

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 28, 2021
- 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:

| <u>Title of each class</u> | <u>Trading Symbol(s)</u> | <u>Name of each exchange on which registered</u> |
|--------------------------------|--------------------------|--|
| 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 May 4, 2021, 18,004,904 shares of the issuer's common stock were outstanding.

PART I. FINANCIAL INFORMATION

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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)

| | Three Months Ended | | Nine Months Ended | |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
| | March 28, 2021 | March 29, 2020 | March 28, 2021 | March 29, 2020 |
| REVENUES: | \$ 2,183 | \$ 2,705 | \$ 6,214 | \$ 8,411 |
| COSTS AND EXPENSES: | | | | |
| Cost of sales | 76 | 104 | 229 | 353 |
| General and administrative expenses | 1,250 | 1,655 | 3,524 | 4,583 |
| Franchise expenses | 629 | 860 | 1,782 | 2,564 |
| (Gain) loss on sale of assets | (156) | 18 | (156) | 7 |
| Impairment of long-lived assets and other lease charges | — | 495 | 21 | 836 |
| Bad debt expense (recovery) | (97) | 11 | 18 | 39 |
| Interest expense | 23 | 24 | 69 | 75 |
| Depreciation and amortization expense | 41 | 45 | 128 | 141 |
| Total costs and expenses | <u>1,766</u> | <u>3,212</u> | <u>5,615</u> | <u>8,598</u> |
| INCOME (LOSS) BEFORE TAXES | 417 | (507) | 599 | (187) |
| Income tax expense | 1 | 4,008 | 5 | 4,077 |
| NET INCOME (LOSS) | <u>416</u> | <u>(4,515)</u> | <u>594</u> | <u>(4,264)</u> |
| INCOME (LOSS) PER SHARE OF COMMON STOCK - BASIC: | <u>\$ 0.02</u> | <u>\$ (0.30)</u> | <u>\$ 0.03</u> | <u>\$ (0.28)</u> |
| INCOME (LOSS) PER SHARE OF COMMON STOCK - DILUTED: | <u>\$ 0.02</u> | <u>\$ (0.30)</u> | <u>\$ 0.03</u> | <u>\$ (0.28)</u> |
| Weighted average common shares outstanding - basic | <u>17,991</u> | <u>15,133</u> | <u>17,061</u> | <u>15,123</u> |
| Weighted average common and potential dilutive common shares outstanding | <u>18,789</u> | <u>15,133</u> | <u>17,859</u> | <u>15,123</u> |

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

| | March 28, 2021 | June 28, 2020 |
|--|---------------------------|--------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 6,487 | \$ 2,969 |
| Restricted cash | — | 234 |
| Accounts receivable, less allowance for bad debts of \$64 and \$269, respectively | 1,192 | 965 |
| Notes receivable, current | 1,040 | 546 |
| Deferred contract charges, current | 34 | 44 |
| Prepaid expenses and other | 231 | 174 |
| Total current assets | <u>8,984</u> | <u>4,932</u> |
| LONG-TERM ASSETS | | |
| Property, plant and equipment, net | 295 | 366 |
| Operating lease right of use asset, net | 2,772 | 3,567 |
| Intangible assets definite-lived, net | 127 | 155 |
| Notes receivable, net of current portion | 60 | 449 |
| Deferred contract charges, net of current portion | 218 | 231 |
| Deposits and other | — | 5 |
| Total assets | <u>\$ 12,456</u> | <u>\$ 9,705</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable – trade | \$ 445 | \$ 446 |
| Accounts payable - lease termination impairments | — | 407 |
| Accrued expenses | 976 | 775 |
| Operating lease liability, current | 586 | 632 |
| Deferred revenues, current | 169 | 254 |
| Total current liabilities | <u>2,176</u> | <u>2,514</u> |
| LONG-TERM LIABILITIES | | |
| Convertible notes | 1,569 | 1,549 |
| PPP loan | 657 | 657 |
| Operating lease liability, net of current portion | 2,532 | 3,471 |
| Deferred revenues, net of current portion | 756 | 960 |
| Other long-term liabilities | — | 51 |
| Total liabilities | <u>7,690</u> | <u>9,202</u> |
| COMMITMENTS AND CONTINGENCIES (SEE NOTE D) | | |
| SHAREHOLDERS' EQUITY | | |
| Common stock, \$.01 par value; authorized 26,000,000 shares; issued 25,090,058 and 22,550,376 shares, respectively; outstanding 18,004,904 and 15,465,222 shares, respectively | 251 | 225 |
| Additional paid-in capital | 37,174 | 33,531 |
| Accumulated deficit | (8,122) | (8,716) |
| Treasury stock at cost | | |
| Shares in treasury: 7,085,154 and 7,085,154, respectively | (24,537) | (24,537) |
| Total shareholders' equity | <u>4,766</u> | <u>503</u> |
| Total liabilities and shareholders' equity | <u>\$ 12,456</u> | <u>\$ 9,705</u> |

See accompanying Notes to Unaudited Condensed Consolidated Financial Statement.

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

| | Common Stock | | | | Treasury Stock | | | Total |
|------------------------------------|--------------|--------|----------------------------|---------------------|----------------|-------------|----------|-------|
| | Shares | Amount | Additional Paid-in Capital | Accumulated Deficit | Shares | Amount | | |
| 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 loss | — | — | — | (4,515) | — | — | (4,515) | |
| Balance, March 29, 2020 | 22,231 | \$ 222 | \$ 33,203 | \$ (8,747) | (7,085) | \$ (24,537) | \$ 141 | |

| | Common Stock | | | | Treasury Stock | | | Total |
|------------------------------------|--------------|--------|----------------------------|---------------------|----------------|-------------|----------|-------|
| | Shares | Amount | Additional Paid-in Capital | Accumulated Deficit | Shares | Amount | | |
| Balance, June 28, 2020 | 22,550 | \$ 225 | \$ 33,531 | \$ (8,716) | (7,085) | \$ (24,537) | \$ 503 | |
| Equity issue costs - ATM offering | — | — | (3) | — | — | — | (3) | |
| Net income | — | — | — | 76 | — | — | 76 | |
| Balance, September 27, 2020 | 22,550 | \$ 225 | \$ 33,528 | \$ (8,640) | (7,085) | \$ (24,537) | \$ 576 | |
| Issuance of common stock | 2,540 | 26 | 3,735 | — | — | — | 3,761 | |
| Equity issue costs - ATM offering | — | — | (127) | — | — | — | (127) | |
| Net income | — | — | — | 102 | — | — | 102 | |
| Balance, December 27, 2020 | 25,090 | \$ 251 | \$ 37,136 | \$ (8,538) | (7,085) | \$ (24,537) | \$ 4,312 | |
| Stock compensation expense | — | — | 39 | — | — | — | 39 | |
| Equity issue costs - ATM offering | — | — | (1) | — | — | — | (1) | |
| Net income | — | — | — | 416 | — | — | 416 | |
| Balance, March 28, 2021 | 25,090 | \$ 251 | \$ 37,174 | \$ (8,122) | (7,085) | \$ (24,537) | \$ 4,766 | |

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 28, 2021 | March 29, 2020 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income (loss) | \$ 594 | \$ (4,264) |
| Adjustments to reconcile net income (loss) to cash used in operating activities: | | |
| Impairment of long-lived assets and other lease charges | 21 | 836 |
| Stock compensation expense | 39 | (104) |
| Depreciation and amortization | 128 | 141 |
| Amortization of operating right of use assets | 435 | (396) |
| Amortization of debt issue costs | 20 | 22 |
| (Gain) loss on the sale of assets | (156) | 7 |
| Provision for bad debt | 18 | 39 |
| Deferred income tax | — | 4,060 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (245) | (62) |
| Notes receivable | (144) | 14 |
| Deferred contract charges | 23 | (6) |
| Inventories | — | 7 |
| Prepaid expenses and other | (57) | (74) |
| Deposits and other | 5 | — |
| Accounts payable - trade | (1) | (101) |
| Accounts payable - lease termination impairments | (428) | (972) |
| Accrued expenses | 201 | 346 |
| Operating lease liability | (470) | 380 |
| Deferred revenue | (289) | (655) |
| Other long-term liabilities | (51) | (21) |
| Cash used in operating activities | (357) | (803) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Payments received on notes receivable from fixed asset sales | 40 | 117 |
| Purchase of property, plant and equipment | (29) | (53) |
| Cash provided by investing activities | 11 | 64 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from sale of stock | 3,761 | 14 |
| Equity issuance costs - ATM offering | (131) | (4) |
| Cash provided by financing activities | 3,630 | 10 |
| Net increase/(decrease) in cash, cash equivalents and restricted cash | 3,284 | (729) |
| Cash, cash equivalents and restricted cash, beginning of period | 3,203 | 2,264 |
| Cash, cash equivalents and restricted cash, end of period | <u>\$ 6,487</u> | <u>\$ 1,535</u> |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| CASH PAID FOR: | | |
| Interest | \$ 64 | \$ 66 |
| Income taxes | \$ 16 | \$ 18 |
| Non-cash activities: | | |
| Conversion of notes to common shares | \$ — | \$ 64 |
| Operating lease right of use assets at adoption | \$ — | \$ 3,428 |
| Operating lease liability at adoption | \$ — | \$ 3,875 |

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

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”. The accompanying condensed consolidated financial statements of Rave Restaurant Group, Inc. 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 28, 2020.

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.

Note A - 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. Restricted cash as of June 28, 2020 consisted of an interest-bearing money market account restricted pursuant to a letter of credit for an insurance claim dating back to the mid-1980’s. The \$0.2 million in restricted cash was released during the third quarter of 2021.

Fiscal Quarters

The three and nine month periods ended March 28, 2021 and March 29, 2020 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 28, 2021 | March 29, 2020 |
| Restaurant sales | \$ — | \$ 36 |
| Franchise royalties | 933 | 948 |
| Supplier and distributor incentive revenues | 916 | 1,085 |
| Franchise license fees | 79 | 175 |
| Area development fees and foreign master license fees | 9 | 4 |
| Advertising funds | 194 | 391 |
| Supplier convention funds | — | — |
| Rental income | 52 | 54 |
| Other | — | 12 |
| | <u>\$ 2,183</u> | <u>\$ 2,705</u> |
| | Nine Months Ended | |
| | March 28, 2021 | March 29, 2020 |
| Restaurant sales | \$ — | \$ 240 |
| Franchise royalties | 2,638 | 3,084 |
| Supplier and distributor incentive revenues | 2,491 | 3,141 |
| Franchise license fees | 261 | 796 |
| Area development fees and foreign master license fees | 17 | 16 |
| Advertising funds | 469 | 675 |
| Supplier convention funds | 177 | 278 |
| Rental income | 152 | 144 |
| Other | 9 | 37 |
| | <u>\$ 6,214</u> | <u>\$ 8,411</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.

Note B - 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 was as follows (in thousands):

| | July 1, 2019 | | |
|---|---------------------|-----------------------------|-------------------------|
| | Adoption | Reclassification (1) | Total Adjustment |
| 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 operating lease liability. Right of use assets represent the Company’s right to use an underlying asset for the lease term and operating 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.

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 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 its 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.

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The components of total lease expense for the nine months ended March 28, 2021, the majority of which is included in general and administrative expense, are as follows (in thousands):

| | <u>Nine Months Ended</u> <u>March 28, 2021</u> |
|---|---|
| Operating lease cost | \$ 550 |
| Sublease income | (151) |
| Total lease expense, net of sublease income | <u>\$ 399</u> |

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

| | <u>Nine Months Ended</u> <u>March 28, 2021</u> |
|--|---|
| Cash paid for amounts included in the measurement of lease liabilities | \$ 586 |

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

| | <u>March 28, 2021</u> |
|---------------------------------------|-----------------------|
| Weighted average remaining lease term | 5.0 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):

| | <u>Operating Leases</u> |
|---------------------------------|-------------------------|
| Remainder of fiscal year 2021 | \$ 174 |
| 2022 | 701 |
| 2023 | 707 |
| 2024 | 661 |
| Thereafter | <u>1,211</u> |
| Total operating lease payments | \$ 3,454 |
| Less: imputed interest | (336) |
| Total operating lease liability | <u>\$ 3,118</u> |

Note C - 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 28, 2021 or March 29, 2020.

Note D - 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.

Note E - Stock-Based Compensation

Stock Options:

For the fiscal quarters ended March 28, 2021 and March 29, 2020, the Company did not recognize any stock-based compensation expense related to stock options. As of March 28, 2021, 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 28, 2021 | March 29, 2020 |
| | Shares | Shares |
| Outstanding at beginning of year | 206,750 | 216,550 |
| Granted | — | — |
| Exercised | — | — |
| Forfeited/Canceled/Expired | — | — |
| Outstanding at end of period | <u>206,750</u> | <u>216,550</u> |
| Exercisable at end of period | <u>206,750</u> | <u>216,550</u> |

Restricted Stock Units:

For the three months ended March 28, 2021 and March 29, 2020, the Company had stock-based compensation expense of \$39 thousand and a credit of \$19 thousand, respectively, related to RSU's. For the nine months ended March 28, 2021 and March 29, 2020, the Company had stock-based compensation expense of \$39 thousand and a credit of \$104 thousand, respectively, related to RSU's. As of March 28, 2021, there was no unamortized stock-based compensation expense related to RSU's.

A summary of the status of restricted stock units as of March 28, 2021, and changes during the three months then ended is presented below:

| | |
|----------------------------|----------------|
| Unvested at June 28, 2020 | — |
| Granted | 545,600 |
| Vested | — |
| Forfeited | — |
| Unvested at March 28, 2021 | <u>545,600</u> |

Note F - 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).

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|-------------------|-------------------|-------------------|
| | March 28, 2021 | March 29, 2020 | March 28, 2021 | March 29, 2020 |
| Net income available to common stockholders | \$ 416 | \$ (4,515) | \$ 594 | \$ (4,264) |
| BASIC: | | | | |
| Weighted average common shares | <u>17,991</u> | <u>15,133</u> | <u>17,061</u> | <u>15,123</u> |
| Net income (loss) per common share | <u>\$ 0.02</u> | <u>\$ (0.30)</u> | <u>\$ 0.03</u> | <u>\$ (0.28)</u> |
| DILUTED: | | | | |
| Weighted average common shares | 17,991 | 15,133 | 17,061 | 15,123 |
| Convertible notes | 798 | — | 798 | — |
| Dilutive stock options | — | — | — | — |
| Weighted average common shares outstanding | <u>18,789</u> | <u>15,133</u> | <u>17,859</u> | <u>15,123</u> |
| Net income (loss) per common share | <u>\$ 0.02</u> | <u>\$ (0.30)</u> | <u>\$ 0.03</u> | <u>\$ (0.28)</u> |

For the three and nine months ended March 28, 2021, options to purchase 206,750 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 29, 2020, options to purchase 216,550 shares of common stock at exercise prices ranging from \$2.71 to \$13.11 were excluded from the computation of diluted EPS because their inclusion would have been anti-dilutive.

Note G - Income Taxes

For the nine months ended March 28, 2021 the Company recorded an income tax expense of \$5 thousand, all of which is attributable to current state taxes. The Company utilized net operating losses to offset federal 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 a 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. As of March 28, 2021 the Company had established a full valuation allowance of \$6.5 million against its deferred tax assets. The Company will continue to review the need for an adjustment to the valuation allowance.

Note H - 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 28, 2021 and March 29, 2020 (in thousands):

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|-------------------|-------------------|-------------------|
| | March 28, 2021 | March 29, 2020 | March 28, 2021 | March 29, 2020 |
| Net sales and operating revenues: | | | | |
| Pizza Inn Franchising | \$ 1,714 | \$ 1,942 | \$ 4,718 | \$ 5,454 |
| Pie Five Franchising | 418 | 665 | 1,350 | 2,539 |
| Company-Owned Restaurants | — | 36 | — | 240 |
| Corporate administration and other | 51 | 62 | 146 | 178 |
| Consolidated revenues | \$ 2,183 | \$ 2,705 | \$ 6,214 | \$ 8,411 |
| Depreciation and amortization: | | | | |
| Pizza Inn Franchising | \$ — | \$ — | \$ — | \$ — |
| Pie Five Franchising | — | — | — | — |
| Company-Owned Restaurants | — | — | — | — |
| Combined | — | — | — | — |
| Corporate administration and other | 41 | 45 | 128 | 141 |
| Depreciation and amortization | \$ 41 | \$ 45 | \$ 128 | \$ 141 |
| Income before taxes: | | | | |
| Pizza Inn Franchising | \$ 1,339 | \$ 1,568 | \$ 3,723 | \$ 4,303 |
| Pie Five Franchising | 164 | 179 | 563 | 1,126 |
| Company-Owned Restaurants | (77) | (446) | (256) | (885) |
| Combined | 1,426 | 1,301 | 4,030 | 4,544 |
| Corporate administration and other | (1,009) | (1,808) | (3,431) | (4,731) |
| Income (loss) before taxes | \$ 417 | \$ (507) | \$ 599 | \$ (187) |
| Geographic information (revenues): | | | | |
| United States | \$ 2,114 | \$ 2,652 | \$ 6,047 | \$ 8,255 |
| Foreign countries | 69 | 53 | 167 | 156 |
| Consolidated total | \$ 2,183 | \$ 2,705 | \$ 6,214 | \$ 8,411 |

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 28, 2020 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 28, 2020. 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 28, 2021, Company-owned, franchised and licensed units consisted of the following:

Three Months Ended March 28, 2021

(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 | 137 | \$ 17,503 | 35 | \$ 4,074 | 172 | \$ 21,577 |
| Company-Owned | — | — | — | — | — | — |
| Total Domestic Units | 137 | \$ 17,503 | 35 | \$ 4,074 | 172 | \$ 21,577 |
| International Franchised | 33 | | — | | 33 | |

Nine Months Ending March 28, 2021

(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 | 137 | \$ 49,579 | 35 | \$ 12,913 | 172 | \$ 62,492 |
| Company-Owned | — | — | — | — | — | — |
| Total Domestic Units | 137 | \$ 49,579 | 35 | \$ 12,913 | 172 | \$ 62,492 |
| International Franchised | 33 | | — | | 33 | |

Domestic units are located in 19 states predominantly situated in the southern half of the United States. International units are located in six foreign countries.

Basic net income per share increased \$0.32 per share to \$0.02 per share for the three months ended March 28, 2021, compared to the comparable period in the prior fiscal year. The Company had net income of \$0.4 million for the three months ended March 28, 2021 compared to a net loss of \$4.5 million in the comparable period in the prior fiscal year, on revenues of \$2.2 million for the three months ended March 28, 2021 compared to \$2.7 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 and distributor incentives and franchise license fees. The \$4.9 million increase in net income for the three months ended March 28, 2021, compared to the comparable period of the prior year was primarily the result of a \$1.4 million decrease in expenses and a \$4.1 million addition to the reserve against deferred taxes in the prior year partially offset by the \$0.5 million decrease in revenues.

Basic net income per share increased \$0.31 per share to \$0.03 per share for the nine months ended March 28, 2021, compared to the comparable period in the prior fiscal year. The Company had net income of \$0.6 million for the nine months ended March 28, 2021 compared to net loss of \$4.3 million in the comparable period in the prior fiscal year, on revenues of \$6.2 million for the nine months ended March 28, 2021 compared to \$8.4 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 convention funds and franchise license fees. The \$4.9 million increase in net income for the nine months ended March 28, 2021 compared to the comparable period of the prior year was primarily the result of a \$3.0 million decrease in expenses and a \$4.1 million addition to the reserve against deferred taxes in the prior year offset by the \$2.2 million decrease in revenues.

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 were for varying periods subject to “shelter-in-place” and social distancing restrictions prohibiting in-store sales and, therefore, were limited to carry-out and/or delivery orders. In some areas, these restrictions limited non-essential movement outside the home, which discouraged or even precluded carry-out orders. In most cases, in-store dining has now resumed subject to seating capacity limitations, social distancing protocols, and enhanced cleaning and disinfecting practices. 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, we have experienced temporary closures from time to time during the pandemic.

The COVID-19 pandemic has 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. During the fourth quarter of fiscal 2020, we participated in a government-sponsored loan program. (See, “Liquidity and Capital Resources--PPP Loan,” below.) We also temporarily furloughed certain employees and reduced base salary by 20% for all remaining employees for the fourth quarter of fiscal 2020, as well as reducing other expenses. While the Company will remain focused on controlling expenses, future results of operations are likely to be materially adversely impacted by the pandemic and its aftermath.

We expect that Buffet Units and Pie Five Units in many areas 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 28, 2021, increased \$0.4 million compared to the same period of the prior fiscal year. Year-to-date Adjusted EBITDA increased \$0.4 million compared to the same period of 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 28, 2021 | March 29, 2020 | March 28, 2021 | March 29, 2020 |
| Net income (loss) | \$ 416 | \$ (4,515) | \$ 594 | \$ (4,264) |
| Interest expense | 23 | 24 | 69 | 75 |
| Income taxes | 1 | 4,008 | 5 | 4,077 |
| Depreciation and amortization | 41 | 45 | 128 | 141 |
| EBITDA | \$ 481 | \$ (438) | \$ 796 | \$ 29 |
| Stock compensation expense (income) | 39 | (19) | 39 | (104) |
| Severance | — | 38 | — | 157 |
| (Gain) loss on sale of assets | (156) | 18 | (156) | 7 |
| Impairment of long-lived assets and other lease charges | — | 495 | 21 | 836 |
| Franchisee default and closed store revenue | (43) | (133) | (154) | (587) |
| Closed and non-operating store costs | 76 | 45 | 234 | 50 |
| Adjusted EBITDA | \$ 397 | \$ 6 | \$ 780 | \$ 388 |

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 28, 2021 | March 29, 2020 | March 28, 2021 | March 29, 2020 |
| Pizza Inn Retail Sales - Total Domestic Units | (in thousands, except unit data) | | (in thousands, except unit data) | |
| Domestic Units | | | | |
| Buffet Units - Franchised | \$ 16,042 | \$ 18,313 | \$ 45,057 | \$ 57,866 |
| Delco/Express Units - Franchised | 1,393 | 1,485 | 4,339 | 4,554 |
| PIE Units - Licensed | 68 | 69 | 183 | 245 |
| Total Domestic Retail Sales | \$ 17,503 | \$ 19,867 | \$ 49,579 | \$ 62,665 |
| Pizza Inn Comparable Store Retail Sales - Total Domestic | 17,103 | 17,651 | 48,260 | 56,645 |
| Pizza Inn Average Units Open in Period | | | | |
| Domestic Units | | | | |
| Buffet Units - Franchised | 72 | 83 | 78 | 83 |
| Delco/Express Units - Franchised | 54 | 56 | 56 | 57 |
| PIE Units - Licensed | 11 | 13 | 12 | 12 |
| Total Domestic Units | 137 | 152 | 146 | 152 |

Total Pizza Inn domestic retail sales decreased \$2.4 million, or 11.9%, for the three months ended March 28, 2021 when compared to the same period of the prior year. Pizza Inn domestic comparable store retail sales decreased by \$0.5 million, or 3.1%, for the three months ended March 28, 2021 when compared to the same period of the prior year.

Total Pizza Inn domestic retail sales decreased \$13.1 million, or 20.9%, for the nine months ended March 28, 2021 when compared to the same period of the prior year. Pizza Inn domestic comparable store retail sales decreased by \$8.4 million, or 14.8%, for the nine months ended March 28, 2021 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 28, 2021:

| | Three Months Ended March 28, 2021 | | | | |
|----------------------------------|-----------------------------------|--------|----------------|--------|--------------|
| | Beginning Units | Opened | Concept Change | Closed | Ending Units |
| Domestic Units | | | | | |
| Buffet Units - Franchised | 77 | — | (1) | 4 | 72 |
| Delco/Express Units - Franchised | 54 | — | 1 | 1 | 54 |
| PIE Units - Licensed | 11 | — | — | — | 11 |
| Total Domestic Units | 142 | — | — | 5 | 137 |
| International Units (all types) | 32 | 1 | — | — | 33 |
| Total Units | 174 | 1 | — | 5 | 170 |
| | | | | | |
| | Nine Months Ended March 28, 2021 | | | | |
| | Beginning Units | Opened | Concept Change | Closed | Ending Units |
| Domestic Units | | | | | |
| Buffet Units - Franchised | 83 | 1 | (1) | 11 | 72 |
| Delco/Express Units - Franchised | 55 | — | 1 | 2 | 54 |
| PIE Units - Licensed | 13 | — | — | 2 | 11 |
| Total Domestic Units | 151 | 1 | — | 15 | 137 |
| International Units (all types) | 38 | 2 | — | 7 | 33 |
| Total Units | 189 | 3 | — | 22 | 170 |

There was a net decrease of five domestic Pizza Inn units during the three months ended March 28, 2021 and a net decrease of fifteen units in the total domestic Pizza Inn unit count during the nine months ended March 28, 2021. During the third quarter of fiscal 2021, the number of international Pizza Inn units increased by one unit while the number of international Pizza Inn units decreased by five in the nine months ended March 28, 2021. We believe the modest net closure of domestic Pizza Inn units will continue in the near term and eventually reverse in future periods. We expect international units to increase moderately in future periods.

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 28, 2021 | March 29, 2020 | March 28, 2021 | March 29, 2020 |
| | (in thousands, except unit data) | | (in thousands, except unit data) | |
| Pie Five Retail Sales - Total Units | | | | |
| Domestic Units - Franchised | \$ 4,074 | \$ 5,547 | \$ 12,913 | \$ 21,666 |
| Domestic Units - Company-owned | — | 36 | — | 240 |
| Total Domestic Retail Sales | \$ 4,074 | \$ 5,583 | \$ 12,913 | \$ 21,906 |
| Pie Five Comparable Store Retail Sales - Total | \$ 3,812 | \$ 3,802 | \$ 11,864 | \$ 13,821 |
| Pie Five Average Units Open in Period | | | | |
| Domestic Units - Franchised | 35 | 43 | 42 | 49 |
| Domestic Units - Company-owned | — | — | — | 1 |
| Total Domestic Units | 35 | 43 | 42 | 50 |

Pie Five system-wide retail sales decreased \$1.5 million, or 27.0%, for the three months ended March 28, 2021 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 43 to 35. Comparable store retail sales remained relatively stable during the third quarter of fiscal 2021 compared to the same period of the prior year.

Pie Five system-wide retail sales decreased \$9.0 million, or 41.1%, for the nine month period ended March 28, 2021 when compared to the same period of the prior year. Year-to-date fiscal 2021 compared to year-to-date of the prior year, average units open in the period decreased from 50 to 42. Comparable store retail sales decreased \$2.0 million, or 14.2%, during the nine month period ended March 28, 2021 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 28, 2021:

| | Three Months Ended March 28, 2021 | | | | |
|-----------------------------|--|---------------|-----------------|---------------|-------------------------|
| | Beginning Units | Opened | Transfer | Closed | Ending Units |
| Domestic - Franchised | 37 | — | — | 2 | 35 |
| Domestic - Company-owned | — | — | — | — | — |
| Total Domestic Units | 37 | — | — | 2 | 35 |

| | Nine Months Ended March 28, 2021 | | | | |
|-----------------------------|---|---------------|-----------------|---------------|-------------------------|
| | Beginning Units | Opened | Transfer | Closed | Ending Units |
| Domestic - Franchised | 42 | 1 | — | 8 | 35 |
| Domestic - Company-owned | — | — | — | — | — |
| Total Domestic Units | 42 | 1 | — | 8 | 35 |

The net decreases of Pie Five units during the three and nine months ended March 28, 2021 were primarily the result of the COVID-19 pandemic. We believe the modest 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 28, 2021 | March 29, 2020 | March 28, 2021 | March 29, 2020 |
| Store weeks (excluding partial weeks) | — | 4 | — | 30 |
| Average weekly sales | — | 9,034 | — | 8,108 |
| Average number of units | — | 1 | — | 1 |
| Restaurant sales (excluding partial weeks) | — | 36 | — | 240 |
| Restaurant sales | — | 36 | — | 240 |
| Loss before taxes | (77) | (446) | (256) | (885) |
| Allocated marketing and advertising expenses | — | (2) | — | 12 |
| Impairment, other lease charges and non-operating store costs | 76 | 332 | 255 | 679 |
| Restaurant operating cash flow | (1) | (116) | (1) | (194) |

Average weekly sales for Company-owned Pie Five Units decreased \$9.0 million, or 100%, to zero for the three months ended March 28, 2021 compared to the same period of the prior fiscal year. Company-owned Pie Five restaurant operating cash flow increased \$115 thousand to a loss of \$1 thousand during the third quarter of fiscal 2021 compared to the same period of the prior year. Loss before taxes for Company-owned Pie Five stores decreased \$0.4 million for the three months ended March 28, 2021 compared to the same period of the prior year. The increased restaurant operating cash flow and decreased pre-tax loss were the result of the closure of all remaining Company-owned stores during the third quarter of fiscal 2020.

Average weekly sales for Company-owned Pie Five Units decreased \$8.1 million, or 100%, to zero for the nine months ended March 28, 2021 compared to the same period of the prior fiscal year. Company-owned Pie Five restaurant operating cash flow increased \$0.2 million to a loss of \$1 thousand during the nine month period ended March 28, 2021 compared to the same period of prior year. Loss before taxes for Company-owned Pie Five stores decreased \$0.6 million for the nine months ended March 28, 2021 compared to the same period of the prior year. The increased restaurant operating cash flow and decreased pre-tax loss were the result of the closure of all remaining Company-owned stores during the third quarter of fiscal 2020.

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, 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) impairment and other lease charges, and (3) 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 28, 2021 and March 29, 2020 (in thousands):

Three Months Ended March 28, 2021 and 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 28, 2021 | March 29, 2020 | March 28, 2021 | March 29, 2020 | March 28, 2021 | March 29, 2020 | March 28, 2021 | March 29, 2020 | March 28, 2021 | March 29, 2020 |
| REVENUES: | | | | | | | | | | |
| Franchise and license revenues | \$ 1,714 | \$ 1,942 | \$ 418 | \$ 661 | \$ — | \$ — | \$ — | \$ — | \$ 2,132 | \$ 2,603 |
| Restaurant sales | — | — | — | — | — | 36 | — | — | — | 36 |
| Rental income | — | — | — | — | — | — | 51 | 54 | 51 | 54 |
| Interest income and other | — | — | — | 4 | — | — | — | 8 | — | 12 |
| Total revenues | 1,714 | 1,942 | 418 | 665 | — | 36 | 51 | 62 | 2,183 | 2,705 |
| COSTS AND EXPENSES: | | | | | | | | | | |
| Cost of sales | — | — | — | — | 76 | 104 | — | — | 76 | 104 |
| General and administrative expenses | — | — | — | — | 1 | 46 | 1,249 | 1,609 | 1,250 | 1,655 |
| Franchise expenses | 375 | 374 | 254 | 486 | — | — | — | — | 629 | 860 |
| (Gain) loss on sale of assets | — | — | — | — | — | — | (156) | 18 | (156) | 18 |
| Impairment of long-lived assets and other lease charges | — | — | — | — | — | 332 | — | 163 | — | 495 |
| Bad debt expense (recovery) | — | — | — | — | — | — | (97) | 11 | (97) | 11 |
| Interest expense | — | — | — | — | — | — | 23 | 24 | 23 | 24 |
| Amortization and depreciation expense | — | — | — | — | — | — | 41 | 45 | 41 | 45 |
| Total costs and expenses | 375 | 374 | 254 | 486 | 77 | 482 | 1,060 | 1,870 | 1,766 | 3,212 |
| INCOME/(LOSS) BEFORE TAXES | | | | | | | | | | |
| | \$ 1,339 | \$ 1,568 | \$ 164 | \$ 179 | \$ (77) | \$ (446) | \$ (1,009) | \$ (1,808) | \$ 417 | \$ (507) |

Nine Months Ended March 28, 2021 and 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 28, 2021 | March 29, 2020 | March 28, 2021 | March 29, 2020 | March 28, 2021 | March 29, 2020 | March 28, 2021 | March 29, 2020 | March 28, 2021 | March 29, 2020 |
| REVENUES: | | | | | | | | | | |
| Franchise and license revenues | \$ 4,718 | \$ 5,454 | \$ 1,336 | \$ 2,536 | \$ — | \$ — | \$ — | \$ — | \$ 6,054 | \$ 7,990 |
| Restaurant sales | — | — | — | — | — | 240 | — | — | — | 240 |
| Rental Income | — | — | — | — | — | — | 151 | 144 | 151 | 144 |
| Interest income and other | — | — | 14 | 3 | — | — | (5) | 34 | 9 | 37 |
| Total revenues | 4,718 | 5,454 | 1,350 | 2,539 | — | 240 | 146 | 178 | 6,214 | 8,411 |
| COSTS AND EXPENSES: | | | | | | | | | | |
| Cost of sales | — | — | — | — | 229 | 353 | — | — | 229 | 353 |
| General and administrative expenses | — | — | — | — | 6 | 99 | 3,518 | 4,484 | 3,524 | 4,583 |
| Franchise expenses | 995 | 1,151 | 787 | 1,413 | — | — | — | — | 1,782 | 2,564 |
| (Gain) loss on sale of assets | — | — | — | — | — | — | (156) | 7 | (156) | 7 |
| Impairment of long-lived assets and other lease charges | — | — | — | — | 21 | 673 | — | 163 | 21 | 836 |
| Bad debt expense (recovery) | — | — | — | — | — | — | 18 | 39 | 18 | 39 |
| Interest expense | — | — | — | — | — | — | 69 | 75 | 69 | 75 |
| Amortization and depreciation expense | — | — | — | — | — | — | 128 | 141 | 128 | 141 |
| Total costs and expenses | 995 | 1,151 | 787 | 1,413 | 256 | 1,125 | 3,577 | 4,909 | 5,615 | 8,598 |
| INCOME/(LOSS) BEFORE TAXES | | | | | | | | | | |
| | \$ 3,723 | \$ 4,303 | \$ 563 | \$ 1,126 | \$ (256) | \$ (885) | \$ (3,431) | \$ (4,731) | \$ 599 | \$ (187) |

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, as well as the products sold to franchisees through third-party food distributors.

Total revenues for the three month period ended March 28, 2021 and for the same period in the prior fiscal year were \$2.2 million and \$2.7 million, respectively. The decrease in total revenues was driven by a reduction in Pizza Inn and Pie Five franchise and license revenues and zero sales from Company-owned restaurants.

Total revenues for the nine month period ended March 28, 2021 and for the same period in the prior fiscal year were \$6.2 million and \$8.4 million, respectively. The decrease in total revenues was driven by a reduction in Pizza Inn and Pie Five franchise and license revenues, as well as zero sales from Company-owned restaurants.

Pizza Inn Franchise Revenues

Pizza Inn franchise and license revenues decreased by \$0.2 million to \$1.7 million for the three month period ended March 28, 2021 compared to the same period of the prior year. Pizza Inn franchise and license revenues decreased to \$4.7 million for the nine month period ended March 28, 2021 from \$5.5 million for the same period of the prior fiscal year.

Pie Five Franchise Revenues

Pie Five franchise and license revenues decreased by \$0.2 million to \$0.4 million for the three month period ended March 28, 2021 compared to the same period of the prior fiscal year. 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 \$1.3 million for the nine month period ended March 28, 2021 compared to \$2.5 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 \$36 thousand to zero for the fiscal quarter ended March 28, 2021 compared to the fiscal quarter ended March 29, 2020. In the nine month period ended March 28, 2021, restaurant sales decreased to zero from \$0.2 million in sales for the same period of the prior fiscal year. In both cases, the decreases were 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 \$28 thousand to \$76 thousand for the three month period ended March 28, 2021 compared to \$104 thousand in the three month period ended March 29, 2020. For the nine month period ended March 28, 2021, total cost of sales decreased \$124 thousand to \$229 thousand compared to \$353 thousand 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 all remaining Company-owned restaurants during the third quarter of fiscal 2020.

General and Administrative Expenses

Total general and administrative expenses decreased \$0.4 million to \$1.3 million for the three month period ended March 28, 2021 compared to \$1.7 million for the same period of the prior fiscal year. Total general and administrative expenses decreased to \$3.5 million for the nine month period ended March 28, 2021 compared to \$4.5 million for the nine month period ended March 29, 2020. The decreases in general and administrative expenses during both the three and nine month periods were primarily the result of decreased corporate expenses in response to the COVID-19 pandemic.

Franchise Expenses

Franchise expenses include general and administrative expenses directly related to the continuing service of domestic and international franchises. Franchise expenses decreased to \$0.6 million for the three month period ended March 28, 2021 compared to \$0.9 million for the same period of the prior fiscal year. Franchise expenses decreased to \$1.8 million for the nine month period ended March 28, 2021 compared to \$2.6 million for the nine month period ended March 29, 2020. In both cases, the decreases were primarily due to a reduction in employees supporting franchisees, fewer closed store expenses, and lower convention expense.

Loss (Gain) on Sale of Assets

Gain on sale of assets of \$156 thousand for the third quarter of fiscal 2021 compared to a loss of \$18 thousand for the same period of fiscal 2020. Gain on sale of assets of \$156 thousand for the nine months ended March 28, 2021 compared to a loss on sale of assets of \$7 thousand for the comparable prior year period.

Impairment of Long-lived Assets and Other Lease Charges

Impairment of long-lived assets and other lease charges was zero for the three month period ended March 28, 2021 compared to \$0.5 million for the same period in the prior fiscal year. Impairment of long-lived assets and other lease charges was \$21 thousand for the nine month period ended March 28, 2021 compared to \$0.8 million for the same period of the prior fiscal year. For the three and nine month periods ended March 28, 2021, these charges related to lease termination expenses.

Bad Debt Expense (Recovery)

The Company monitors franchisee receivable balances and adjusts credit terms when necessary to minimize the Company's exposure to high risk accounts receivable. For the three month period ended March 28, 2021, bad debt recovery was \$97 thousand compared to the bad debt expense of \$11 thousand for the same period in the prior fiscal year. Bad debt expense for the nine month period ended March 28, 2021, decreased \$21 thousand compared to the comparable period in the prior fiscal year.

Interest Expense

Interest expense remained relatively stable for the three and nine month periods ended March 28, 2021 compared to the same fiscal periods of the prior year.

Depreciation and Amortization Expense

Depreciation and amortization expense declined slightly for the three and nine months ended March 28, 2021, compared to the same periods of the prior year. In both cases, the decrease was primarily the result of the closure of all remaining Company-owned Pie Five Units during the third quarter of fiscal 2020.

Provision for Income Tax

For the nine months ended March 28, 2021 the Company recorded an income tax expense of \$5 thousand, all of which is attributable to current state taxes. The Company utilized net operating losses to offset federal 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 a 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. As of March 28, 2021 the Company had established a full valuation allowance of \$6.5 million against its deferred tax assets. The Company will continue to review the need for an adjustment to the valuation allowance.

Liquidity and Capital Resources

During the nine month period ended March 28, 2021, our primary source of liquidity was from sales of our common stock.

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 \$0.4 million for the nine month period ended March 28, 2021 compared to cash used of \$0.8 million for the nine month period ended March 29, 2020. The primary drivers of increased operating cash flow during the nine month period ended March 28, 2021 were reduced payments for settlement of operating leases and lower deferred revenues.

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 during the nine month period ended March 28, 2021 was \$11 thousand attributable to payments received on notes receivable from fixed asset sales of \$40 thousand being partially offset by the purchase of property, plant and equipment of \$29 thousand. Cash flows provided by investing activities was \$64 thousand for the nine months ended March 29, 2020.

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 \$3.6 million for the nine month period ended March 28, 2021 compared to \$10 thousand for the nine month period ended March 29, 2020. Cash flows from financing activities for the nine months ended March 28, 2021 were primarily attributable to proceeds from sale of stock partially offset by equity issuance costs.

Although we have taken aggressive measures to control expenses, we expect reduced cash flow from operations during the remainder of fiscal 2021 as a result of the COVID-19 pandemic. However, management believes the cash on hand combined with cash from operations will be sufficient to fund operations for the next 12 months.

2017 ATM Offering

On December 5, 2017, the Company entered into an At Market Issuance Sales Agreement with B. Riley FBR, Inc. ("B. Riley FBR") pursuant to which the Company could 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 was 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 28, 2021, the Company had sold an aggregate of 3,064,342 shares in the 2017 ATM Offering, realizing aggregate gross proceeds of \$4.5 million. The 2017 ATM Offering expired on November 6, 2020.

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 28, 2021, no Notes were converted to common shares. As of March 28, 2021, \$1.6 million in par value of the Notes were outstanding.

PPP Loan

On April 13, 2020, the Company received the proceeds from a loan in the amount of \$0.7 million (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 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. The PPP Loan matures on April 10, 2022 and bears interest at a rate of 0.98% per annum. No payment is due until a forgiveness decision is received from the SBA. We presently expect to receive a forgiveness decision in the fourth quarter of fiscal 2021. Any amounts not forgiven are payable in equal monthly installments of principal and interest as necessary to fully amortize the outstanding principal balance by the maturity date. We may prepay the PPP Loan at any time prior to the maturity with no repayment 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.

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 28, 2021 and March 29, 2020, 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 for summary judgment 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 August 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 28, 2021.

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 28, 2021, 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

None.

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). |
| 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. |

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: May 6, 2021

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: May 6, 2021

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: May 6, 2021

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

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

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 28, 2021 (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: May 6, 2021

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 28, 2021 (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: May 6, 2021

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.
