes to common shares	\$ 64	\$ -

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

RAVE RESTAURANT GROUP, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying condensed consolidated financial statements of Rave Restaurant Group, Inc. (the "Company") have been prepared without audit pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in the financial statements have been omitted pursuant to such rules and regulations. The unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2019.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to fairly present the Company's financial position and results of operations for the interim periods reflected. Except as noted, all adjustments are of a normal recurring nature. Results of operations for the fiscal periods presented are not necessarily indicative of fiscal year-end results.

(1) **Summary of Significant Accounting Policies**

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All appropriate intercompany 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.

Fiscal Quarters

The three and nine month periods ended March 29, 2020 and March 24, 2019 each contained 13 weeks and 39 weeks, respectively.

Use of Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") 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, and actual results could differ materially from estimates.

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.

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 Condensed 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.

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 revised 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 Condensed 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.

Rental Income

The Company also subleases some of its restaurant space to third parties. The Company's two subleases have terms that end in 2023 and 2025. The sublease agreements are noncancelable through the end of the term and both parties have substantive rights to terminate the lease when the term is complete. Sublease agreements are not capitalized and are recorded as rental income in the period that rent is received.

Total revenues consist of the following (in thousands):

	Three Months Ended	
	March 29, 2020	March 24, 2019
Restaurant sales	\$ 36	\$ 315
Franchise royalties	948	1,126
Supplier and distributor incentive revenues	1,085	1,070
Franchise license fees	175	316
Area development fees and foreign master license fees	4	7
Advertising funds	391	148
Supplier convention funds	-	79
Rental income	54	-
Other	12	9
	<u>\$ 2,705</u>	<u>\$ 3,070</u>

	Nine Months Ended	
	March 29, 2020	March 24, 2019
Restaurant sales	\$ 240	\$ 534
Franchise royalties	3,084	3,610
Supplier and distributor incentive revenues	3,141	3,302
Franchise license fees	796	928
Area development fees and foreign master license fees	16	35
Advertising funds	675	514
Supplier convention funds	278	295
Rental income	144	-
Other	37	38
	<u>\$ 8,411</u>	<u>\$ 9,256</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.

Compensation cost for restricted stock units (“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.

(2) **Adoption of ASU 2014-09, “Revenue from Contracts with Customers”**

The Company adopted ASU 2014-09 and Topic 606 using the modified retrospective transition method effective June 25, 2018. A cumulative effect 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.

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.

Cumulative adjustment from adoption

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 was 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.

(3) **Adoption of ASC 842, “Leases”**

In February 2016, FASB issued Accounting Standards Codification 842, Leases (“ASC 842”) which requires an entity to recognize a right of use asset and lease liability for all leases. Classification of leases as either a finance or operating lease determines the recognition, measurement and presentation of expenses.

The new standard was effective for the Company in the first quarter of fiscal 2020 and was adopted using a modified retrospective approach with the date of initial application on July 1, 2019. Consequently, upon transition, the Company recognized an operating lease right of use asset and an operating lease liability.

The Company applied the following practical expedients as provided in the standards update which provide elections to:

- not apply the recognition requirements to short-term leases (a lease that at commencement date has a lease term of 12 months or less and does not contain a purchase option);
- not reassess whether a contract contains a lease, lease classification and initial direct costs; and
- not reassess certain land easements in existence prior to July 1, 2019.

Through the implementation process, the Company evaluated each of its lease arrangements and enhanced its systems to track and calculate additional information required upon adoption of this standards update. The adoption had an impact to the Condensed Consolidated Balance Sheet as of July 1, 2019 relating to the recognition of operating lease right of use assets and operating lease liabilities which represented approximately a 30% change to total assets and a 64% change to total liabilities. The impact of adoption of this new standards update is as follows (in thousands):

	July 1, 2019		
	<u>Adoption</u>	<u>Reclassification (1)</u>	<u>Total Adjustment</u>
Balance Sheet:			
Operating lease right of use assets	\$ 3,428	\$ 434	\$ 3,862
Operating lease liabilities - current	528		528
Operating lease liabilities - long-term	3,347		3,347

(1) As of June 30, 2019, the Company had \$132 thousand recorded within deferred rent for lease incentives incurred at the inception of the affected leases and \$302 thousand in deferred rent tenant improvements. Upon adoption of the new standards update, these lease incentives were included within the lease liability.

Adoption of the new standard did not materially impact the Condensed Consolidated Statements of Operations, Cash Flows or Shareholders' Equity.

Leases

The Company determines if an arrangement is a lease at inception of the arrangement. To the extent that it can be determined that an arrangement represents a lease, it is classified as either an operating lease or a finance lease. The Company does not currently have any finance leases. The Company capitalizes operating leases on the Condensed Consolidated Balance Sheets through a right of use asset and a corresponding lease liability. Right of use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Short-term leases that have an initial term of one year or less are not capitalized but are disclosed below. Short-term lease costs exclude expenses related to leases with a lease term of one month or less.

Operating lease right of use assets and liabilities are recognized at the commencement date of an arrangement based on the present value of lease payments over the lease term. In addition to the present value of lease payments, the operating lease right of use asset also includes any lease payments made to the lessor prior to lease commencement less any lease incentives and initial direct costs incurred. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term.

Nature of Leases

The Company leases certain office space, restaurant space, and information technology equipment under non-cancelable leases to support its operations. A more detailed description of significant lease types is included below.

Office Agreements

The Company rents office space from third parties for its corporate location. Office agreements are typically structured with non-cancelable terms of one to 10 years. The Company has concluded that its office agreements represent operating leases with a lease term that equals the primary non-cancelable contract term. Upon completion of the primary term, both parties have substantive rights to terminate the lease. As a result, enforceable rights and obligations do not exist under the rental agreements subsequent to the primary term.

Restaurant Space Agreements

The Company rents restaurant space from third parties for its Company-owned restaurants. Restaurant space agreements are typically structured with non-cancelable terms of one to 10 years. The Company has concluded that its restaurant agreements represent operating leases with a lease term that equals the primary non-cancelable contract term. Upon completion of the primary term, both parties have substantive rights to terminate the lease. As a result, enforceable rights and obligations do not exist under the rental agreements subsequent to the primary term.

The Company also subleases some of its restaurant space to third parties. The Company's two subleases have terms that end in 2023 and 2025. The sublease agreements are noncancelable through the end of the term and both parties have substantive rights to terminate the lease when the term is complete. Sublease agreements are not capitalized and are recorded as rental income in the period that rent is received.

Information Technology Equipment

The Company rents information technology equipment, primarily printers and copiers, from a third party for its corporate office location. Information technology equipment agreements are typically structured with non-cancelable terms of one to five years. The Company has concluded that its information technology equipment commitments are operating leases.

Discount Rate

Leases typically do not provide an implicit rate. Accordingly, the Company is required to use incremental borrowing rate in determining the present value of lease payments based on the information available at commencement date. The Company's incremental borrowing rate reflects the estimated rate of interest that it would pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. The Company uses the implicit rate in the limited circumstances in which that rate is readily determinable.

Lease Guarantees

The Company has guaranteed the financial responsibilities of certain franchised store leases. These guaranteed leases are not considered operating leases because the Company does not have the right to control the underlying asset. If the franchisee abandons the lease and fails to meet the lease's financial obligations, the lessor may assign the lease to the Company for the remainder of the term. If the Company does not expect to assign the abandoned lease to a new franchisee within 12 months, the lease will be considered an operating lease and a right-of-use asset and liability will be recognized.

Practical Expedients and Accounting Policy Elections

Certain lease agreements include lease and non-lease components. For all existing asset classes with multiple component types, the Company has utilized the practical expedient that exempts it from separating lease components from non-lease components. Accordingly, the Company accounts for the lease and non-lease components in an arrangement as a single lease component.

In addition, for all existing asset classes, the Company has made an accounting policy election not to apply the lease recognition requirements to short-term leases (that is, a lease that, at commencement, has a lease term of 12 months or less and does not include an option to purchase the underlying asset that the Company is reasonably certain to exercise). Accordingly, we recognize lease payments related to our short-term leases in our statement of operations on a straight-line basis over the lease term which has not changed from our prior recognition. To the extent that there are variable lease payments, we recognize those payments in our statement of operations in the period in which the obligation for those payments is incurred.

The components of total lease expense for the nine months ended March 29, 2020, the majority of which is included in general and administrative expense, are as follows (in thousands):

	<u>Nine Months Ended</u> <u>March 29,</u> <u>2020</u>
Operating lease cost	\$ 474
Sublease income	(143)
Total lease expense, net of sublease income	<u>\$ 331</u>

Supplemental cash flow information related to operating leases is included in the table below (in thousands):

	<u>Nine Months Ended</u> <u>March 29,</u> <u>2020</u>
Cash paid for amounts included in the measurement of lease liabilities	\$ 491

Supplemental balance sheet information related to operating leases is included in the table below (in thousands):

	<u>March 29,</u> <u>2020</u>
Operating lease right of use asset, net	\$ 3,712
Operating Lease liability - current	620
Operating lease liability - long-term	3,635

Weighted average remaining lease term and weighted average discount rate for operating leases are as follows:

	<u>March 29,</u> <u>2020</u>
Weighted average remaining lease term	5.5 Years
Weighted average discount rate	4.0%

Operating lease liabilities with enforceable contract terms that are greater than one year mature as follows (in thousands):

	Operating Leases	
Remainder of fiscal year 2020	\$	193
2021		785
2022		804
2023		813
2024		766
Thereafter		1,449
Total operating lease payments	\$	4,810
Less: imputed interest		(555)
Total operating lease liability	\$	4,255

(4) 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 of up to 1,016,000 shares of its 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 quarters ended March 29, 2020 or March 24, 2019.

(5) 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 the Company.

(6) Stock-Based CompensationStock Options:

For the fiscal quarters ended March 29, 2020 and March 24, 2019, the Company did not recognize any stock-based compensation expense related to stock options. As of March 29, 2020, there was no unamortized stock-based compensation expense related to stock options.

The following table summarizes the number of shares of the Company's common stock subject to outstanding stock options:

	Nine Months Ended	
	March 29, 2020	March 24, 2019
	Shares	Shares
Outstanding at beginning of year	216,550	478,056
Granted	-	-
Exercised	-	-
Forfeited/Canceled/Expired	-	(190,000)
Outstanding at end of period	<u>216,550</u>	<u>288,056</u>
Exercisable at end of period	<u>216,550</u>	<u>288,056</u>

Restricted Stock Units:

For the three and nine months ended March 29, 2020, the Company had stock-based compensation credit of \$19 thousand and \$104 thousand, respectively, related to RSU's. For the three and nine months ended March 24, 2019, the Company had stock-based compensation expense of \$0.1 million and \$0.4 million, respectively. As of March 29, 2020, unamortized stock-based compensation expense related to RSU's was \$9 thousand.

A summary of the status of restricted stock units as of March 29, 2020, and changes during the nine months then ended is presented below:

Number of Restricted Stock Units

Unvested at June 30, 2019	155,106
Granted	-
Vested	(9,053)
Forfeited	(146,053)
Unvested at March 29, 2020	-

(7) Earnings per Share (EPS)

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).

(In thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	
	March 29, 2020	March 24, 2019	March 29, 2020	March 24, 2019
Net income (loss) available to common stockholders	\$ (4,515)	\$ (263)	\$ (4,264)	\$ 77
Interest saved on convertible notes at 4%	\$ 16	\$ 16	\$ 48	\$ 47
Adjusted net income (loss)	\$ (4,499)	\$ (247)	\$ (4,216)	\$ 124
BASIC:				
Weighted average common shares	15,133	15,071	15,123	15,069
Net income per common share	\$ (0.30)	\$ (0.02)	\$ (0.28)	\$ 0.01
DILUTED:				
Weighted average common shares	15,133	15,071	15,123	15,069
Convertible notes	-	-	-	833
Dilutive stock options	-	-	-	-
Weighted average common shares outstanding	15,133	15,071	15,123	15,902
Net income per common share	\$ (0.30)	\$ (0.02)	\$ (0.28)	\$ 0.01

For the three and nine months ended March 29, 2020, options to purchase 216,550 shares of common stock at exercise prices from \$2.71 to \$13.11 were excluded from the computation of diluted EPS because their inclusion would have been anti-dilutive.

For the three and nine months ended March 24, 2019, options to purchase 288,056 shares of common stock at exercise prices ranging from \$1.55 to \$13.11 were excluded from the computation of diluted EPS because their inclusion would have been anti-dilutive.

(8) Income Taxes

For the nine months ended March 29, 2020, the Company recorded an income tax expense of \$4.1 million including federal deferred tax expense of \$4.1 million and state deferred tax expense of \$12 thousand and \$11 thousand in current state taxes.

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. In assessing the need for the valuation allowance, the Company considers both positive and negative evidence related to the likelihood of realization of deferred tax assets. Future sources of taxable income are also considered in determining the amount of the recorded valuation allowance. For the quarter ending March 29, 2020, it was determined that the valuation allowance on deferred tax assets should be increased by \$4.3 million resulting in a full valuation allowance.

As of March 29, 2020, the Company reflects \$6.7 million of deferred tax assets and a valuation allowance of \$6.7 million. The Company will continue to review the need for future adjustments to the valuation allowance.

(9) **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 non-recurring items.

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

The Company-Owned Restaurant 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.

Revenue for corporate administration and other consists of rental income and interest income. 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 table are net sales and operating revenues, depreciation and amortization expense, and income before taxes, for the Company's reportable segments as of the three months and nine months ended March 29, 2020 and March 24, 2019 (in thousands):

	Three Months Ended		Nine Months Ended	
	March 29, 2020	March 24, 2019	March 29, 2020	March 24, 2019
Net sales and operating revenues:				
Pizza Inn Franchising	\$ 1,942	\$ 1,645	\$ 5,454	\$ 5,338
Pie Five Franchising	665	1,102	2,539	3,348
Company-Owned Restaurants	36	314	240	533
Corporate administration and other	62	9	178	37
Consolidated revenues	<u>\$ 2,705</u>	<u>\$ 3,070</u>	<u>\$ 8,411</u>	<u>\$ 9,256</u>
Depreciation and amortization:				
Pizza Inn Franchising	\$ -	\$ -	\$ -	\$ -
Pie Five Franchising	-	-	-	-
Company-Owned Restaurants	-	31	-	93
Combined	<u>-</u>	<u>31</u>	<u>-</u>	<u>93</u>
Corporate administration and other	45	89	141	292
Depreciation and amortization	<u>\$ 45</u>	<u>\$ 120</u>	<u>\$ 141</u>	<u>\$ 385</u>
Income before taxes:				
Pizza Inn Franchising	\$ 1,568	\$ 1,308	\$ 4,303	\$ 4,081
Pie Five Franchising	179	551	1,126	1,764
Company-Owned Restaurants	(446)	(253)	(885)	(677)
Combined	<u>1,301</u>	<u>1,606</u>	<u>4,544</u>	<u>5,168</u>
Corporate administration and other	(1,808)	(1,860)	(4,731)	(4,903)
Income before taxes	<u>\$ (507)</u>	<u>\$ (254)</u>	<u>\$ (187)</u>	<u>\$ 265</u>
Geographic information (revenues):				
United States	\$ 2,652	\$ 2,986	\$ 8,255	\$ 9,042
Foreign countries	53	84	156	214
Consolidated total	<u>\$ 2,705</u>	<u>\$ 3,070</u>	<u>\$ 8,411</u>	<u>\$ 9,256</u>

(10) **Subsequent Events**

On April 13, 2020, the Company received the proceeds from a loan in the amount of \$656,830 (the "PPP Loan") from JPMorgan Chase Bank, N.A. (the "Lender") pursuant to the Paycheck Protection Program (the "PPP") of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") administered by the U.S. Small Business Administration ("SBA"). The PPP Loan matures on April 10, 2022 and bears interest at a rate of 0.98% per annum. Commencing November 10, 2020, the Company is required to pay the Lender equal monthly payments of principal and interest as necessary to fully amortize by April 10, 2022 the principal amount outstanding on the PPP Loan as of October 10, 2020. The Company may prepay the PPP Loan at any time prior to maturity with no prepayment penalties. The PPP Loan is evidenced by a promissory note dated April 10, 2020, which contains various certifications and agreements related to the PPP, as well customary default and other provisions.

The PPP Loan is unsecured by the Company and is guaranteed by the SBA. All or a portion of the PPP Loan may be forgiven by the SBA upon application by the Company accompanied by documentation of expenditures in accordance with SBA requirements under the PPP. In the event all or any portion of the PPP Loan is forgiven, the amount forgiven will be applied to outstanding principal.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the consolidated financial statements and accompanying notes appearing elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended June 30, 2019 and may contain certain forward-looking statements that are based on current management expectations. Generally, verbs in the future tense and the words “believe,” “expect,” “anticipate,” “estimate,” “intends,” “opinion,” “potential” and similar expressions identify forward-looking statements. Forward-looking statements in this report include, without limitation, statements relating to our business objectives, our customers and franchisees, our liquidity and capital resources, and the impact of our historical and potential business strategies on our business, financial condition, and operating results. Our actual results could differ materially from our expectations. Further information concerning our business, including additional factors that could cause actual results to differ materially from the forward-looking statements contained in this Quarterly Report on Form 10-Q, are set forth in our Annual Report on Form 10-K for the year ended June 30, 2019. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. The forward-looking statements contained herein speak only as of the date of this Quarterly Report on Form 10-Q and, except as may be required by applicable law, we do not undertake, and specifically disclaim any obligation to, publicly update or revise such statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

Results of Operations

Overview

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. At March 29, 2020, Company-owned, franchised and licensed units consisted of the following:

Three Months Ended March 29, 2020

(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	152	\$ 19,867	43	\$ 5,547	195	\$ 25,414
Company-Owned	-	-	-	36	-	36
Total Domestic Units	152	\$ 19,867	43	\$ 5,583	195	\$ 25,450
International Franchised	37		-		37	

Nine Months Ending March 29, 2020

(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	152	\$ 62,665	43	\$ 21,666	195	\$ 84,331
Company-Owned	-	-	-	240	-	240
Total Domestic Units	152	\$ 62,665	43	\$ 21,906	195	\$ 84,571
International Franchised	37		-		37	

Domestic units are located in 22 states predominantly situated in the southern half of the United States. International units are located in seven foreign countries.

Basic net loss increased \$0.28 per share to \$0.30 per share for the three months ended March 29, 2020, compared to basic net loss of \$0.02 per share in the comparable period in the prior fiscal year. The Company had net loss of \$4.5 million for the three months ended March 29, 2020 compared to net loss of \$0.3 million in the comparable period in the prior fiscal year, on revenues of \$2.7 million for the three months ended March 29, 2020 compared to \$3.1 million in the comparable period in the prior fiscal year. The decline in revenue was primarily due to decreases in restaurant sales, franchise royalties and franchise license fees partially offset by an increase in advertising funds. The increased net loss for the three months ended March 29, 2020, compared to the comparable period of the prior year was primarily the result of a \$4.1 million addition to the reserve against net deferred tax assets.

Basic net income declined \$0.29 per share for the nine months ended March 29, 2020, compared to the comparable period in the prior fiscal year. The Company had net loss of \$4.3 million for the nine months ended March 29, 2020 compared to net income of \$0.1 million in the comparable period in the prior fiscal year, on revenues of \$8.4 million for the nine months ended March 29, 2019 compared to \$9.3 million in the comparable period in the prior fiscal year. The decline in revenue was primarily due to decreases in restaurant sales, franchise royalties, supplier incentive revenues and franchise license fees partially offset by increases in advertising funds and rental income. The increased net loss for the nine months ended March 29, 2020, compared to the comparable period of the prior year was primarily the result of a \$4.1 million addition to the reserve against net deferred tax assets taken during the latest fiscal quarter.

COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the outbreak of novel coronavirus (COVID-19) as a pandemic, and the disease has spread rapidly throughout the United States and the world. Federal, state and local responses to the COVID-19 pandemic, as well as our internal efforts to protect customers, franchisees and employees, have severely disrupted our business operations. Most of the domestic Pizza Inn buffet restaurants and Pie Five restaurants are in areas that have been subject to “shelter-in-place” and social distancing restrictions prohibiting in-store sales and, therefore, have been limited to carry-out and/or delivery orders. In some areas, these restrictions have also limited non-essential movement outside the home, which has discouraged or precluded even carry-out orders. Further, the COVID-19 pandemic has precipitated significant job losses and a national economic downturn that typically impacts the demand for restaurant food service. Although most of our domestic restaurants have continued to operate under these conditions, two domestic franchised Buffet Units and 11 domestic franchised Pie Five Units have closed at least temporarily since restrictions were announced. The closure of one Company-owned Pie Five restaurant in January 2020 was unrelated to the COVID-19 outbreak but the quick closure of a Pie Five Unit recently acquired from a franchisee was accelerated by the pandemic.

Due to the timing of events, the COVID-19 pandemic had only a moderate impact on our operations during the three and nine months ended March 29, 2020. However, we expect a more significant adverse impact on our results of operations and liquidity during the fourth quarter of fiscal 2020 and continuing into fiscal 2021. Operational disruptions have resulted in dramatically reduced aggregate in-store retail sales at Buffet Units and Pie Five Units, modestly offset by increased aggregate carry-out and delivery sales. The decreased aggregate retail sales have correspondingly decreased supplier rebates and franchise royalties payable to the Company. Although we have furloughed certain employees, reduced base salary by 20% for all remaining employees and otherwise reduced expenses, future results of operations are likely to be materially adversely impacted.

As restrictions to in-store dining begin to be eased, we expect that Buffet Units and Pie Five Units will continue to be subject to capacity restrictions for some time as social distancing protocols remain in place. Additionally, an outbreak or perceived outbreak of COVID-19 connected to restaurant dining could cause negative publicity directed at any of our brands and cause customers to avoid our restaurants. We cannot predict how long the pandemic will last or whether it will reoccur, what additional restrictions may be enacted, to what extent off-premises dining will continue, or if individuals will be comfortable returning to our Buffet Units and Pie Five Units following social distancing protocols. Any of these changes could materially adversely affect the Company’s future financial performance. However, the ultimate impact of COVID-19 on our future results of operations and liquidity cannot presently be predicted.

Adjusted EBITDA

Adjusted EBITDA for the fiscal quarter ended March 29, 2020, decreased \$0.2 million compared to the same period of the prior fiscal year. Year-to-date Adjusted EBITDA decreased to \$0.4 million compared to \$0.7 million in the prior fiscal year. The following table sets forth a reconciliation of net income to Adjusted EBITDA for the periods shown (in thousands):

RAVE RESTAURANT GROUP, INC.
ADJUSTED EBITDA
(In thousands)

	Three Months Ended		Nine Months Ended	
	March 29, 2020	March 24, 2019	March 29, 2020	March 24, 2019
Net income	\$ (4,515)	\$ (263)	\$ (4,264)	\$ 77
Interest expense	24	26	75	77
Income taxes	4,008	9	4,077	188
Depreciation and amortization	45	120	141	385
EBITDA	<u>\$ (438)</u>	<u>\$ (108)</u>	<u>\$ 29</u>	<u>\$ 727</u>
Stock compensation expense (income)	(19)	129	(104)	410
Severance	38	-	157	-
Loss (gain) on sale/disposal of assets	18	104	7	(250)
Impairment of long-lived assets and other lease charges	495	219	836	389
Franchisee default and closed store revenue	(133)	(248)	(587)	(714)
Closed and non-operating store costs	45	70	50	151
Adjusted EBITDA	<u>\$ 6</u>	<u>\$ 166</u>	<u>\$ 388</u>	<u>\$ 713</u>

Pizza Inn Brand Summary

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

	Three Months Ended		Nine Months Ended	
	March 29, 2020	March 24, 2019	March 29, 2020	March 24, 2019
Pizza Inn Retail Sales - Total Domestic Units	(in thousands, except unit data)		(in thousands, except unit data)	
Domestic Units				
Buffet Units - Franchised	\$ 18,313	\$ 20,469	\$ 57,866	\$ 60,070
Delco/Express Units - Franchised	1,485	1,717	4,554	5,296
PIE Units - Licensed	69	56	245	136
Total Domestic Retail Sales	<u>\$ 19,867</u>	<u>\$ 22,242</u>	<u>\$ 62,665</u>	<u>\$ 65,502</u>
Pizza Inn Comparable Store Retail Sales - Total Domestic	18,994	20,603	60,182	60,893
Pizza Inn Average Units Open in Period				
Domestic Units				
Buffet Units - Franchised	83	89	83	88
Delco/Express Units - Franchised	56	59	57	60
PIE Units - Licensed	13	7	12	5
Total Domestic Units	<u>152</u>	<u>155</u>	<u>152</u>	<u>153</u>

Total Pizza Inn domestic retail sales decreased \$2.3 million, or 10.5%, for the three months ended March 29, 2020 when compared to the same period of the prior year. Pizza Inn domestic comparable store retail sales decreased by \$1.6 million, or 7.8%, for the three months ended March 29, 2020 when compared to the same period of the prior year.

Total Pizza Inn domestic retail sales decreased \$2.8 million, or 4.3%, for the nine months ended March 29, 2020 when compared to the same period of the prior year. Pizza Inn domestic comparable store retail sales decreased by \$0.7 million, or 1.2%, for the nine months ended March 29, 2020 when compared to the same period of the prior year.

The following chart summarizes Pizza Inn unit activity for the three and nine months ended March 29, 2020:

	Three Months Ended March 29, 2020				
	Beginning Units	Opened	Concept Change	Closed	Ending Units
Domestic Units					
Buffet Units - Franchised	82	1	-	-	83
Delco/Express Units - Franchised	59	1	-	4	56
PIE Units - Licensed	12	1	-	-	13
Total Domestic Units	<u>153</u>	<u>3</u>	<u>-</u>	<u>4</u>	<u>152</u>
International Units (all types)	<u>34</u>	<u>3</u>	<u>-</u>	<u>-</u>	<u>37</u>
Total Units	<u><u>187</u></u>	<u><u>6</u></u>	<u><u>-</u></u>	<u><u>4</u></u>	<u><u>189</u></u>
	Nine Months Ending March 29, 2020				
	Beginning Units	Opened	Concept Change	Closed	Ending Units
Domestic Units					
Buffet Units - Franchised	87	2	-	6	83
Delco/Express Units - Franchised	59	2	-	5	56
PIE Units - Licensed	9	4	-	-	13
Total Domestic Units	<u>155</u>	<u>8</u>	<u>-</u>	<u>11</u>	<u>152</u>
International Units (all types)	<u>48</u>	<u>4</u>	<u>-</u>	<u>15</u>	<u>37</u>
Total Units	<u><u>203</u></u>	<u><u>12</u></u>	<u><u>-</u></u>	<u><u>26</u></u>	<u><u>189</u></u>

There was a net decrease of one domestic Pizza Inn unit during the three months ended March 29, 2020. We believe that the domestic unit count will increase modestly in future periods. During the quarter, the number of international Pizza Inn units increased by a net three units. We also expect international units to increase modestly in future periods.

There was a net decrease of three units in the total domestic Pizza Inn unit count during the nine months ended March 29, 2020. The number of international Pizza Inn units decreased by eleven in the nine months ended March 29, 2020 due to closure of underperforming units in the Middle East during the first quarter of fiscal 2020.

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.

	Three Months Ended		Nine Months Ended	
	March 29, 2020	March 29, 2019	March 29, 2020	March 29, 2019
	(in thousands, except unit data)		(in thousands, except unit data)	
Pie Five Retail Sales - Total Units				
Domestic Units - Franchised	\$ 5,547	\$ 9,124	\$ 21,666	\$ 30,799
Domestic Units - Company-owned	36	314	240	533
Total Domestic Retail Sales	\$ 5,583	\$ 9,438	\$ 21,906	\$ 31,332
Pie Five Comparable Store Retail Sales - Total	\$ 4,726	\$ 6,014	\$ 19,342	\$ 22,589
Pie Five Average Units Open in Period				
Domestic Units - Franchised	43	62	49	67
Domestic Units - Company-owned	-	2	1	1
Total Domestic Units	43	64	50	68

Pie Five system-wide retail sales decreased \$3.8 million, or 40.8%, for the three months ended March 29, 2020 when compared to the same period of the prior year. Compared to the same fiscal quarter of the prior year, average units open in the period decreased from 64 to 43. Comparable store retail sales decreased by \$1.3 million, or 21.4%, during the third quarter of fiscal 2020 compared to the same period of the prior year.

Pie Five system-wide retail sales decreased \$9.4 million, or 30.1%, for the nine month period ended March 29, 2020 when compared to the same period of the prior year. Year-to-date fiscal 2020 compared to the year-to-date of the prior year, average units open in the period decreased from 68 to 50. Comparable store retail sales decreased by \$3.2 million, or 14.4%, during the nine month period ended March 29, 2020 compared to the same period of the prior fiscal year.

The following chart summarizes Pie Five Unit activity for the three and nine months ended March 29, 2020:

	Three Months Ended March 29, 2020				
	Beginning Units	Opened	Transfer	Closed	Ending Units
Domestic - Franchised	52	-	(1)	8	43
Domestic - Company-owned	1	-	1	2	-
Total Domestic Units	53	-	-	10	43
	Nine Months Ending March 29, 2020				
	Beginning Units	Opened	Transfer	Closed	Ending Units
Domestic - Franchised	57	3	(1)	16	43
Domestic - Company-owned	1	-	1	2	-
Total Domestic Units	58	3	-	18	43

The net decreases of Pie Five units during the three and nine months ended March 29, 2020 were primarily the result of the closure of poor-performing stores. We believe the net closure of Pie Five units will continue in the near term and eventually reverse in future periods.

Pie Five - Company-Owned Restaurants

(in thousands, except store weeks and average data)

	Three Months Ended		Nine Months Ended	
	March 29, 2020	March 24, 2019	March 29, 2020	March 24, 2019
Store weeks (excluding partial weeks)	4	25	30	51
Average weekly sales	9,034	12,560	8,108	10,451
Average number of units	1	2	1	1
Restaurant sales (excluding partial weeks)	36	314	240	533
Restaurant sales	36	314	240	533
Loss before taxes	(446)	(253)	(885)	(677)
Allocated marketing and advertising expenses	(2)	16	12	27
Depreciation/amortization expense	-	31	-	93
Impairment, other lease charges and non-operating store costs	332	178	679	428
Restaurant operating cash flow	(116)	(28)	(194)	(129)

Average weekly sales for Company-owned Pie Five Units decreased \$3,526, or 28.1%, to \$9,034 for the three months ended March 29, 2020 compared to \$12,560 for the same period of the prior fiscal year. Company-owned Pie Five restaurant operating cash flow decreased \$0.1 million during the third quarter of fiscal 2020 compared to the same period of prior year. Loss before taxes for Company-owned Pie Five stores increased \$0.2 million for the three months ended March 29, 2020 compared to the same period of the prior year. The increased loss was primarily the result of the closure of all remaining Company-owned stores during the period.

Average weekly sales for Company-owned Pie Five Units decreased \$2,343, or 22.4%, to \$8,108 for the nine months ended March 29, 2020 compared to \$10,451 for the same period of the prior fiscal year. Company-owned Pie Five restaurant operating cash flow decreased \$65 thousand during the nine month period ended March 29, 2020 compared to the same period of prior year. Loss before taxes for Company-owned Pie Five stores increased \$0.2 million for the nine months ended March 29, 2020 compared to the same period of the prior year. The increased loss was primarily the result of the closure of all remaining Company-owned stores during the period partially offset by reduced depreciation and other expenses.

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, severance, gain/loss on sale of assets, costs related to impairment and other lease charges, discontinued operations, franchisee default and closed store revenue/expense, 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.
- "System-wide retail sales" represents combined retail sales for franchisee and Company-owned restaurants for a specified brand.
- "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) operations management and extraordinary expenses, (4) impairment and other lease charges, and (5) 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.
- "Franchisee default and closed store revenue/expense" represents the net of accelerated revenues and costs attributable to defaulted area development agreements and closed franchised stores.

Financial Results

The Company defines its operating segments as Pizza Inn Franchising, Pie Five Franchising and Company-Owned Restaurants. The following is additional business segment information for the three and nine months ended March 29, 2020 and March 24, 2019 (in thousands):

Three Months Ended March 29, 2020

	Pizza Inn Franchising		Pie Five Franchising		Company-Owned Restaurants		Corporate		Total	
	Fiscal Quarter Ended		Fiscal Quarter Ended		Fiscal Quarter Ended		Fiscal Quarter Ended		Fiscal Quarter Ended	
	March 29, 2020	March 24, 2019	March 29, 2020	March 24, 2019	March 29, 2020	March 24, 2019	March 29, 2020	March 24, 2019	March 29, 2020	March 24, 2019
REVENUES:										
Franchise and license revenues	\$ 1,942	\$ 1,645	\$ 661	\$ 1,102	\$ -	\$ -	\$ -	\$ -	\$ 2,603	\$ 2,747
Restaurant sales	-	-	-	-	36	314	-	-	36	314
Rental income	-	-	-	-	-	-	54	-	54	-
Interest income and other	-	-	4	-	-	-	8	9	12	9
Total revenues	1,942	1,645	665	1,102	36	314	62	9	2,705	3,070
COSTS AND EXPENSES:										
Cost of sales	-	-	-	-	104	382	-	-	104	382
General and administrative expenses	-	-	-	-	46	47	1,609	1,522	1,655	1,569
Franchise expenses	374	337	486	551	-	-	-	-	860	888
Loss on sale of assets	-	-	-	-	-	-	18	104	18	104
Impairment of long-lived assets and other lease charges	-	-	-	-	332	107	163	112	495	219
Bad debt	-	-	-	-	-	-	11	16	11	16
Interest expense	-	-	-	-	-	-	24	26	24	26
Amortization and depreciation expense	-	-	-	-	-	31	45	89	45	120
Total costs and expenses	374	337	486	551	482	567	1,870	1,869	3,212	3,324
INCOME/(LOSS) BEFORE TAXES	\$ 1,568	\$ 1,308	\$ 179	\$ 551	\$ (446)	\$ (253)	\$ (1,808)	\$ (1,860)	\$ (507)	\$ (254)

Nine Months Ending March 29, 2020

	Pizza Inn Franchising		Pie Five Franchising		Company-Owned Stores		Corporate		Total	
	Fiscal Year-to-Date		Fiscal Year-to-Date		Fiscal Year-to-Date		Fiscal Year-to-Date		Fiscal Year-to-Date	
	March 29, 2020	March 24, 2019	March 29, 2020	March 24, 2019	March 29, 2020	March 24, 2019	March 29, 2020	March 24, 2019	March 29, 2020	March 24, 2019
REVENUES:										
Franchise and license revenues	\$ 5,454	\$ 5,338	\$ 2,536	\$ 3,348	\$ -	\$ -	\$ -	\$ -	\$ 7,990	\$ 8,686
Restaurant sales	-	-	-	-	240	533	-	-	240	533
Rental Income	-	-	-	-	-	-	144	-	144	-
Interest income and other	-	-	3	-	-	-	34	37	37	37
Total revenues	5,454	5,338	2,539	3,348	240	533	178	37	8,411	9,256
COSTS AND EXPENSES:										
Cost of sales	-	-	-	-	353	715	-	-	353	715
General and administrative expenses	-	-	-	-	99	125	4,484	4,498	4,583	4,623
Franchise expenses	1,151	1,257	1,413	1,584	-	-	-	-	2,564	2,841
Loss (gain) on sale of assets	-	-	-	-	-	-	7	(250)	7	(250)
Impairment of long-lived assets and other lease charges	-	-	-	-	673	277	163	112	836	389
Bad debt	-	-	-	-	-	-	39	211	39	211
Interest expense	-	-	-	-	-	-	75	77	75	77
Amortization and depreciation expense	-	-	-	-	-	93	141	292	141	385
Total costs and expenses	1,151	1,257	1,413	1,584	1,125	1,210	4,909	4,940	8,598	8,991
INCOME/(LOSS) BEFORE TAXES	\$ 4,303	\$ 4,081	\$ 1,126	\$ 1,764	\$ (885)	\$ (677)	\$ (4,731)	\$ (4,903)	\$ (187)	\$ 265

Revenues:

Revenues are derived from franchise royalties, franchise license fees, supplier and distributor incentives, advertising funds, area development exclusivity fees and foreign master license fees, supplier convention funds, and sales by Company-owned restaurants. 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 the three month period ended March 29, 2020 and for the same period in the prior fiscal year were \$2.7 million and \$3.1 million, respectively. The decrease in total revenues was driven by a reduction in Pie Five franchise and license revenues and lower sales from Company-owned restaurants partially offset by an increase in Pizza Inn franchise and license fees.

Total revenues for the nine month period ended March 29, 2020 and for the same period in the prior fiscal year were \$8.4 million and \$9.3 million, respectively. The decrease in total revenues was driven by a reduction in Pie Five franchise and license revenues and lower sales from Company-owned restaurants partially offset by an increase in Pizza Inn franchise and license fees.

Pizza Inn Franchise Revenues

Pizza Inn franchise and license revenues increased by \$0.3 million to \$1.9 million for the three month period ended March 29, 2020. Pizza Inn franchise and license revenues increased to \$5.5 million for the nine month period ended March 29, 2020 from \$5.3 million for the same period of the prior fiscal year.

Pie Five Franchise Revenues

Pie Five franchise and license revenues decreased by \$0.4 million to \$0.7 million for the three month period ended March 29, 2020. The decrease was primarily driven by decreases in supplier incentives, domestic royalties and brand advertising fund revenues due to fewer retail stores. Pie Five franchise and license revenues decreased to \$2.5 million for the nine month period ended March 29, 2020 compared to \$3.3 million for the same period in the prior fiscal year for the same reason.

Restaurant Sales

Restaurant sales, which consist of revenue generated by Company-owned restaurants, decreased \$0.3 million for the fiscal quarter ended March 29, 2020 compared to the fiscal quarter ended March 24, 2019. In the nine month period ended March 29, 2020, restaurant sales decreased to \$0.2 million from \$0.5 million in sales for the same period of the prior fiscal year. In both cases, the decrease was primarily due to closure of all remaining Company-owned stores during the third quarter of fiscal 2020.

Costs and Expenses:

Cost of Sales - Total

Total cost of sales, which primarily includes food and supply costs, labor, and general and administrative expenses directly related to Company-owned restaurant sales, decreased to \$0.1 million for the three month period ended March 29, 2020 from the \$0.4 million in the three month period ended March 24, 2019. For the nine month period ended March 29, 2020, total cost of sales decreased to \$0.4 million from the \$0.7 million in the same period of the prior fiscal year. The decreases in costs of sales in both three and nine month periods reflect the closure of Company-owned restaurants.

General and Administrative Expenses

Total general and administrative expenses increased \$0.1 million to \$1.7 million for the three month period ended March 29, 2020 compared to \$1.6 million for the same period of the prior fiscal year. Total general and administrative expenses remained mostly unchanged at \$4.6 million for the nine month period ended March 29, 2020 and March 24, 2019. For the three month period, the increase was primarily the result of increased corporate overhead.

Franchise Expenses

Franchise expenses include general and administrative expenses directly related to the continuing service of domestic and international franchises. Franchise expenses remained stable at \$0.9 million for the three month period ended March 29, 2020 and March 24, 2019. Total Franchise expenses decreased to \$2.6 million for the nine month period ended March 29, 2020 compared to \$2.8 million for the nine month period ended March 24, 2019 primarily due to a reduction in employees supporting Pizza Inn and Pie Five franchising.

Loss/Gain on Sale of Assets

Loss on sale of assets declined to \$18 thousand in the third quarter of fiscal 2020 compared to \$0.1 million during the same period of fiscal 2019 due to decreased disposal activity from previously closed Company-owned restaurants. Loss on sale of assets was nominal for the nine months ended March 29, 2020 for the same reason. A gain on sale of assets of \$0.3 for the nine months ended March 24, 2019 was primarily attributable to disposal of equipment from closed Company-owned restaurants which had previously been written down below the ultimate sale price.

Impairment of Long-lived Assets and Other Lease Charges

Impairment of long-lived assets and other lease charges was \$0.5 million for the three month period ended March 29, 2020 compared to \$0.2 million for the same period in the prior fiscal year. Impairment of long-lived assets and other lease charges was \$0.8 million for the nine month period ended March 29, 2020 compared to \$0.4 million for the same period of the prior fiscal year. For the three and nine month periods ended March 29, 2020, these charges related to lease termination expenses.

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 for the three and nine month period ended March 29, 2020, decreased \$5 thousand and \$172 thousand, respectively, as compared to the comparable periods in the prior fiscal year.

Interest Expense

Interest expense remained stable in the three and nine month period ended March 29, 2020 compared to the same fiscal periods of the prior year.

Depreciation and Amortization Expense

Depreciation and amortization expense decreased to \$45 thousand for the third quarter of fiscal 2020 compared to \$120 thousand for the same period of the prior year. Depreciation and amortization expense decreased to \$0.1 million for the nine months ended March 29, 2020, compared to \$0.4 million for the same period of the prior year. In both cases, the decrease was primarily the result of the closure of Company-owned Pie Five Units.

Provision for Income Tax

For the nine months ended March 29, 2020, the Company recorded an income tax expense of \$4.1 million including federal deferred tax expense of \$4.1 million and state deferred tax expense of \$12 thousand and \$11 thousand in current state taxes.

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. In assessing the need for the valuation allowance, the Company considers both positive and negative evidence related to the likelihood of realization of deferred tax assets. Future sources of taxable income are also considered in determining the amount of the recorded valuation allowance. For the quarter ending March 29, 2020, it was determined that the valuation allowance on deferred tax assets should be increased by \$4.3 million resulting in a full valuation allowance.

As of March 29, 2020, the Company reflects \$6.7 million of deferred tax assets and a valuation allowance of \$6.7 million. The Company will continue to review the need for future adjustments to the valuation allowance.

Liquidity and Capital Resources

During the nine month period ended March 29, 2020, our primary source of liquidity was cash flows from operating activities.

Cash flows from operating activities generally reflect net income or losses adjusted for certain non-cash items including depreciation and amortization, changes in deferred tax assets, share based compensation, and changes in working capital. Cash used by operating activities was \$0.8 million for the nine month period ended March 29, 2020 compared to cash provided of \$0.4 million for the nine month period ended March 24, 2019. The primary driver of decreased cash flows during the nine month period ended March 29, 2020 was lease termination payments of \$1.0 million related to closed Company-owned Pie Five stores.

Cash flows from investing activities reflect net proceeds from the sale of assets and capital expenditures for the purchase of Company assets. Cash provided by investing activities of \$64 thousand during the nine month period ended March 29, 2020 was primarily attributable to \$117 thousand in payments received on notes receivable partially offset by capital expenditures of \$53 thousand. Cash provided by investing activities during the nine month period ended March 24, 2019 of \$93 thousand was primarily attributed \$169 thousand from the sale of assets offset by capital expenditures of \$76 thousand.

Cash flows from financing activities generally reflect changes in the Company's stock and debt activity during the period. Net cash flow provided by financing activities was \$10 thousand for the nine month period ended March 29, 2020 compared to \$32 thousand for the nine month period ended March 24, 2019. Cash flows from financing activities for the nine months ended March 29, 2020 and March 24, 2019 were both primarily due to at-the-market sales of common stock.

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 March 29, 2020, the Company had sold an aggregate of 205,298 shares in the 2017 ATM Offering, realizing aggregate gross proceeds of \$0.3 million.

Although we have furloughed certain employees, reduced base salary by 20% for all remaining employees and otherwise reduced expenses, we expect significantly reduced cash flow from operations during the fourth quarter of fiscal 2020 and continuing into fiscal 2021 as a result of the COVID-19 pandemic. However, management believes the cash on hand combined with cash from operations, net proceeds from government loan programs and proceeds from sales of common stock through the 2017 ATM Offering will be sufficient to fund operations for the next 12 months.

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.

During the nine month period ended March 29, 2020, \$64 thousand in par value of the Notes were converted to common shares. As of March 29, 2020, \$1.6 million in par value of the Notes were outstanding, offset by \$0.1 million of unamortized debt issue costs and unamortized debt discounts.

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 incentives. 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 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.

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.

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 March 29, 2020 and March 24, 2019, 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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not required for a smaller reporting company.

Item 4. Controls and Procedures

The Company maintains disclosure controls and procedures designed to ensure that information it is required to disclose in the reports filed or submitted under the Securities Exchange Act of 1934 (the “Exchange Act”) is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms. The Company’s disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports filed or submitted under the Exchange Act is accumulated and communicated to the Company’s management, including its principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

The Company’s management, including the Company’s principal executive officer and principal financial officer, or persons performing similar functions, have evaluated the Company’s disclosure controls and procedures as of the end of the period covered by this report. Based on such evaluation, the Company’s principal executive officer and principal financial officer, or persons performing similar functions, have concluded that the Company’s disclosure controls and procedures were effective as of the end of the period covered by this report. During the most recent fiscal quarter, there have been no changes in the Company’s internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On January 6, 2020, the Company's former Chief Executive Officer, Scott Crane, filed suit in the United States District Court for the Eastern District of Texas alleging various claims in connection with the Company's termination of his employment. In general, the suit asserts that the Company terminated Mr. Crane for the purpose of depriving him of certain equity compensation that would otherwise have become due to him. The suit primarily seeks the issuance to Mr. Crane of 928,000 shares of the Company's common stock and \$300,000 of severance, as well as unspecified attorney's fees and court costs. In the alternative, the suit seeks \$2.4 million in actual damages plus unspecified exemplary damages, interest, attorney's fees and court costs. A motion to dismiss was filed on Rave's behalf and a ruling on the motion is pending. The case is in the discovery phase and trial is set for April 5, 2021. The Company believes that all of the claims are without merit and intends to vigorously defend the lawsuit.

The Company is subject to other 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 1A. Risk Factors

Not required for a smaller reporting company.

Item 2. Unregistered Sales of Equity Securities and the Use of Proceeds

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 repurchases in the fiscal quarter ended March 29, 2020.

The Company's ability to repurchase shares of our common stock is subject to various laws, regulations and policies as well as the rules and regulations of the SEC. Subsequent to March 29, 2020, the Company has not repurchased any outstanding shares but may make further repurchases under the 2007 Stock Purchase Plan. The Company may also repurchase shares of our common stock other than pursuant to the 2007 Stock Purchase Plan or other publicly announced plans or programs.

Item 3. Defaults upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

On April 13, 2020, the Company received the proceeds from a loan in the amount of \$656,830 (the "PPP Loan") from JPMorgan Chase Bank, N.A. (the "Lender") pursuant to the Paycheck Protection Program (the "PPP") of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") administered by the U.S. Small Business Administration ("SBA"). The PPP Loan matures on April 10, 2022 and bears interest at a rate of 0.98% per annum. Commencing November 10, 2020, we are required to pay the Lender equal monthly payments of principal and interest as necessary to fully amortize by April 10, 2022 the principal amount outstanding on the PPP Loan as of October 10, 2020. We may prepay the PPP Loan at any time prior to maturity with no prepayment penalties. The PPP Loan is evidenced by a promissory note dated April 10, 2020, which contains various certifications and agreements related to the PPP, as well customary default and other provisions.

The PPP Loan is unsecured by the Company and is guaranteed by the SBA. All or a portion of the PPP Loan may be forgiven by the SBA upon application by the Company accompanied by documentation of expenditures in accordance with SBA requirements under the PPP. In the event all or any portion of the PPP Loan is forgiven, the amount forgiven will be applied to outstanding principal.

Item 6. 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 (filed as Exhibit 4.1 to Form 8-K filed November 9, 2017 and incorporated herein by reference).
10.1	Letter agreement dated December 16, 2019, between Rave Restaurant Group, Inc. and Clinton Fendley (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed January 7, 2020). *
10.2	Note, dated April 10, 2020, by and between Rave Restaurant Group, Inc. and JPMorgan Chase Bank, N.A. (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed April 16, 2020).
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.

SIGNATURES

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

RAVE RESTAURANT GROUP, INC.
(Registrant)

By: /s/ Brandon L. Solano
Brandon L. Solano
Chief Executive Officer
(principal executive officer)

By: /s/ Clinton D. Fendley
Clinton D. Fendley
Vice President of Finance
(principal financial officer)

Dated: June 29, 2020

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Brandon L. Solano, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: June 29, 2020

By: /s/ Brandon L. Solano
Brandon L. Solano
Chief Executive Officer
(principal executive officer)

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Clinton D. Fendley, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: June 29, 2020

By: /s/ Clinton D. Fendley
Clinton D. Fendley
Vice President of Finance
(principal financial officer)

Exhibit 32.1

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

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

The accompanying Quarterly Report on Form 10-Q for the quarter ended March 29, 2020 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Form 10-Q.

Date: June 29, 2020

By: /s/ Brandon L. Solano
Brandon L. Solano
Chief Executive Officer
(principal executive officer)

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

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

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

The accompanying Quarterly Report on Form 10-Q for the quarter ended March 29, 2020 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Form 10-Q.

Date: June 29, 2020

By: /s/ Clinton D. Fendley
Clinton D. Fendley
Vice President of Finance
(principal financial officer)

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