

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-K

(Mark One)

Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the fiscal year ended June 28, 2020.

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____.

Commission File Number 0-12919

RAVE RESTAURANT GROUP, INC.

(Exact name of registrant as specified in its charter)

Missouri
(State or jurisdiction of incorporation or organization)

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

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

75056
(Zip Code)

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

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

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

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

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

As of December 29, 2019, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the voting and non-voting common equity held by non-affiliates was approximately \$14.1 million computed by reference to the price at which the common equity was last sold on the NASDAQ Capital Market.

As of September 23, 2020, there were 15,465,222 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement, to be filed pursuant to Section 14(a) of the Securities Exchange Act in connection with the registrant's annual meeting of shareholders scheduled for December 8, 2020, have been incorporated by reference in Part III of this report.

Forward-Looking Statements

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

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

PART I

ITEM 1. BUSINESS.

General

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

As of June 28, 2020, we had 42 franchised Pie Five Units, 176 franchised Pizza Inn restaurants and 13 licensed PIE Units. The 138 domestic franchised Pizza Inn restaurants were comprised of 83 Buffet Units, ten Delco Units and 45 Express Units. As of June 28, 2020, there were 38 international franchised Pizza Inn restaurants. Domestic Pizza Inn restaurants and kiosks were located predominantly in the southern half of the United States, with Texas, Arkansas, North Carolina and Mississippi accounting for approximately 23%, 19%, 17% and 9%, respectively, of the total number of domestic units.

Our History

The Company has offered consumers affordable, high quality pizza since 1958, when the first Pizza Inn restaurant opened in Dallas, Texas. We awarded our first franchise in 1963 and opened our first buffet restaurant in 1969. We began franchising the Pizza Inn brand internationally in the late 1970s. In 1993, our stock began trading on the NASDAQ Stock Market, and presently trades on the NASDAQ Capital Market under the ticker symbol “RAVE.” In June 2011, we opened the first Pie Five restaurant in Ft. Worth, Texas. In November 2012, we signed our first franchise development agreement for Pie Five. In 2019, we launched the PIE kiosk and convenience store solution to meet the consumer demand for tasty and high-quality pizzas within a grab-and-go delivery model.

Our Concepts

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

Pizza Inn

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

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

Delco Units offer delivery and carryout service only and are typically located in shopping centers or other in-line retail developments. Delco Units typically offer a variety of crusts and some combination of side items. Delco Units occupy approximately 1,200 square feet, are primarily production facilities and, in most instances, do not offer seating. The decor of the Delco Unit is designed to be bright and highly visible and feature neon lighted displays and awnings. We have attempted to locate Delco Units strategically to facilitate timely delivery service and to provide easy access for carryout service. We discontinued offering new domestic Delco Unit franchises during fiscal 2014.

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

Historically, the Company established PIE Units to serve customers through a non-traditional, licensed pizza-only model called Pizza Inn Express. Like Delco Units and Express Units, the PIE Units are primarily production-oriented facilities and, therefore, do not require all of the equipment, labor or square footage of the Buffet Unit. The Company does not intend to expand the licensed business model in the foreseeable future.

Pie Five

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

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

Site Selection

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

Development and Operations

New Unit Development

We intend to expand the Pizza Inn system domestically and internationally in markets with significant long-term growth potential and where we believe we can use our competitive strengths to establish brand recognition and gain local market share. We plan to expand our Pizza Inn branded domestic restaurant base primarily through opening new franchised restaurants with new and existing franchisees. We expect to evaluate the continued development of new Pizza Inn Buffet and Delco Units in international markets in fiscal 2021, particularly in the Middle East.

In appropriate circumstances, the Company previously granted area developer rights for Pizza Inn restaurants in existing domestic markets. However, the Company is no longer pursuing such agreements. A Pizza Inn area developer typically paid a negotiated fee to purchase the right to operate or develop restaurants within a defined territory and, previously, agreed to a multi-restaurant development schedule. The area developer assisted us in local franchise service and quality control in exchange for half of the franchise fees and royalties from all restaurants within the territory during the term of the agreement.

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

Domestic Franchise Operations

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

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

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

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

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

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

Domestic Kiosk License Operations

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

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

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

Company-Owned Restaurant Operations

As of June 28, 2020, we did not operate any Company-owned restaurants. We do not presently intend to open or operate any Company-owned restaurants during fiscal 2021.

International Franchise Operations

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

Our first franchised Pizza Inn restaurant outside of the United States opened in the late 1970s. As of June 28, 2020, there were 38 Pizza Inn restaurants operating internationally. Except for three restaurants in Honduras, all of the Pizza Inn restaurants operated or sub-licensed by our international master licensees are in the United Arab Emirates, Saudi Arabia and adjoining countries. Our ability to continue to develop select international markets is affected by a number of factors, including our ability to locate experienced, well-capitalized developers who can commit to an aggressive multi-restaurant development schedule and achieve maximum initial market penetration with minimal supervision by us.

Food and Supply Distribution

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

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

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

Marketing and Advertising

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

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

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

Trademarks and Quality Control

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

Government Regulation

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

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

Employees

As of June 28, 2020, we had 22 employees. None of our employees are currently covered by collective bargaining agreements.

Industry and Competition

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

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

ITEM 1A. RISK FACTORS.

Not required for a smaller reporting company.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable.

ITEM 2. PROPERTIES.

The Company leases its 19,576 square foot corporate office facility with average annual lease payments of approximately \$18.00 per square foot. This lease began on January 2, 2017 and has a ten-year term. The Company amended its lease agreement in June 2020 and has elected to defer one-half of the monthly base rent for the period from June 2020 through May 2021.

As of June 28, 2020, the Company had contingent and direct lease obligations for 16 additional locations. Two of the lease obligations have been subleased, nine of the lease obligations have been assigned to franchisees, and five of the lease obligations are direct lease obligations for non-operating locations. These leased properties range in size from 2,021 to 2,850 square feet, have annual rental rates ranging from approximately \$28.00 to \$44.00 per square foot and expire between 2022 and 2028. The Company is currently pursuing alternatives for subleasing or terminating the remaining five non-operating unexpired leases.

ITEM 3. LEGAL PROCEEDINGS.

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

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

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

As of September 10, 2020, there were approximately 1,896 stockholders of record of the Company's common stock.

The Company had no sales of unregistered securities during fiscal 2020 or 2019.

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

	<u>High</u>	<u>Low</u>
<u>Fiscal 2020:</u>		
Fourth Quarter Ended 6/28/2020	\$ 1.23	\$ 0.52
Third Quarter Ended 3/29/2020	1.83	0.69
Second Quarter Ended 12/29/2019	2.85	1.44
First Quarter Ended 9/29/2019	3.21	2.04
<u>Fiscal 2019:</u>		
Fourth Quarter Ended 06/30/2019	\$ 3.60	\$ 1.05
Third Quarter Ended 3/24/2019	2.05	0.64
Second Quarter Ended 12/23/2018	1.74	0.91
First Quarter Ended 9/23/2018	1.60	1.20

The Company did not pay any dividends on its common stock during the fiscal years ended June 28, 2020 or June 30, 2019. Any determination to pay cash dividends in the future will be at the discretion of the Company's board of directors and will be dependent upon the Company's results of operations, financial condition, capital requirements, contractual restrictions and other factors deemed relevant. Currently, there is no intention to pay any dividends on our common stock.

2007 Stock Purchase Plan

On May 23, 2007, the Company's board of directors approved a stock purchase plan (the "2007 Stock Purchase Plan") authorizing the purchase on our behalf of up to 1,016,000 shares of our common stock in the open market or in privately negotiated transactions. On June 2, 2008, the Company's board of directors amended the 2007 Stock Purchase Plan to increase the number of shares of common stock the Company may repurchase by 1,000,000 shares to a total of 2,016,000 shares. On April 22, 2009 the Company's board of directors amended the 2007 Stock Purchase Plan again to increase the number of shares of common stock the Company may repurchase by 1,000,000 shares to a total of 3,016,000 shares. The 2007 Stock Purchase Plan does not have an expiration date. There were no stock purchases in the fiscal year ended June 28, 2020.

The Company's ability to purchase shares of our common stock is subject to various laws, regulations and policies as well as the rules and regulations of the Securities and Exchange Commission (the "SEC"). Subsequent to June 28, 2020, the Company has not repurchased any outstanding shares but may make further purchases under the 2007 Stock Purchase Plan. The Company may also purchase shares of our common stock other than pursuant to the 2007 Stock Purchase Plan or other publicly announced plans or programs.

Equity Compensation Plan Information

The following table furnishes information with respect to the Company's stock option equity compensation plans as of June 28, 2020:

<u>Plan Category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants, and rights</u>	<u>Weighted average exercise price of outstanding options, warrants, and rights</u>	<u>Number of securities remaining available for future issuance under equity compensation plans</u>
Stock option compensation plans approved by security holders	206,750	\$ 4.96	2,916,661
Stock option compensation plans not approved by security holders	–	–	–
Total	<u>206,750</u>	<u>\$ 4.96</u>	<u>2,916,661</u>

ITEM 6. SELECTED FINANCIAL DATA

Not required for a smaller reporting company.

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

Results of Operations

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

Overview

The Company franchises pizza buffet ("Buffet Units"), delivery/carry-out ("Delco Units") and express ("Express Units") restaurants under the trademark "Pizza Inn" and operates and franchises fast casual pizza restaurants ("Pie Five Units") under the trademarks "Pie Five Pizza Company" or "Pie Five". The Company also licenses Pizza Inn Express kiosks ("PIE Units") under the trademark "Pizza Inn". We facilitate food, equipment and supply distribution to our domestic and international system of restaurants through agreements with third party distributors. At June 28, 2020, Company-owned and franchised restaurants consisted of the following (in thousands, except unit data):

Fiscal Year Ended June 28, 2020

(in thousands, except unit data)

	Pizza Inn		Pie Five		All Concepts	
	Ending Units	Retail Sales	Ending Units	Retail Sales	Ending Units	Retail Sales
Domestic Franchised/Licensed	151	\$ 75,973	42	\$ 24,779	193	\$ 100,752
Company-Owned	–	–	–	240	–	240
Total Domestic Units	151	\$ 75,973	42	\$ 25,019	193	\$ 100,992
International Franchised	38		–		38	

The domestic units were located in 20 states predominately situated in the southern half of the United States. The international restaurants were located in six foreign countries.

The following table summarizes domestic comparable store retail sales for the Company. Week 53 from fiscal year 2019 was added to fiscal year 2020 so that the number of weeks is comparable.

	53 Weeks Ended	
	June 28, 2020	June 30, 2019
	(in thousands)	
Pizza Inn Domestic Comparable Store Retail Sales	\$ 74,767	\$ 81,986
Pie Five Domestic Comparable Store Retail Sales	22,694	26,905
Total Rave Comparable Store Retail Sales	\$ 97,461	\$ 108,891

Basic and diluted net income per common share decreased \$0.23 to a net loss of \$0.28 per share for fiscal 2020 compared to a net loss of \$0.05 per share in the prior fiscal year. Net income decreased \$3.4 million to a net loss of \$4.2 million for fiscal 2020 compared to a net loss of \$0.8 million for the prior fiscal year on revenues of \$10.0 million for fiscal 2020 as compared to \$12.3 million in fiscal 2019.

Adjusted EBITDA for the fiscal year ended June 28, 2020, improved to \$0.6 million compared to \$0.4 million for the comparable period of the prior fiscal year. The following table sets forth a reconciliation of net income to EBITDA and Adjusted EBITDA for the periods shown (in thousands):

	Fiscal Year Ended	
	June 28, 2020	June 30, 2019
Net loss	\$ (4,233)	\$ (750)
Interest expense	95	104
Income taxes	4,078	(51)
Depreciation and amortization	186	466
EBITDA	<u>\$ 126</u>	<u>\$ (231)</u>
Stock compensation expense	(104)	36
Severance	157	—
Loss (gain) on sale/disposal of assets	(24)	(551)
Impairment of long-lived assets and other lease charges	880	1,664
Franchisee default and closed store revenue	(606)	(777)
Closed and non-operating store costs	137	238
Adjusted EBITDA	<u>\$ 566</u>	<u>\$ 379</u>

Results of operations for the fiscal years 2020 and 2019 included 52 weeks and 53 weeks, respectively.

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 closure of one Company-owned Pie Five restaurant in January 2020 was unrelated to the COVID-19 outbreak but the quick closure of a Pie Five Unit recently acquired from a franchisee was accelerated by the pandemic.

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 furloughed certain employees, reduced base salary by 20% for all remaining employees and reduced expenses. While the Company will remain focused on controlling expenses, future results of operations are likely to be materially adversely impacted.

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

Pizza Inn Brand Summary

The following tables summarize certain key indicators for the Pizza Inn franchised and licensed domestic restaurants that management believes are useful in evaluating performance. Week 53 from fiscal year 2019 was added to fiscal year 2020 so that the number of weeks is comparable.

	53 Weeks Ended	
	June 28, 2020	June 30, 2019
(in thousands, except unit data)		
Pizza Inn Retail Sales - Total Domestic Units		
Domestic Units		
Buffet Units - Franchised	\$ 71,267	\$ 82,950
Delco/Express Units - Franchised	6,200	6,981
PIE Units - Licensed	289	204
Total Domestic Retail Sales	<u>\$ 77,756</u>	<u>\$ 90,135</u>
Pizza Inn Comparable Store Retail Sales - Total Domestic	<u>\$ 74,767</u>	<u>\$ 81,986</u>
Pizza Inn Average Units Open in Period		
Domestic Units		
Buffet Units - Franchised	85	88
Delco/Express Units - Franchised	57	60
PIE Units - Licensed	10	7
Total Domestic Units	<u>153</u>	<u>154</u>

Pizza Inn total domestic retail sales decreased by \$12.4 million, or 13.7% compared to the prior year. The decrease in domestic retail sales was primarily due to the effects of COVID-19. Pizza Inn domestic comparable store retail sales decreased by \$7.2 million, or 8.8%.

The following chart summarizes Pizza Inn restaurant activity for the fiscal year ended June 28, 2020:

	Fiscal Year Ended June 28, 2020			
	Beginning Units	Opened	Closed	Ending Units
Domestic Units:				
Buffet Units - Franchised	87	2	6	83
Delco/Express Units - Franchised	59	2	6	55
PIE Units - Licensed	9	4	-	13
Total Domestic Units	<u>155</u>	<u>8</u>	<u>12</u>	<u>151</u>
International Units (all types)	48	5	15	38
Total Units	<u>203</u>	<u>13</u>	<u>27</u>	<u>189</u>

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

Pie Five Brand Summary

The following tables summarize certain key indicators for the Pie Five franchised and Company-owned restaurants that management believes are useful in evaluating performance. Week 53 from fiscal year 2019 was added to fiscal year 2020 so that the number of weeks is comparable.

	53 Weeks Ended	
	June 28, 2020	June 30, 2019
(in thousands, except unit data)		
Pie Five Retail Sales - Total Units		
Domestic Units - Franchised	\$ 25,771	\$ 40,681
Domestic Units - Company-owned	240	887
Total Domestic Retail Sales	<u>\$ 26,011</u>	<u>\$ 41,568</u>
Pie Five Comparable Store Retail Sales - Total	<u>\$ 22,694</u>	<u>\$ 26,905</u>
Pie Five Average Units Open in Period		
Domestic Units - Franchised	53	65
Domestic Units - Company-owned	1	2
Total Domestic Units	<u>54</u>	<u>67</u>

Pie Five total retail sales decreased \$15.6 million, or 37.4%, compared to the prior year. Average units open in the period decreased to 54 from 67 the prior year. Comparable store retail sales decreased by \$4.2 million, or 15.7% during fiscal 2020 compared to the prior year.



The following chart summarizes Pie Five restaurant activity for the fiscal year ended June 28, 2020:

	Fiscal Year Ended June 28, 2020			
	Beginning Units	Opened	Closed	Ending Units
Domestic - Franchised	57	3	18	42
Domestic - Company-owned	1	1	2	–
Total Domestic Units	58	4	20	42

The net decrease of 16 Pie Five units during fiscal 2020 was primarily the result of the closure of poor-performing units, which we believe provides us a stronger foundation for future brand growth. We believe that this trend of net store closures will moderate and then reverse in future periods.

Pie Five - Company-Owned Restaurants

(in thousands, except store weeks and average data)

	Fiscal Year Ended	
	June 28, 2020	June 30, 2019
Store weeks (excluding partial weeks)	30	79
Average weekly sales	8,108	11,253
Average number of units	1	2
Restaurant sales (excluding partial weeks)	240	887
Restaurant sales	240	887
Loss from continuing operations before taxes	(1,006)	(2,001)
Allocated marketing and advertising expenses	12	44
Depreciation/amortization expense	–	123
Impairment, other lease charges and non-operating store costs	810	1,135
Restaurant operating cash flow	(184)	(699)

Total retail sales of Company-owned Pie Five restaurants decreased \$0.6 million, or 72.9%, to \$0.2 million for fiscal 2020 compared to \$0.9 million for fiscal 2019 primarily as a result of decreased store count. Average weekly sales for Company-owned Pie Five restaurants also decreased \$3,145, or 27.9%, to \$8,108 for the fiscal year ended June 28, 2020 compared to \$11,253 for the prior year. The decrease in average weekly sales was primarily attributable to a similar decline in comparable store retail sales.

Loss from continuing operations before taxes for Company-owned Pie Five stores decreased \$1.0 million for the fiscal year ended June 28, 2020 compared to the same period of the prior year primarily due to the closure of Company-owned restaurants. Similarly, operating cash flow from Company-owned Pie Five restaurants improved by \$0.5 million to \$0.2 million cash used in fiscal 2020 compared to \$0.7 million cash used in fiscal 2019.

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 costs, gain/loss on sale of assets, costs related to impairment, closed and non-operating store costs, and franchisee default and closed store revenues.
- “Retail sales” represents the restaurant sales reported by our franchisees and Company-owned restaurants, which may be segmented by brand or domestic/international locations.
- “Comparable store retail sales” includes the retail sales for restaurants that have been open for at least 18 months as of the end of the reporting period. The sales results for a restaurant that was closed temporarily for remodeling or relocation within the same trade area are included in the calculation only for the days that the restaurant was open in both periods being compared.
- “Store weeks” represent the total number of full weeks that specified restaurants were open during the period.
- “Average units open” reflects the number of restaurants open during a reporting period weighted by the percentage of the weeks in a reporting period that each restaurant was open.
- “Average weekly sales” for a specified period is calculated as total retail sales (excluding partial weeks) divided by store weeks in the period.
- “Restaurant operating cash flow” represents the pre-tax income earned by Company-owned restaurants before (1) allocated marketing and advertising expenses, (2) depreciation and amortization, (3) impairment and other lease charges, and (4) 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.

Fiscal years 2020 and 2019 included 52 weeks and 53 weeks, respectively. In order to reflect comparable 53 week periods, the last week of fiscal 2019 has been included in both periods in the presentation of retail sales, average units open and comparable store retail sales.

Financial Results

	Pizza Inn Franchising		Pie Five Franchising		Company-Owned Stores		Corporate		Total	
	Fiscal Year Ended		Fiscal Year Ended		Fiscal Year Ended		Fiscal Year Ended		Fiscal Year Ended	
	June 28, 2020	June 30, 2019	June 28, 2020	June 30, 2019	June 28, 2020	June 30, 2019	June 28, 2020	June 30, 2019	June 28, 2020	June 30, 2019
REVENUES:										
Franchise and license revenues	\$ 6,662	\$ 7,192	\$ 2,891	\$ 4,191	\$ —	\$ —	\$ —	\$ —	\$ 9,553	\$ 11,383
Restaurant sales	—	—	—	—	240	889	—	—	240	889
Rental Income	—	—	—	—	—	—	195	—	195	—
Interest income and other	—	—	3	1	—	(2)	37	48	40	47
Total revenues	6,662	7,192	2,894	4,192	240	887	232	48	10,028	12,319
COSTS AND EXPENSES:										
Cost of sales	—	—	—	—	439	1,120	—	—	439	1,120
General and administrative expenses	—	—	—	—	90	196	5,413	5,078	5,503	5,274
Franchise expenses	1,297	1,680	1,754	2,098	—	—	—	—	3,051	3,778
Gain on sale of assets	—	—	—	—	—	—	(24)	(551)	(24)	(551)
Impairment of long-lived assets and other lease charges	—	—	—	—	717	1,449	163	215	880	1,664
Bad debt	—	—	—	—	—	—	53	1,265	53	1,265
Interest expense	—	—	—	—	—	—	95	104	95	104
Amortization and depreciation expense	—	—	—	—	—	123	186	343	186	466
Total costs and expenses	1,297	1,680	1,754	2,098	1,246	2,888	5,886	6,454	10,183	13,120
INCOME/(LOSS) BEFORE TAXES										
	\$ 5,365	\$ 5,512	\$ 1,140	\$ 2,094	\$ (1,006)	\$ (2,001)	\$ (5,654)	\$ (6,406)	\$ (155)	\$ (801)

Revenues:

Revenues are derived from (1) franchise royalties, franchise fees and supplier incentives, (2) sales by Company-owned restaurants, (3) sublease rental income, and (4) interest and other income. The volume of supplier incentive revenues is dependent on the level of chain-wide retail sales, which are impacted by changes in comparable store sales and restaurant count, and the products sold to franchisees through third-party food distributors. Total revenues for fiscal 2020 and fiscal 2019 were \$10.0 million and \$12.3 million, respectively.

Pizza Inn Franchise and License Revenues

Pizza Inn franchise revenues decreased by \$0.5 million to \$6.7 million in fiscal 2020 compared to \$7.2 million in fiscal 2019. The 7.4% decrease was primarily due to the effects of COVID-19.

Pie Five Franchise and License Revenues

Pie Five franchise revenues decreased by \$1.3 million to \$2.9 million for fiscal 2020 compared to \$4.2 million for fiscal 2019. The 31.0% decrease was primarily due to reduced restaurant count and the effects of COVID-19.

Restaurant Sales

Restaurant sales, which consist of revenue generated by Company-owned restaurants, decreased 72.9%, or \$0.6 million, to \$0.2 million for fiscal 2020 compared to \$0.9 million for fiscal 2019. The decrease in restaurant sales was primarily a result of the closure of all remaining Company-owned stores during fiscal 2020.

Costs and Expenses:

Cost of Sales

Cost of sales primarily includes food and supply costs and labor directly related to Company-owned restaurant sales. These costs decreased 60.8%, or \$0.7 million, to \$0.4 million for fiscal 2020 compared to \$1.1 million in fiscal 2019. The decrease was primarily the result of the closure of all remaining Company-owned stores during fiscal 2020.

General and Administrative Expenses

Total general and administrative expenses increased \$0.2 million to \$5.5 million for fiscal 2020 compared to \$5.3 million for the prior fiscal year. General and administrative expenses for Company-owned restaurants decreased \$0.1 million to \$0.1 million for fiscal 2020 compared to \$0.2 million for the prior fiscal year primarily as a result of lower store count. General and administrative expenses for corporate increased \$0.3 million to \$5.4 million for fiscal 2020 compared to \$5.1 million for the prior year primarily as a result of an increase in marketing costs and professional fees.

Franchise Expenses

Franchise expenses include general and administrative expenses directly related to the sale and continuing service of domestic and international franchises. Total franchise expenses decreased \$0.7 million to \$3.1 million in fiscal 2020 from \$3.8 million in the prior fiscal year. Pizza Inn franchise expenses decreased \$0.4 million to \$1.3 million in fiscal 2020 compared to \$1.7 million in the prior fiscal year primarily as a result of a reduction in force and lower travel expenses due to COVID-19. Pie Five franchise expenses decreased by \$0.3 million to \$1.8 million in fiscal 2020 compared to \$2.1 million in the prior fiscal year primarily as a result of a reduction in force and lower travel expenses due to COVID-19.

Gain on Sale of Assets

The Company's gain on sale of assets reflects the net difference between the sale price of assets and the net carrying value of the assets at the time of sale. Gain on sale of assets decreased to \$24 thousand in fiscal 2020 compared to \$551 thousand in the prior year due to the sale of two Company-owned stores in fiscal 2019.

Impairment Expenses

Impairment of long-lived assets and other lease charges were \$0.9 million for fiscal 2020 compared to \$1.7 million for fiscal 2019. Impairment of long-lived assets and other lease charges for Company-owned restaurants of \$0.7 million in fiscal 2020 consisted primarily of impairments of leasehold improvements and equipment and lease charges for closed stores.

Bad Debt Expense

The Company monitors franchisee receivable balances and adjusts credit terms when necessary to minimize the Company's exposure to high risk accounts receivable. Bad debt expense decreased by \$1.2 million to \$0.1 million in fiscal 2020 compared to \$1.3 million in fiscal 2019 related to uncollectible domestic and international accounts receivable.

Interest Expense

Interest expense decreased \$9 thousand for fiscal 2019 to \$95 thousand compared to \$104 thousand in the prior year due to a decrease in outstanding principal balance of senior convertible notes as a result of conversions during the third quarter of fiscal 2019.

Amortization and Depreciation Expense

Amortization and depreciation expense decreased \$0.3 million to \$0.2 million in fiscal 2020 compared to \$0.5 million in fiscal 2019 primarily as a result of lower depreciation attributable to fewer Company-owned restaurants.

Provision for Income Tax

The Company continually reviews the realizability of its deferred tax assets, including an analysis of factors such as future taxable income, reversal of existing taxable temporary differences, and tax planning strategies. 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. During the quarter ending March 29, 2020, it was determined that the valuation allowance on deferred tax assets should be increased by \$4.3 million resulting in a full valuation allowance. The Company has maintained the full valuation allowance for the year ended June 28, 2020.

For the year ended, June 28, 2020, the Company recorded an income tax expense of \$4.1 million including federal deferred tax expense of \$4.1 million and current state tax expense of \$25 thousand. As of June 28, 2020, the Company had net operating loss carryforwards totaling \$23.6 million that are available to reduce future taxable income and will begin to expire in 2032. Under the Tax Cuts and Jobs Act, approximately \$0.8 million of the loss carryforwards are limited to 80% and do not expire.

On March 27, 2020, President Trump signed into law the CARES Act. The legislation enacts various measures to assist companies affected by the COVID-19 pandemic. Key income tax-related provisions of the bill include temporary modifications to net operating loss utilization and carryback limitations, allowance of refundable alternative minimum tax credits, reduced limitation of charitable contributions, reduced limitations of business interest expense, and technical corrections to depreciation of qualified improvement property.

Liquidity and Capital Resources

Sources and Uses of Funds

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

Cash flows from operating activities generally reflect net income adjusted for certain non-cash items including depreciation and amortization, changes in deferred taxes, share based compensation, and changes in working capital. Cash used by operations was \$0.4 million in fiscal 2020 compared to cash provided by operations of \$0.7 million in fiscal year 2019. The decrease in operating cash flow was primarily attributable to payments on terminated leases.

Cash flows from investing activities reflect net proceeds from sale of assets and capital expenditures for the purchase of Company assets. Cash provided by investing activities was \$0.1 million in both fiscal 2020 and fiscal 2019.

Cash flows from financing activities generally reflect changes in the Company's borrowings and securities activity during the period. Net cash provided by financing activities was \$1.0 million and \$0.1 million for the fiscal years ended June 28, 2020 and June 30, 2019, respectively. Cash flows from financing activities for fiscal 2020 were primarily the result of proceeds from a government-sponsored loan program and sales of stock in an at-the-market offering. Cash flows from financing activities for fiscal 2019 were primarily the result of sales of stock in the at-the-market offering.

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

PPP Loan

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

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

ATM Offering

On December 5, 2017, the Company entered into an At Market Issuance Sales Agreement with B. Riley FBR, Inc. (“B. Riley FBR”) pursuant to which the Company may offer and sell shares of its common stock having an aggregate offering price of up to \$5,000,000 from time to time through B. Riley FBR acting as agent (the “2017 ATM Offering”). The 2017 ATM Offering is being undertaken pursuant to Rule 415 and a shelf Registration Statement on Form S-3 which was declared effective by the SEC on November 6, 2017. Through June 28, 2020, the Company had sold an aggregate of 524,660 shares in the 2017 ATM Offering, realizing aggregate gross proceeds of \$0.7 million.

Convertible Notes

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

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

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

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

During fiscal 2020, \$64 thousand in par value of the Notes were converted to common shares. As of June 28, 2020, \$1.6 million in par value of the Notes was outstanding, offset by \$48 thousand of unamortized debt issue costs and unamortized debt discounts.

Liquidity

We expect to fund continuing operations and planned capital expenditures for the next fiscal year primarily from cash on hand, operating cash flow, loan proceeds, and sales of securities. Based on budgeted and year-to-date cash flow information, we believe that we have sufficient liquidity to satisfy our cash requirements for the 2021 fiscal year.

Critical Accounting Policies and Estimates

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

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

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

The Company reviews long-lived assets for impairment when events or circumstances indicate that the carrying value of such assets may not be fully recoverable. Impairment is evaluated based on the sum of undiscounted estimated future cash flows expected to result from use and eventual disposition of the assets compared to their carrying value. If impairment is indicated, the carrying value of an impaired asset is reduced to its fair value, based on discounted estimated future cash flows. During fiscal year 2020, the Company tested its long-lived assets for impairment and recognized pre-tax, non-cash impairment charges of \$0.2 million primarily related to assets held for sale. The Company also had lease charges related to closed units of \$0.7 million.

Franchise revenue consists of income from license fees, royalties, area development and foreign master license agreements, advertising fund revenues, supplier incentive and convention contribution revenues. Franchise fees, area development and foreign master license agreement fees are amortized into revenue on a straight-line basis over the term of the related contract agreement. Royalties and advertising fund revenues, which are based on a percentage of franchise retail sales, are recognized as income as retail sales occur. Supplier incentive revenues are recognized as earned, typically as the underlying commodities are shipped.

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

The Company accounts for uncertain tax positions in accordance with ASC 740-10, which prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that it has taken or expects to take on a tax return. ASC 740-10 requires that a company recognize in its financial statements the impact of tax positions that meet a "more likely than not" threshold, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. As of June 28, 2020 and June 30, 2019, the Company had no uncertain tax positions.

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

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 became 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):

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

Leases

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

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

Nature of Leases

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

Office Agreements

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

Restaurant Space Agreements

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

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

As of June 28, 2020, the Company had no Company-owned restaurants.

Information Technology Equipment

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

Discount Rate

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

Lease Guarantees

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

Practical Expedients and Accounting Policy Elections

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

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

The components of total lease expense for the fiscal year ended June 28, 2020, the majority of which is included in general and administrative expense, are as follows (in thousands):

	Fiscal Year Ended June 28, 2020
Operating lease cost	\$ 670
Sublease income	(195)
Total lease expense, net of sublease income	<u>\$ 475</u>

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

	Fiscal Year Ended June 28, 2020
Cash paid for amounts included in the measurement of lease liabilities	\$ 684

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

	Fiscal Year Ended June 28, 2020
Operating lease right of use assets, net	\$ 3,567
Operating lease liabilities, current	632
Operating lease liabilities, net of current portion	3,471

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

	Fiscal Year Ended June 28, 2020
Weighted average remaining lease term	5.3 Years
Weighted average discount rate	4.0%

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

	Operating Leases
2021	\$ 785
2022	804
2023	813
2024	766
Thereafter	1,448
Total operating lease payments	<u>4,616</u>
Less: imputed interest	<u>\$ (513)</u>
Total operating lease liability	<u>\$ 4,103</u>

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

Not required for a smaller reporting company.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

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

Management Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate "internal control over financial reporting" (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934). Under the supervision and with the participation of management, including our principal executive officer and principal financial officer, the Company has conducted an evaluation of the effectiveness of its internal control over financial reporting. The Company's management based its evaluation on criteria set forth in the framework in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon that evaluation, management has concluded that our internal control over financial reporting was effective as of June 28, 2020.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

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

ITEM 11. EXECUTIVE COMPENSATION.

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

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

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

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

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

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

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

PART IV**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.**

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

[3.1](#) Amended and Restated Articles of Incorporation of Rave Restaurant Group, Inc. (incorporated by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K filed January 8, 2015).

[3.2](#) Amended and Restated Bylaws of Rave Restaurant Group, Inc. (incorporated by reference to Exhibit 3.2 to the registrant's Current Report on Form 8-K filed January 8, 2015).

[4.1](#) Indenture for 4% Convertible Senior Notes due 2022 (filed as Exhibit 4.1 to Form S-3/A filed January 6, 2017 and incorporated herein by reference).

[4.2](#) Pledge Agreement (filed as Exhibit 4.2 to Form S-3/A filed January 6, 2017 and incorporated herein by reference).

[4.3](#) Supplemental Indenture Number 1 dated as of October 31, 2017, between Rave Restaurant Group, Inc. and Securities Transfer Corporation (filed as Exhibit 4.1 to Form 8-K filed November 9, 2017 and incorporated herein by reference).

[4.4](#) Description of Registrant's Securities.

[10.1](#) 2015 Long Term Incentive Plan of the Company (filed as Exhibit 10.1 to Form 8-K filed November 20, 2014 and incorporated herein by reference).*

[10.2](#) Form of Stock Option Grant Agreement under the Company's 2015 Long Term Incentive Plan (filed as Exhibit 10.2 to Form 8-K filed November 20, 2014 and incorporated herein by reference).*

[10.3](#) Form of Restricted Stock Unit Award Agreement under the Company's 2015 Long-Term Incentive Plan (filed as Exhibit 10.1 to Form 10-Q for the fiscal quarter ended December 27, 2015 and incorporated herein by reference).*

[10.4](#) Lease Agreement dated November 1, 2016, between A&H Properties Partnership and Rave Restaurant Group, Inc. (filed as Exhibit 10.4 to Form 10-K for the year ended June 30, 2019 and incorporated herein by reference).*

[10.5](#) First Amendment to Lease and Expansion dated July 1, 2017, between A&H Properties Partnership and Rave Restaurant Group, Inc. (filed as Exhibit 10.4 to Form 10-K for the year ended June 30, 2019 and incorporated herein by reference).*

[10.6](#) Second Amendment to Lease Agreement effective June 1, 2020, between A&H Properties Partnership and Rave Restaurant Group, Inc.

[10.7](#) At Market Issuance Sales Agreement between the Company and B. Riley FBR, Inc. (filed as Exhibit 1.01 to Form 8-K filed December 5, 2017).*

[10.8](#) Letter agreement dated October 18, 2019, between Rave Restaurant Group, Inc. and Brandon Solano (filed as Exhibit 10.1 to Form 8-K filed October 21, 2019 and incorporated herein by reference).*

[10.9](#) Letter agreement dated November 4, 2019, between Rave Restaurant Group, Inc. and Mike Burns (filed as Exhibit 10.1 to Form 8-K filed November 15, 2019 and incorporated herein by reference).*

[10.10](#) Letter agreement dated December 16, 2019, between Rave Restaurant Group, Inc. and Clinton Fendley (filed as Exhibit 10.1 to Form 8-K filed January 7, 2020 and incorporated herein by reference).*

[10.11](#) Note, dated April 10, 2020, between Rave Restaurant Group, Inc. and JPMorgan Chase Bank, N. A. (filed as Exhibit 10.1 to Form 8-K filed April 16, 2020 and incorporated herein by reference).*

[21.1](#) List of Subsidiaries.

[23.1](#) Consent of Independent Registered Public Accounting Firm.

[23.2](#) Consent of Independent Registered Public Accounting Firm.

[31.1](#) Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer.

[31.2](#) Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer.

[32.1](#) Section 1350 Certification of Principal Executive Officer.

[32.2](#) Section 1350 Certification of Principal Financial Officer.

101 Interactive data files pursuant to Rule 405 of Regulation S-T.

*Management contract or compensatory plan or agreement.

ITEM 16. FORM 10-K SUMMARY.

None.

SIGNATURES

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

Date: September 28, 2020

Rave Restaurant Group, Inc.

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)

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

<u>Name and Position</u>	<u>Date</u>
<u>/s/ Brandon L. Solano</u> Brandon L. Solano Chief Executive Officer (principal executive officer)	September 28, 2020
<u>/s/ Clinton D. Fendley</u> Clinton D. Fendley Vice President of Finance (principal financial and accounting officer)	September 28, 2020
<u>/s/ Mark E. Schwarz</u> Mark E. Schwarz Director and Chairman of the Board	September 28, 2020
<u>/s/ Brian T. Bares</u> Brian T. Bares Director	September 28, 2020
<u>/s/ Robert B. Page</u> Robert B. Page Director	September 28, 2020
<u>/s/ William C. Hammett, Jr.</u> William C. Hammett, Jr. Director	September 28, 2020
<u>/s/ Clinton J. Coleman</u> Clinton J. Coleman Director	September 28, 2020

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

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Rave Restaurant Group, Inc.
The Colony, Texas

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of Rave Restaurant Group, Inc. (the “Company”) and subsidiaries as of June 28, 2020, the related consolidated statements of operations, changes in stockholders’ equity, and cash flows for the years then ended, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at June 28, 2020, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

Emphasis of Matter

As discussed in Note K to the financial statements, on March 11, 2020 the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The ultimate financial impact and duration of these events cannot be reasonably estimated at this time. Our opinion was not modified with respect to this matter.

Prior Period Financial Statements

The financial statements of Rave Restaurant Group, Inc. as of June 30, 2019, were audited by other auditors whose report dated September 30, 2019, expressed an unmodified opinion on those statements.

/s/ ArmaninoLLP
Dallas, Texas

We have served as the Company’s auditor since 2020.
September 28, 2020

Report of Independent Registered Public Accounting Firm

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

Opinion on the Consolidated Financial Statements

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

Basis for Opinion

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

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

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

/s/ Baker Tilly US, LLP
Plano, Texas
March 13, 2020

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

	Fiscal Year Ended	
	June 28, 2020	June 30, 2019
REVENUES:	\$ 10,028	\$ 12,319
COSTS AND EXPENSES:		
Cost of sales	439	1,120
General and administrative expenses	5,503	5,274
Franchise expenses	3,051	3,778
Gain on sale of assets	(24)	(551)
Impairment of long-lived assets and other lease charges	880	1,664
Bad debt	53	1,265
Interest expense	95	104
Depreciation and amortization expense	186	466
Total costs and expenses	<u>10,183</u>	<u>13,120</u>
LOSS BEFORE TAXES	(155)	(801)
Income tax expense (benefit)	4,078	(51)
NET LOSS	<u>\$ (4,233)</u>	<u>\$ (750)</u>
LOSS PER SHARE OF COMMON STOCK - BASIC:	\$ (0.28)	\$ (0.05)
LOSS PER SHARE OF COMMON STOCK - DILUTED:	\$ (0.28)	\$ (0.05)
Weighted average common shares outstanding - basic	<u>15,144</u>	<u>15,070</u>
Weighted average common and potential dilutive common shares outstanding	<u>15,144</u>	<u>15,070</u>

See accompanying Notes to Consolidated Financial Statements.

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

	<u>June 28,</u> <u>2020</u>	<u>June 30,</u> <u>2019</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,969	\$ 2,264
Restricted Cash	234	233
Accounts receivable, less allowance for bad debts of \$269 and \$209, respectively	965	1,191
Notes receivable, less allowance for bad debt of \$0 and \$916, respectively	546	389
Inventories	—	7
Income tax receivable	—	4
Property held for sale	—	231
Deferred contract charges	44	38
Prepaid expenses and other	174	346
Total current assets	4,932	4,703
LONG-TERM ASSETS		
Property, plant and equipment, net	366	500
Operating lease right of use asset, net	3,567	—
Intangible assets definite-lived, net	155	196
Long-term notes receivable	449	735
Deferred tax asset, net	—	4,060
Long-term deferred contract charges	231	232
Deposits and other	5	—
Total assets	\$ 9,705	\$ 10,426
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable - trade	\$ 446	\$ 400
Accounts payable - lease termination impairments	407	832
Accrued expenses	775	834
Deferred rent	—	37
Operating lease liability, current	632	—
Deferred revenues	254	275
Total current liabilities	2,514	2,378
LONG-TERM LIABILITIES		
Convertible notes	1,549	1,584
PPP loan	657	—
Deferred rent, net of current portion	—	397
Operating lease liability, net of current portion	3,471	—
Deferred revenues, net of current portion	960	1,561
Other long-term liabilities	51	72
Total liabilities	9,202	5,992
COMMITMENTS AND CONTINGENCIES (SEE NOTE J)		
SHAREHOLDERS' EQUITY		
Common stock, \$.01 par value; authorized 26,000,000 shares; issued 22,550,376 and 22,208,141 shares, respectively; outstanding 15,465,222 and 15,090,837 shares, respectively	225	222
Additional paid-in capital	33,531	33,327
Accumulated deficit	(8,716)	(4,483)
Treasury stock at cost	—	—
Shares in treasury: 7,085,154 and 7,117,304, respectively	(24,537)	(24,632)
Total shareholders' equity	503	4,434
Total liabilities and shareholders' equity	\$ 9,705	\$ 10,426

See accompanying Notes to Consolidated Financial Statements.

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

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Treasury Stock		Total
	Shares	Amount			Shares	Amount	
BALANCE, June 24, 2018	22,167	\$ 222	\$ 33,206	\$ (2,493)	(7,119)	\$ (24,636)	\$ 6,299
ASC 606 cumulative adjustment				(1,622)			(1,622)
Stock compensation expense	—	—	36	382	—	—	418
Conversion of senior notes, net	—	—	—	—	2	4	4
Issuance of common stock	41	—	88	—	—	—	88
Equity issue costs - ATM offering	—	—	(3)	—	—	—	(3)
Net income	—	—	—	(750)	—	—	(750)
BALANCE, June 30, 2019	<u>22,208</u>	<u>\$ 222</u>	<u>\$ 33,327</u>	<u>\$ (4,483)</u>	<u>(7,117)</u>	<u>\$ (24,632)</u>	<u>\$ 4,434</u>
	Common Stock		Additional	Accumulated	Treasury Stock		Total
	Shares	Amount	Paid-in	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
Stock compensation expense	—	—	(104)	—	—	—	(104)
Issuance of common stock	342	3	354	—	—	—	357
Equity issue costs - ATM offering	—	—	(15)	—	—	—	(15)
Net income	—	—	—	(4,233)	—	—	(4,233)
BALANCE, June 28, 2020	<u>22,550</u>	<u>\$ 225</u>	<u>\$ 33,531</u>	<u>\$ (8,716)</u>	<u>(7,085)</u>	<u>\$ (24,537)</u>	<u>\$ 503</u>

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

	Fiscal Year Ended	
	June 28, 2020	June 30, 2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (4,233)	\$ (750)
Adjustments to reconcile net loss to cash provided by (used in) operating activities:		
Impairment of long-lived assets and other lease charges	880	1,664
Stock compensation expense	(104)	36
Depreciation and amortization	145	423
Amortization of operating lease asset	471	—
Amortization of intangible assets definite-lived	41	43
Amortization of debt issue costs	29	22
Gain on sale of assets	(24)	(551)
Provision for bad debt (accounts receivable)	53	349
Provision for bad debt (notes receivable)	—	916
Deferred income tax asset (net)	4,060	(198)
Changes in operating assets and liabilities:		
Accounts receivable	132	226
Operating notes receivable	104	50
Inventories	7	(1)
Prepaid expenses, deposits and other, net	167	(446)
Restricted Cash	(1)	—
Deferred revenue	(587)	(409)
Accounts payable - trade	46	(21)
Accounts payable - lease termination impairments	(985)	(418)
Operating lease liability	(494)	—
Accrued expenses, deferred rent and other	(67)	(276)
Cash (used in) provided by operating activities	(360)	659
CASH FLOWS FROM INVESTING ACTIVITIES:		
Notes receivable from fixed asset sales	123	201
Proceeds from sale of assets	—	11
Capital expenditures	(56)	(81)
Cash (used in) provided by investing activities	67	131
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of stock	357	88
Equity issuance costs	(15)	—
Proceeds from PPP loan	657	—
Cash provided by financing activities	999	88
Net increase in cash and cash equivalents	706	878
Cash, cash equivalents, and restricted cash, beginning of period	2,497	1,619
Cash, cash equivalents, and restricted cash, end of period	<u>\$ 3,203</u>	<u>\$ 2,497</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
CASH PAID FOR:		
Interest	\$ 66	\$ 72
Income taxes	\$ 18	\$ 168
Non-cash activities:		
Conversion of notes to common shares	\$ 64	\$ 4
Notes receivable from sales of fixed assets	\$ —	\$ 654
Operating lease right of use assets at adoption	\$ 4,150	\$ —
Operating lease liability at adoption	\$ 4,894	\$ —

See accompanying Notes to Consolidated Financial Statements.

RAVE RESTAURANT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Description of Business:

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

As of June 28, 2020, we had 42 franchised Pie Five Units, 176 franchised Pizza Inn restaurants, and 13 licensed Pizza Inn Express, or PIE, kiosks (“PIE Units”). The 138 domestic franchised Pizza Inn restaurants were comprised of 83 pizza buffet restaurants (“Buffet Units”), 10 delivery/carry-out restaurants (“Delco Units”), and 45 express restaurants (“Express Units”). As of June 28, 2020, there were 38 international franchised Pizza Inn restaurants. Domestic Pizza Inn restaurants and kiosks were located predominantly in the southern half of the United States, with Texas, Arkansas, North Carolina and Mississippi accounting for approximately 23%, 19%, 17% and 9%, respectively, of the total number of domestic units.

Principles of Consolidation:

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

Cash and Cash Equivalents:

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Restricted cash of \$0.2 million at June 28, 2020 and June 30, 2019 is omitted from cash and cash equivalents and is included in other long term assets. The restricted cash is held in an interest-bearing money market account and is restricted pursuant to a letter of credit for an insurance claim dating back to the mid-1980’s.

Concentration of Credit Risk:

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of cash and cash equivalents. At June 28, 2020 and June 30, 2019, and at various times during the fiscal years then ended, cash and cash equivalents were in excess of Federal Depository Insurance Corporation insured limits. We do not believe we are exposed to any significant credit risk on cash and cash equivalents.

Notes receivable, which potentially subject the Company to concentrations of credit risk, consist primarily of promissory notes from franchise agreements and structured Company-financed sales of assets. At June 28, 2020 and June 30, 2019, and at various times during the fiscal years then ended, the Company had concentrations of credit risk with four franchisees on notes receivables with both short and long term maturities. As of June 28, 2020, the Company had one short term note receivable with one franchisee and the Company had five notes receivable with three franchisees totaling \$1.1 million. The financed asset sales were executed with a weighted average interest rate of 4.6%. Principal and interest payments are due monthly and a balloon payment is due after 24 months.

Inventories:

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

Closed Restaurants and Discontinued Operations:

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

The authoritative guidance on “*Accounting for the Impairment or Disposal of Long-Lived Assets*,” requires that discontinued operations that meet certain criteria be reflected in the statement of operations after results of continuing operations

as a net amount. This guidance also requires that the operations of closed restaurants, including any impairment charges, be reclassified to discontinued operations for all periods presented.

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

Property, Plant and Equipment:

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

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

Impairment of Long-Lived Asset and other Lease Charges:

The Company reviews long-lived assets for impairment when events or circumstances indicate that the carrying value of such assets may not be fully recoverable. Impairment is evaluated based on the sum of undiscounted estimated future cash flows expected to result from use and eventual disposition of the assets compared to their carrying value. If impairment is recognized, the carrying value of an impaired asset is reduced to its fair value, based on discounted estimated future cash flows. During fiscal year 2020, the Company tested its long-lived assets for impairment and recognized pre-tax, non-cash impairment charges of \$0.2 million primarily related to assets held for sale. The Company also had lease charges related to closed units of \$0.7 million.

Accounts Receivable:

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

Notes Receivable:

Notes receivable primarily consist of promissory notes arising from franchisee agreements and structured Company-financed sales of assets. The majority of amounts and terms are evidenced by formal promissory notes and personal guarantees. All notes allow for early payment without penalty. Fixed principle and interest payments are due monthly. Interest income is recognized monthly. Notes receivable mature at various dates through 2022 and bear interest at a weighted average rate of 4.6% at June 28, 2020.

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

The expected principal collections on notes receivable for the next three years were as follows as of June 28, 2020 (in thousands):

	Notes Receivable
2021	\$ 546
2022	449
2023	-
	<u>\$ 995</u>

Income Taxes:

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

The Company continually reviews the realizability of its deferred tax assets, including an analysis of factors such as future taxable income, reversal of existing taxable temporary differences, and tax planning strategies. 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. During the quarter ending March 29, 2020, it was determined that the valuation allowance on deferred tax assets should be increased by \$4.3 million resulting in a full valuation allowance. The Company has maintained the full valuation allowance for the year ended June 28, 2020.

For the year ended, June 28, 2020, the Company recorded an income tax expense of \$4.1 million including federal deferred tax expense of \$4.1 million and current state tax expense of \$20 thousand. As of June 28, 2020, the Company had net operating loss carryforwards totaling \$23.6 million that are available to reduce future taxable income and will begin to expire in 2032. Under the Tax Cuts and Jobs Act, approximately \$0.8 million of the loss carryforwards are limited to 80% and do not expire.

Under ASC 740, we recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. From time to time, the Company may be assessed interest and penalties by taxing authorities. In those cases, the charges are recorded as income tax expense, as incurred, in the Consolidated Statements of Operations. There were no such charges or accruals for the years ended June 28, 2020 and June 30, 2019.

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 became 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):

	<u>Adoption</u>	<u>July 1, 2019 Reclassification (1)</u>	<u>Total Adjustment</u>
Balance Sheet:			
Operating lease right of use assets	\$ 3,428	\$ 434	\$ 3,862
Operating lease liabilities, current	528		528
Operating lease liabilities, net of current portion	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 operating lease liability.

Certain balances have been reclassified. These reclassifications had no effect on net income or stockholders’ equity.

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 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 sub-franchise 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. We have determined that we are the principal in these arrangements, and advertising fund contributions and expenditures are, therefore, reported on a gross basis in the Consolidated Statements of Income. In general, we expect such advertising fund contributions and expenditures to be largely offsetting and, therefore, do not expect a significant impact on our reported income before income taxes. Our obligation related to these funds is to develop and conduct advertising activities. Pie Five marketing fund contributions are billed and collected weekly.

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

Total revenues consist of the following (in thousands):

	Fiscal Year Ended	
	June 28, 2020	June 30, 2019
Restaurant sales	\$ 240	\$ 889
Franchise royalties	3,697	4,814
Supplier and distributor incentive revenues	3,906	4,519
Franchise license fees	853	1,031
Area development fees and foreign master license fees	20	41
Advertising funds	799	684
Supplier convention funds	278	294
Rental income	195	—
Interest income and other	40	47
	<u>\$ 10,028</u>	<u>\$ 12,319</u>

Stock-Based Compensation:

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

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

Fair Value of Financial Instruments:

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

Contingencies:

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

Use of Management Estimates:

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

Fiscal Year:

The Company's fiscal year ends on the last Sunday in June. The fiscal year ended June 28, 2020 contained 52 weeks and the fiscal year ended June 30, 2019 contained 53 weeks.

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

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

	<u>Estimated Useful Lives</u>	<u>June 28 2020</u>	<u>June 30, 2019</u>
Equipment, furniture and fixtures	3 - 7 yrs	\$ 808	\$ 867
Software	5 yrs	809	810
Leasehold improvements	10 yrs or lease term, if shorter	472	434
		<u>2,089</u>	<u>2,111</u>
Less: accumulated depreciation/amortization		<u>(1,723)</u>	<u>(1,611)</u>
		<u>\$ 366</u>	<u>\$ 500</u>

Depreciation and amortization expense was approximately \$0.2 million and \$0.5 million for the fiscal years ended June 28, 2020 and June 30, 2019, respectively.

Intangible assets consist of the following (in thousands):

		<u>June 28, 2020</u>			<u>June 30, 2019</u>		
	<u>Estimated Useful Lives</u>	<u>Acquisition Cost</u>	<u>Accumulated Amortization</u>	<u>Net Value</u>	<u>Acquisition Cost</u>	<u>Accumulated Amortization</u>	<u>Net Value</u>
Trademarks and tradenames	10 years	\$ 278	\$ (181)	\$ 97	\$ 278	\$ (153)	\$ 125
Name change	15 years	70	(25)	45	70	(21)	49
Prototypes	5 years	230	(217)	13	230	(208)	22
		<u>\$ 578</u>	<u>\$ (423)</u>	<u>\$ 155</u>	<u>\$ 578</u>	<u>\$ (382)</u>	<u>\$ 196</u>

Amortization expense for intangible assets was approximately \$41 thousand and \$43 thousand for the fiscal years ended June 28, 2020 and June 30, 2019, respectively.

NOTE C - ACCRUED EXPENSES:

Accrued expenses consist of the following (in thousands):

	June 28, 2020	June 30, 2019
Compensation	\$ 451	\$ 265
Other	236	478
Professional fees	80	83
Insurance loss reserves	8	8
	<u>\$ 775</u>	<u>\$ 834</u>

NOTE D - CONVERTIBLE NOTES:

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

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

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

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

During fiscal 2020, \$64 thousand of the Notes were converted to common shares. As of June 28, 2020, \$1.6 million of the Notes was outstanding, offset by \$48 thousand of unamortized debt issue costs and unamortized debt discounts.

NOTE E - PPP LOAN:

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

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

NOTE F - INCOME TAXES:

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

	Fiscal Year Ended	
	June 28, 2020	June 30, 2019
Current - Federal	\$ –	\$ –
Current - Foreign	18	131
Current - State	–	15
Deferred - Federal	4,053	(189)
Deferred - State	7	(8)
Provision for income taxes	<u>\$ 4,078</u>	<u>\$ (51)</u>



The effective income tax rate varied from the statutory rate for the fiscal years ended June 28, 2020 and June 30, 2019 as reflected below (in thousands):

	June 28, 2020	June 30, 2019
Federal income taxes (benefit) based on a statutory rate of 21.0%	\$ (33)	\$ (168)
State income tax, net of federal effect	20	93
Foreign taxes	—	15
Permanent adjustments	4	8
Change in valuation allowance	4,081	—
Other	6	1
	<u>\$ 4,078</u>	<u>\$ (51)</u>

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

	June 28, 2020	June 30, 2019
Reserve for bad debt	\$ 61	\$ 48
Deferred fees	—	17
Other reserves and accruals	568	795
Operating lease liabilities	937	—
Credit carryforwards	171	156
Net operating loss carryforwards	5,371	5,206
Depreciable assets	306	263
Total gross deferred tax asset	7,414	6,485
Valuation allowance	(6,515)	(2,425)
Total deferred tax asset	<u>\$ 899</u>	<u>\$ 4,060</u>
Right-of-use asset	(815)	—
Other deferred tax liabilities	(84)	—
Total deferred tax liabilities	<u>\$ (899)</u>	<u>\$ —</u>
Net deferred tax asset	<u>\$ —</u>	<u>\$ 4,060</u>

For the year ended June 28, 2020, the Company recorded an income tax expense of \$4.1 million including federal deferred tax expense of \$4.1 million and current state tax expense of \$20 thousand. As of June 28, 2020, the Company had net operating loss carryforwards totaling \$23.6 million that are available to reduce future taxable income and will begin to expire in 2032. Under the Tax Cuts and Jobs Act, approximately \$0.8 million of the loss carryforwards are limited to 80% and do not expire.

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. During the quarter ending March 29, 2020, it was determined that the valuation allowance on deferred tax assets should be increased by \$4.3 million resulting in a full valuation allowance. The Company has maintained the full valuation allowance for the year ended June 28, 2020.

On March 27, 2020, President Trump signed into law the CARES Act. The legislation enacts various measures to assist companies affected by the COVID-19 pandemic. Key income tax-related provisions of the bill include temporary modifications to net operating loss utilization and carryback limitations, allowance of refundable alternative minimum tax credits, reduced limitation of charitable contributions, reduced limitations of business interest expense, and technical corrections to depreciation of qualified improvement property.

NOTE G - LEASES:

The Company leases its 19,576 square foot corporate office facility with average annual lease payments of approximately \$18.00 per square foot. This lease began on January 2, 2017 and has a ten-year term. The Company amended its lease agreement in June 2020 and has elected to defer one-half of the monthly base rent for the period from June 2020 through May 2021.

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

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

Nature of Leases

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

Office Agreements

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

Restaurant Space Agreements

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

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

As of June 28, 2020, the Company had no Company-owned restaurants.

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 interest 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 the lease 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 for an amount equal to the lease payments in a similar economic environment. The Company uses the implicit rate in the limited circumstances in which that rate is readily determinable.

Lease Guarantees

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

Practical Expedients and Accounting Policy Elections

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

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

The components of total lease expense for the fiscal year ended June 28, 2020, the majority of which is included in general and administrative expense, are as follows (in thousands):

	Fiscal Year Ended June 28, 2020
Operating lease cost	\$ 670
Sublease income	(195)
Total lease expense, net of sublease income	<u>\$ 475</u>

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

	Fiscal Year Ended June 28, 2020
Cash paid for amounts included in the measurement of lease liabilities	\$ 684

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

	Fiscal Year Ended June 28, 2020
Operating lease right of use assets, net	\$ 3,567
Operating lease liabilities, current	632
Operating lease liabilities, net of current portion	3,471

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

	Fiscal Year Ended June 28, 2020
Weighted average remaining lease term	5.3 Years
Weighted average discount rate	4.0%

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

	Operating Leases
2021	\$ 785
2022	804
2023	813
2024	766
Thereafter	1,448
Total operating lease payments	<u>4,616</u>
Less: imputed interest	<u>\$ (513)</u>
Total operating lease liability	<u>\$ 4,103</u>

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

Future minimum rental payments under active non-cancelable leases with initial or remaining terms of one year or more at June 28, 2020 were as follows (in thousands):

	Operating Leases
2021	\$ 1,629
2022	1,592
2023	1,444
2024	1,182
2025	1,030
Thereafter	1,027
	<u>\$ 7,904</u>

Future minimum sublease rental income under active non-cancelable leases with initial or remaining terms of one year or more at June 28, 2020 were as follows (in thousands):

	Sublease Rental Income
2021	\$ 174
2022	175
2023	177
2024	128
2025	53
	<u>\$ 707</u>

Rental expense consisted of the following (in thousands):

	Fiscal Year Ended	
	June 28, 2020	June 30, 2019
Minimum rentals	\$ 676	\$ 757
Sublease rentals	(168)	(149)
	<u>\$ 508</u>	<u>\$ 608</u>

NOTE H - EMPLOYEE BENEFITS:

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

For the fiscal year ended June 28, 2020, no matching contributions were made to the tax advantage savings plan by the Company. For the fiscal year ended June 30, 2019, total matching contributions to the tax advantaged savings plan by the Company on behalf of participating employees were approximately \$39 thousand.

NOTE I - STOCK BASED COMPENSATION PLANS:

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

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

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

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

Stock Options:

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

	Fiscal Year Ended	
	June 28, 2020	June 30, 2019
	Shares	Shares
Outstanding at beginning of year	216,550	478,056
Granted	–	–
Exercised	–	–
Forfeited/Canceled/Expired	(9,800)	(216,506)
Outstanding at end of period	<u>206,750</u>	<u>261,550</u>
Exercisable at end of period	<u>206,750</u>	<u>261,550</u>

	Fiscal Year Ended	
	June 28, 2020	June 30, 2019
	Weighted-Average Exercise Price	Weighted-Average Exercise Price
Outstanding at beginning of year	\$ 4.82	\$ 4.16
Granted	–	–
Exercised	–	–
Forfeited/Canceled/Expired	1.87	4.27
Outstanding at end of period	<u>\$ 4.96</u>	<u>4.82</u>
Exercisable at end of year	<u>\$ 4.96</u>	<u>4.82</u>

The intrinsic value of options outstanding at June 28, 2020 was zero.

The following table provides information on options outstanding and options exercisable as of June 28, 2020:

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Options Outstanding at June 28, 2020	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Shares Exercisable at June 28, 2020	Weighted-Average Exercise Price	
\$ 2.36 - 2.75	40,000	1.0	\$ 2.71	40,000	\$ 2.71	
\$ 2.76 - 3.30	55,000	2.0	\$ 3.11	55,000	\$ 3.11	
\$ 3.31 - 3.95	50,000	6.0	\$ 3.95	50,000	\$ 3.95	
\$ 5.51 - 5.74	8,664	3.0	\$ 5.74	8,664	\$ 5.74	
\$ 5.95 - 6.25	28,800	4.0	\$ 6.23	28,800	\$ 6.23	
\$ 6.26 - 13.11	24,286	5.0	\$ 13.11	24,286	\$ 13.11	
	<u>206,750</u>	<u>3.4</u>	<u>\$ 4.96</u>	<u>206,750</u>	<u>\$ 4.96</u>	

We determine fair value following the authoritative guidance as follows:

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

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

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

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

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

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

At June 28, 2020, the Company had no unvested options. Stock compensation expense related to stock options of zero and \$35 thousand was recognized in fiscal years 2020 and 2019, respectively.

Restricted Stock Units:

Restricted stock units awarded under the 2015 LTIP represent the right to receive shares of common stock upon the satisfaction of vesting requirements, performance criteria and other terms and conditions. During fiscal 2020 and 2019, there were no grants of performance-based restricted stock units.

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

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

A summary of the status of restricted stock units as of June 28, 2020 and June 30, 2019, and changes during the fiscal years then ended is presented below:

	June 28, 2020	June 30, 2019
Unvested at beginning of year	155,106	908,293
Vested during the year	(9,053)	–
Forfeited during the year	(146,053)	(753,187)
Unvested at end of year	<u>–</u>	<u>155,106</u>

NOTE J - SHAREHOLDERS' EQUITY:

On April 22, 2009, the board of directors of the Company amended the stock repurchase plan first authorized on May 23, 2007, and previously amended on June 2, 2008, by increasing the aggregate number of shares of common stock the Company may repurchase under the plan to a total of 3,016,000 shares. No shares were repurchased during fiscal 2020 and, as of June 28, 2020, there were 848,425 shares available to be repurchased under the plan.

On December 5, 2017, the Company entered into an At Market Issuance Sales Agreement with B. Riley FBR, Inc. (“B. Riley FBR”) pursuant to which the Company may offer and sell shares of its common stock having an aggregate offering price of up to \$5,000,000 from time to time through B. Riley FBR acting as agent (the “2017 ATM Offering”). The 2017 ATM Offering is being undertaken pursuant to Rule 415 and a shelf Registration Statement on Form S-3 which was declared effective by the SEC on November 6, 2017. Through June 28, 2020, the Company had sold an aggregate of 524,660 shares in the 2017 ATM Offering, realizing aggregate gross proceeds of \$0.7 million.

The Company pays to B. Riley FBR a fee equal to 3% of the gross sales price in addition to reimbursing certain costs. The Company had \$15 thousand in expenses associated with the 2017 ATM Offering in fiscal 2020.

NOTE K - 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.

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 closure of one Company-owned Pie Five restaurant in January 2020 was unrelated to the COVID-19 outbreak but the quick closure of a Pie Five Unit recently acquired from a franchisee was accelerated by the pandemic.

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, “Note E--PPP Loan.”) We also furloughed certain employees, reduced base salary by 20% for all remaining employees and reduced expenses. While the Company will remain focused on controlling expenses, future results of operations are likely to be materially adversely impacted.

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

NOTE L - EARNINGS PER SHARE:

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

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

	Fiscal Year Ended	
	June 28, 2020	June 30, 2019
Loss from continuing operations	\$ (4,233)	\$ (750)
Interest saved on convertible notes at 4%	\$ 65	\$ 63
Adjusted net loss	<u>\$ (4,168)</u>	<u>\$ (687)</u>
BASIC:		
Weighted average common shares	15,144	15,070
Net income/(loss) per common share	<u>\$ (0.28)</u>	<u>\$ (0.05)</u>
DILUTED:		
Weighted average common shares	15,144	15,070
Convertible notes	—	—
Dilutive stock options	—	—
Weighted average common shares outstanding	<u>15,144</u>	<u>15,070</u>
Income/(loss) from continuing operations per common share	<u>\$ (0.28)</u>	<u>\$ (0.05)</u>

We had 206,750 and 261,550 shares of common stock potentially issuable upon exercise of employee stock options for years ended June 28, 2020 and June 30, 2019, respectively, that were excluded from the weighted average number of shares outstanding on a diluted basis because the effect of such options would be anti-dilutive. These instruments expire at varying times from fiscal 2020 through fiscal 2026.

NOTE M- SEGMENT REPORTING:

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

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

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

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

Summarized in the following tables are net sales and operating revenues, depreciation and amortization expense, income from continuing operations before taxes, capital expenditures and assets for the Company's reportable segments as of and for the fiscal years ended June 28, 2020 and June 30, 2019 (in thousands):

	Fiscal Year Ended	
	June 28, 2020	June 30, 2019
Net sales and operating revenues:		
Pizza Inn Franchising	\$ 6,662	\$ 7,192
Pie Five Franchising	2,894	4,192
Company-Owned Restaurants	240	887
Corporate administration and other	232	48
Consolidated revenues	<u>\$ 10,028</u>	<u>\$ 12,319</u>
Depreciation and amortization:		
Pizza Inn Franchising	\$ -	\$ -
Pie Five Franchising	-	-
Company-Owned Restaurants	-	123
Combined	<u>-</u>	<u>123</u>
Corporate administration and other (1)	186	343
Depreciation and amortization	<u>\$ 186</u>	<u>\$ 466</u>
Income/(Loss) before taxes:		
Pizza Inn Franchising	\$ 5,365	\$ 5,512
Pie Five Franchising	1,140	2,094
Company-Owned Restaurants	(1,006)	(2,001)
Combined	<u>5,499</u>	<u>5,605</u>
Corporate administration and other	(5,654)	(6,406)
Income/(loss) before taxes	<u>\$ (155)</u>	<u>\$ (801)</u>

Notes:

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

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

Geographic information (revenues):		
United States	\$ 9,847	\$ 12,086
Foreign countries	181	233
Consolidated total	<u>\$ 10,028</u>	<u>\$ 12,319</u>

NOTE N - SUBSEQUENT EVENTS:

In preparation of its financial statements, the Company considered subsequent events through September 28, 2020 which was the date the Company's financial statements were available to be issued.

DESCRIPTION OF REGISTRANT'S SECURITIES

Description of Common Stock

General

Our authorized capital stock consists solely of 26,000,000 shares of common stock, par value \$0.01 per share.

The following description of our common stock is a summary and is qualified in its entirety by reference to our Amended and Restated Articles of Incorporation and Amended and Restated Bylaws, the provisions of Missouri corporate law and other applicable state law.

Dividend, Liquidation and Other Rights. Holders of shares of our common stock are entitled to receive ratably those dividends that may be declared by our board of directors out of legally available funds. Our board of directors will determine if and when distributions may be paid. However, we have never paid dividends on our common stock and our board of directors intends to continue this policy for the foreseeable future in order to retain earnings for development of our business. The holders of shares of our common stock have no preemptive, subscription or conversion rights. All shares of our common stock to be outstanding following this offering will be duly authorized, fully paid and non-assessable. Upon our liquidation, dissolution or winding up, the holders of our common stock will be entitled to share ratably in the net assets legally available for distribution to shareholders after the payment of all of our debts and other liabilities.

Voting Rights. Each outstanding share of our common stock entitles the holder to one vote on all matters presented to our shareholders for a vote. The holders of a majority of the outstanding shares of our common stock constitute a quorum at any meeting of our shareholders. Assuming the presence of a quorum, directors are elected by the affirmative vote of the holders of a majority of the outstanding shares represented in person or by proxy at the meeting. Our common stock does not have cumulative voting rights. Therefore, the holders of a majority of the outstanding shares of our common stock can elect all of our directors. Amendments to our Amended and Restated Articles of Incorporation must be approved by the affirmative vote of the holders of a majority of all outstanding shares of our common stock. Assuming the presence of a quorum, the affirmative vote of the holders of a majority of the outstanding shares entitled to vote and represented at the meeting in person or by proxy is required for the approval of substantially all other matters.

Anti-Takeover Effects of Certain Statutory Provisions

There are no provisions in our Amended and Restated Articles of Incorporation or our Amended and Restated Bylaws intended to prevent or restrict takeovers, mergers or acquisitions of our Company. However, certain provisions of Missouri corporate law could have the effect of discouraging others from attempting hostile takeovers of our Company. It is possible that these provisions could make it more difficult to accomplish transactions which our shareholders may otherwise deem to be in their best interests.

Control Share Acquisition Provisions

Missouri corporate law contains provisions governing "control share acquisitions." These provisions generally provide that any person or entity crossing a 20%, 33.33% or 50% threshold in ownership of the outstanding voting shares of a publicly-held Missouri corporation will be denied voting rights with respect to any shares above the threshold, unless such voting rights are approved by the holders of a majority of all outstanding voting shares and a majority of the outstanding voting shares held by disinterested shareholders. The shareholders or board of directors of a Missouri corporation may elect to exempt its stock from the control share acquisition statute through adoption of a provision to that effect in the articles of incorporation or bylaws of the corporation. However, neither our Amended and Restated Articles of Incorporation nor our Amended and Restated Bylaws exempt our common stock from the Missouri control share acquisition statute. Therefore, the statute could discourage persons interested in acquiring a significant interest in or control of our Company, regardless of whether such acquisition was in the best interest of our shareholders.

Business Combination Provisions

Missouri corporate law also contains provisions governing “business combinations” with interested shareholders, which may also have an effect of delaying or making it more difficult to effect a change in control of our Company. The statute prevents an “interested shareholder” in a Missouri corporation from entering into a “business combination” with such corporation or any subsidiary of such corporation unless certain conditions are met. An “interested shareholder” is defined as the beneficial owner, directly or indirectly, of 20% or more of the outstanding voting stock of a Missouri corporation, or an affiliate or associate thereof. A “business combination” includes any merger or consolidation with an interested shareholder, the sale, lease exchange, mortgage, pledge, transfer or other disposition of 10% or more of the corporation’s assets to an interested shareholder, and certain other issuances, adoptions and reclassifications involving an interested shareholder.

A corporation affected by these Missouri statutes may not engage in a business combination with an interested shareholder for a period of five years following the date on which such interested shareholder became an interested shareholder, unless such business combination or the purchase of stock was approved by the corporation’s board of directors on or prior to such date. If pre-approval was not obtained, then after the expiration of the five-year period the combination may be consummated with the approval of a majority of the voting power held by disinterested shareholders or if the consideration to be paid by the interested shareholder is at least equal to the highest of certain specified thresholds.

Takeover Bid Provisions

Missouri law also governs “takeover bids.” A “takeover bid” is the acquisition of or offer to acquire, pursuant to a tender offer or request or invitation for tenders, any equity securities with voting rights, if after acquisition the offeror would own more than 5% of any class of equity securities. An “equity security” is any stock, bond or other obligation of a target company, the holder of which has the right to vote for the board of directors of the target company.

The statute prohibits any takeover bid by a person or entity unless a special registration statement is filed with the commissioner of securities and delivered to the target company. The special registration statement must include a significant amount of information including, among other things, all informational material that the offeror proposes to disclose to the offerees, the identity and background of all persons and entities on whose behalf the acquisition is to be effected, the exact title and number of shares outstanding being sought by the offeror, and the source and amount of funds or other consideration to be used in the acquisition.

Limitation of Liability and Indemnification

Our Amended and Restated Articles of Incorporation and Amended and Restated Bylaws include indemnification provisions under which we have agreed to indemnify our directors, officers, employees and agents to the fullest extent permissible by law. These provisions may discourage derivative litigation against our directors and officers even if such action, if successful, might benefit us and our shareholders. Furthermore, our shareholders may be adversely affected to the extent we are required to pay the costs of defense, settlement or damages on behalf of our directors or officers pursuant to these indemnification provisions.

Description of 4% Convertible Senior Notes due 2022

General

The following description is a summary of the material provisions of our 4% Convertible Senior Notes due 2022 and does not purport to be complete. This summary is subject to and is qualified by reference to all the provisions of the convertible notes, as well as the indenture under which the convertible notes were issued and the pledge agreement securing the convertible notes, including the definitions of certain terms used therein.

The convertible notes:

- Are senior obligations secured solely by a pledge of all outstanding equity securities of our two primary operating subsidiaries;
- Were issued in an aggregate principal amount of \$3,000,000, in denominations of \$100;
- Are represented by one or more registered notes in global form, but in certain limited circumstances may be represented by notes in definitive form;
- Bear interest from the date of issuance at an annual rate of 4.0% payable annually in arrears on February 15 of each year, commencing February 15, 2018;
- Mature on February 15, 2022, unless earlier converted or redeemed by us;
- Are convertible to common stock effective on the 15th day of any month, unless we sooner elect to redeem the notes;
- Are redeemable by us at 110% of par plus any accrued unpaid interest at any time on or after February 15, 2018, and prior to maturity; and
- Are subject to repurchase by us at the option of the holders following a fundamental change (as defined below), at 100% of par plus accrued unpaid interest.

Interest and, at maturity, principal will be paid to the person in whose name a convertible note is registered on a record date 10 business days prior to the payment date. At our discretion, interest and principal payments may be paid in cash or shares of our common stock. If interest or principal is paid in shares of our common stock, the number of shares to be issued will be based on the average of the closing prices of our common stock as reported by Bloomberg L.P. for the 30 trading days preceding the applicable record date. Fractional shares will not be issued and the final number of shares of our common stock will be rounded up to the next whole share.

Holders may convert their notes to shares of our common stock effective on the 15th day of any month, unless we sooner elect to redeem the convertible notes. The conversion right is exercisable by written notice from the noteholder to the trustee, which notice is irrevocable. Notes will be converted to shares of our common stock on the next scheduled conversion date following 10 business days after receipt of a conversion notice by the trustee. The conversion price is \$2.00 per share of common stock (i.e., 50 shares per convertible note), subject to adjustment as described below. We will pay accrued interest through the effective date of the conversion in cash or, at our sole discretion, in shares of our common stock.

At our discretion, at any time on or after February 15, 2018, we are entitled to redeem outstanding notes at 110% of par plus any accrued interest. We will give notice of our intent to redeem convertible notes at least 60 days prior to redemption and noteholders will have 30 days after the date of such notice to elect to convert their notes to shares of our common stock prior to redemption, after which the notes will cease to be convertible.

Pursuant to the pledge agreement, we have granted to Securities Transfer Corporation, as trustee under the indenture, a first lien security interest in all of the issued and outstanding common stock of Pie Five Pizza Company, Inc. and Pizza Inn, Inc., our two primary direct operating subsidiaries. Securities Transfer Corporation will hold such collateral on behalf of noteholders and, in the event of default in the payment of principal or interests under the convertible notes, may foreclose the security interest for the benefit of noteholders.

Neither the indenture nor the pledge agreement contains any financial covenants or restricts us from incurring other indebtedness, paying dividends or issuing or repurchasing our other securities. Other restrictions are described under “Fundamental Change Permits Holders to Require Us to Repurchase Convertible Notes” and “Consolidation, Merger and Sale of Assets” below.

Purchase and Cancellation

We will cause all convertible notes surrendered for payment, registration of transfer or exchange or conversion, if surrendered to any person other than the trustee, to be delivered to the trustee for cancellation. All convertible notes delivered to the trustee will be cancelled promptly by the trustee. No convertible notes will be authenticated in exchange for any convertible notes cancelled as provided in the indenture.

Payments on the Convertible Notes; Paying Agent and Registrar; Transfer and Exchange

We will pay the principal of, and interest on, notes in global form registered in the name of or held by The Depository Trust Company, or DTC, or its nominee in immediately available funds or in shares of our common stock, at our discretion, to DTC or its nominee, as the case may be, as the registered holder of such global note.

We will pay the principal of any certificated notes at the office or agency designated by us for that purpose. We have presently designated the trustee as our paying agent and registrar and its office in Dallas, Texas as the place where convertible notes may be presented for payment or for registration of transfer. We may, however, change the paying agent or registrar without prior notice to the holders of the convertible notes.

A holder of convertible notes may transfer or exchange such notes at the office of the registrar in accordance with the indenture. The registrar, paying agent and trustee may require a holder, among other things, to furnish appropriate endorsements and transfer documents. No service charge will be imposed by us, the trustee, the paying agent or the registrar for any registration of transfer or exchange of convertible notes, but we may require a holder to pay a sum sufficient to cover any transfer tax or other similar governmental charge required by law or permitted by the indenture. We are not required to transfer or exchange any note surrendered for conversion or required repurchase.

The registered holder of a convertible note will be treated as its owner for all purposes.

Interest

The notes will bear cash interest at a rate of 4.0% per year until maturity. Interest on the convertible notes accrues from the date of initial issuance or from the most recent date on which interest has been paid. Interest is payable annually in arrears on February 15 of each year, commencing February 15, 2018. Accrued interest will also be paid on the effective date of conversion of any note. Interest will be paid to the person in whose name a convertible note is registered on a record date 10 business days prior to the payment date. Interest on the convertible notes will be computed on the basis of a 360-day year composed of twelve 30-day months. At our discretion, interest payments may be paid in cash or shares of common stock. If interest is paid in shares of our common stock, the number of shares to be issued will be based on the average of the closing prices of our common stock as reported by Bloomberg L.P. for the 30 trading days preceding the applicable record date. Fractional shares will not be issued and the final number of shares of common stock rounded up to the next whole share.

If any interest payment date, any conversion date, the maturity date or any earlier required repurchase date upon a fundamental change falls on a day that is not a business day, the required payment will be made on the next succeeding business day and no interest on such payment will accrue in respect of the delay. The term "business day" means, with respect to any convertible note, any day other than a day on which U.S. banking institutions are authorized or required by law or regulation to close or be closed.

Security

Under a pledge agreement between us and Securities Transfer Corporation, as trustee under the indenture, we have granted to Securities Transfer Corporation a first lien security interest in all of the issued and outstanding common stock of Pie Five Pizza Company, Inc. and Pizza Inn, Inc., our two primary direct operating subsidiaries, as security for repayment of principal and interest on the convertible notes and performance of our other obligations under the indenture. Pursuant to the pledge agreement, we have delivered to Securities Transfer Corporation certificates representing the pledged equity securities and taken such other actions as were necessary for Securities Transfer Corporation to perfect and maintain its security interest in the pledged securities on behalf and for the benefit of noteholders. In the event we fail to promptly pay in full when due, whether at stated maturity, by acceleration or otherwise, all principal and interest of the convertible notes, Securities Transfer Corporation may (but is not required to) foreclose on the security interest, sell the pledged equity securities and distribute to the noteholders the net proceeds after payment of all foreclosure expenses. So long as there is no default under the convertible notes, we are entitled to receive all cash dividends on the pledged equity securities and retain the right to vote the pledged equity securities with respect to matters not adversely affecting the rights of the pledgee.

Ranking

The convertible notes are senior obligations secured solely by the pledge of all outstanding equity securities of our two primary direct operating subsidiaries. The convertible notes rank senior in right of payment to all of our indebtedness that is expressly subordinated in right of payment to the convertible notes. The convertible notes are effectively senior in right of payment to our other indebtedness to the extent of the value of the pledged equity securities. To the extent of any deficiency in the value of the pledged equity securities, the convertible notes will rank equal in right of payment with any of our unsecured indebtedness that is not expressly subordinated. The convertible notes will be effectively junior in right of payment to any of our indebtedness that is secured by other assets to the extent of the value of such other assets. The convertible notes are not guaranteed by any of our direct and indirect subsidiaries and, therefore, will be structurally junior to the indebtedness and other liabilities of such direct and indirect subsidiaries.

Redemption

We may at our option redeem the convertible notes at any time on or after February 15, 2018, by payment of an amount in cash equal to 110% of the par value plus any accrued interest. We will provide notice to the trustee and the depository at least 75 days before any redemption date and will provide notice to noteholders at least 60 days before any redemption date. Noteholders will have 30 days after the date of notice to elect to convert their notes to shares of our common stock prior to redemption, after which the notes will cease to be convertible. The depository will initially be The Depository Trust Company, or DTC. No “sinking fund” is provided for the convertible notes and we are not required to retire the notes periodically.

Conversion Rights and Procedure

Noteholders may convert their notes to shares of our common stock effective on the 15th day of any month, unless we sooner elect to redeem the convertible notes. Convertible notes may not be partially converted. The conversion right is exercisable by the noteholder completing and delivering to the trustee a written conversion notice, which notice is irrevocable. Convertible notes will be converted to shares of our common stock on the next scheduled conversion date following 10 business days after receipt of a conversion notice by the trustee. The conversion price is \$2.00 per share of common stock (i.e., 50 shares per convertible note), subject to adjustment as described below. We will pay accrued interest through the effective date of the conversion in cash or, at our sole discretion, in shares of our common stock. The conversion right is exercisable in the sole discretion of the noteholder.

Conversion Rate Adjustments

The conversion rate will be adjusted if shares of common stock are issued as a dividend or other distribution on all or substantially all shares of our common stock, or if we effects a share split or share combination on our common stock. In such event, the conversion rate will be adjusted based upon the ratio of the number of shares outstanding immediately prior to such event over the number of shares outstanding immediately after such event multiplied by the conversion rate prior to the event.

The conversion rate will also be adjusted if a “make-whole fundamental change” occurs, as defined in the following section. The conversion price will be determined by reference to the stock price deemed paid per share in the make-whole fundamental change transaction. If the make-whole fundamental change conversion price is less than the conversion price, then the difference will determine the number of additional shares to be received per \$100 principal amount of note converted. If the make-whole fundamental change conversion price is equal to or more than the conversion price, then no additional shares will be received upon conversion.

Fundamental Change Permits Holders to Require Us to Repurchase Convertible Notes

If a “fundamental change” (as defined below) occurs at any time, holders will have the right, at their option, to require us to repurchase for cash all of their outstanding convertible notes. The fundamental change repurchase date will be a date specified by us that is not less than 20 or more than 35 calendar days following the date of our fundamental change notice as described below.

The fundamental change repurchase price we are required to pay will be equal to 100% of the principal amount of the convertible notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date (unless the fundamental change repurchase date falls after a regular record date but on or prior to the interest payment date to which such regular record date relates, in which case we will instead pay the full amount of accrued and unpaid interest to the holder of record on such regular record date, and the fundamental change repurchase price will be equal to 100% of the principal amount of the notes to be repurchased).

A “fundamental change” will be deemed to have occurred if any of the following occurs (with the first two being defined as “make-whole fundamental changes”):

- (1) A “person” or “group” within the meaning of Section 13(d) of the Exchange Act (other than us, our direct and indirect subsidiaries and their respective employee benefit plans, and Newcastle Partners L.P. and its affiliates), files a Schedule 13D, Schedule 13G or Schedule TO (or any successor schedule, form or report) pursuant to the Exchange Act disclosing that such person or group, as the case may be, has become the direct or indirect “beneficial owner,” as defined in Rule 13d-3 under the Exchange Act, of shares of our common equity representing more than 50% of the voting power of our common equity;
- (2) The consummation of any binding share exchange, exchange offer, tender offer, consolidation or merger pursuant to which all or substantially all shares of our common stock will be converted into cash, securities or other property, or any sale, lease or other transfer in one transaction or a series of transactions of all or substantially all of our consolidated assets (including our direct and indirect subsidiaries), taken as a whole, to any person other than us or one or more of our direct or indirect subsidiaries; *provided, however*, that a transaction in which the holders of all classes of our common equity immediately prior to such transaction own, directly or indirectly, more than 50% of the voting power of the continuing or surviving corporation or transferee or the parent thereof immediately after such transaction in substantially the same proportions as such ownership immediately prior to such transaction shall not be a fundamental change pursuant to this clause;
- (3) Our shareholders approve any plan or proposal for our liquidation or dissolution; or
- (4) Our common stock ceases to be listed or quoted on any U.S. national securities exchange.

A transaction or transactions described in clause (2) above will not constitute a fundamental change, however, if at least 50% of the consideration received or to be received by our common shareholders, excluding cash payments for fractional shares and cash payments made in respect of dissenters’ appraisal rights, in connection with such transaction or transactions consists of shares of common stock that are listed or quoted on a U.S. national securities exchange or will be so listed or quoted when issued or exchanged in connection with such transaction or transactions and as a result of such transaction or transactions the notes become convertible into such consideration, excluding cash payments for fractional shares.

On or before the 20th day after the occurrence of a fundamental change, we will provide to all holders of the convertible notes and the trustee and paying agent a written notice of the occurrence of the fundamental change and of the resulting repurchase right. Such notice shall state, among other things:

- The events causing a fundamental change;
 - The date of the fundamental change;
-

- Whether the fundamental change is a make whole fundamental change, which means the conversion price will be adjusted;
- The last date on which a holder may exercise the repurchase right;
- The fundamental change repurchase price;
- The fundamental change repurchase date;
- If applicable, the conversion rate and any adjustments to the conversion rate;
- If applicable, that the notes with respect to which a fundamental change repurchase notice has been delivered by a holder may be converted only if the holder withdraws the fundamental change repurchase notice in accordance with the terms of the indenture; and
- The procedures that holders must follow to require us to repurchase their notes.

To exercise the fundamental change repurchase right, a noteholder must deliver, on or before the business day immediately preceding the fundamental change repurchase date, the convertible notes to be repurchased, duly endorsed for transfer, together with a written repurchase notice, to the paying agent.

If we fail to repurchase the notes when required following a fundamental change, we will be in default under the indenture.

Consolidation, Merger and Sale of Assets

If we are a constituent party to a merger, or if we sell all or substantially all of our assets to a third party, and our common stockholders are entitled to receive cash, securities or other property for shares of their common stock as a result of the transaction, then noteholders will be entitled to convert their notes into the kind and amount of cash, securities or other property, based on the conversion price in effect immediately prior to the transaction.

Events of Default

Each of the following will constitute an event of default with respect to the notes under the indenture:

- (1) Default in any payment of interest on any convertible note when due and payable and the default continues for a period of 60 days;
- (2) Default in the payment of principal of any convertible note at its maturity, upon required repurchase, upon declaration of acceleration, or otherwise;
- (3) Material breach of the indenture, other than payment of interest or principal when due, which remains uncured for 90 days following notice thereof by the trustee; or
- (4) Certain events of bankruptcy, insolvency, or reorganization.

If an event of default occurs and is continuing, the holders of at least a majority in principal amount of the outstanding convertible notes by written notice to us and the trustee, may, and the trustee at the request of such holders (subject to the provisions of the indenture) shall, declare 100% of the principal of and accrued and unpaid interest, if any, on all the convertible notes to be due and payable. In case of certain events of bankruptcy, insolvency or reorganization, involving us or a significant subsidiary, 100% of the principal of and accrued and unpaid interest on the notes will automatically become due and payable. Upon such an acceleration, such principal and accrued and unpaid interest, if any, will be due and payable immediately.

Modification and Amendment

We and the trustee may amend or supplement the indenture or the convertible notes without notice to or the consent of any holder of the notes:

- To cure any ambiguity, inconsistency or omission in the indenture or the convertible notes in a manner that does not adversely affect the rights of any holder;
- To cure any defect or error in the indenture or the convertible notes or to conform the terms of the indenture or the convertible notes to the description thereof in the prospectus pursuant to which the convertible notes were offered;
- To provide for the assumption of our obligations by a permitted successor company;
- To add guarantees with respect to the convertible notes;
- To further secure the convertible notes;
- To add to the note covenants such further covenants, restrictions or conditions for the benefit of the holders or surrender any right or power conferred us;
- To make any change that does not materially adversely affect the rights of any holder of convertible notes; or
- To appoint a successor trustee under the indenture with respect to the convertible notes.

Without the consent of the majority of the holders of the outstanding note affected, no amendment may:

- Reduce the percentage in aggregate principal amount of convertible notes whose holders must consent to an amendment of the indenture or waive any past event of default;
 - Reduce the rate of or extend the stated time for payment of interest on any convertible note;
 - Reduce the principal amount or extend the maturity date of any convertible note;
 - Make any change that impairs or otherwise adversely affects the conversion rights of any notes;
 - Reduce the redemption price or the fundamental change repurchase price of any convertible note or amend or modify in any manner adverse to the holders of convertible notes our obligation to make such payments whether through an amendment or waiver of provisions in the covenants, definitions or otherwise;
 - Make any note payable in a currency other than U.S. dollars;
 - Make any change which releases any security or otherwise adversely affects the ranking of the convertible notes;
 - Impair the right of any holder to receive payment of principal of and interest on the convertible notes on or after the due dates thereof or to institute suit for the enforcement of any payment on or with respect to such holder's convertible notes; or
 - Make any change in the amendment or waiver provisions of the indenture.
-

Book-Entry, Settlement and Clearance

The Global Notes

The convertible notes were initially issued in the form of registered notes in global form, without interest coupons (the “global notes”). Upon issuance, each of the global notes was deposited with the trustee as custodian for DTC and registered in the name of Cede & Co., as nominee of DTC.

Ownership of beneficial interests in a global note is limited to persons who have accounts with DTC (“DTC participants”) or persons who hold interests through DTC participants. We expect that under procedures established by DTC:

- Upon deposit of a global note with DTC's custodian, DTC will credit portions of the principal amount of the global note to the accounts of the DTC participants designated by the subscription agent; and
- Ownership of beneficial interests in a global note will be shown on, and transfer of ownership of those interests will be effected only through, records maintained by DTC (with respect to interests of DTC participants) and the records of DTC participants (with respect to other owners of beneficial interests in the global note).

Beneficial interests in global notes may not be exchanged for notes in physical, certificated form except in the limited circumstances described below.

Book-Entry Procedures for the Global Notes

All interests in the global notes are subject to the operations and procedures of DTC. We provide the following summary of those operations and procedures solely for the convenience of investors. The operations and procedures of DTC are controlled by that settlement system and may be changed at any time. We are not responsible for those operations or procedures.

DTC was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions between its participants through electronic book-entry changes to the accounts of its participants. DTC's participants include securities brokers and dealers, banks and trust companies, clearing corporations and other organizations. Indirect access to DTC's system is also available to others such as banks, brokers, dealers and trust companies. These indirect participants clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly. Investors who are not DTC participants may beneficially own securities held by or on behalf of DTC only through DTC participants or indirect participants in DTC.

So long as DTC's nominee is the registered owner of a global note, that nominee will be considered the sole owner or holder of the convertible notes represented by that global note for all purposes under the indenture. Except as provided below, owners of beneficial interests in a global note:

- Will not be entitled to have notes represented by the global note registered in their names;
- Will not receive or be entitled to receive physical, certificated notes; and
- Will not be considered the owners or holders of the convertible notes under the indenture for any purpose, including with respect to the giving of any direction, instruction or approval to the trustee under the indenture.

As a result, each investor who owns a beneficial interest in a global note must rely on the procedures of DTC to exercise any rights of a holder of convertible notes under the indenture (and if the investor is not a participant or an indirect participant in DTC, on the procedures of the DTC participant through which the investor owns its interest). Payments of principal and interest with respect to the convertible notes represented by a global note will be made by the trustee to DTC's nominee as the registered holder of the global note. Neither we nor the trustee will have any responsibility or liability for the payment of amounts to owners of beneficial interests in a global note, for any aspect of the records relating to or payments made on account of those interests by DTC, or for maintaining, supervising or reviewing any records of DTC relating to those interests.

Payments by participants and indirect participants in DTC to the owners of beneficial interests in a global note will be governed by standing instructions and customary industry practice and will be the responsibility of those participants or indirect participants and DTC. Transfers between participants in DTC will be effected under DTC's procedures and will be settled in same-day funds or shares of our common stock, as herein provided.

SECOND AMENDMENT TO LEASE AGREEMENT

This **SECOND AMENDMENT TO LEASE AGREEMENT** (this "Amendment") is made and entered into effective as of July ____, 2020, but effective as of June 1, 2020 (the "Effective Date"), by and between **A&H PROPERTIES PARTNERSHIP**, a Texas partnership ("Landlord"), and **RAVE RESTAURANT GROUP, INC.**, a Texas corporation ("Tenant").

WITNESSETH:

WHEREAS, Landlord and Tenant entered into that certain Lease Agreement, dated November 1, 2016 (the "Original Lease"), whereby Tenant leased from Landlord approximately 18,776 rentable square feet (the "Original Premises") in Suite 100 of that certain building located at 3551 West Plano Parkway, The Colony, Texas 75056 (the "Building"), as more particularly described in the Original Lease.

WHEREAS, Landlord and Tenant entered into that certain First Amendment to Lease and Expansion, dated July 25, 2017 (the "First Amendment") in which, among other things, Tenant leased an additional 800 rentable square feet (the "Test Kitchen Space") of warehouse space at the Building. The Original Premises and Test Kitchen Space is herein collectively referred to as the "Premises." The Original Lease and First Amendment are collectively referred to herein as the "Lease".

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

1. **Deferred Monthly Base Rental.** Landlord and Tenant have agreed to reduce the Monthly Base Rental for the period from June 1, 2020 through and including May 31, 2021 (the "Deferral Period") by one-half (1/2) of the amounts set forth in the Lease. Tenant shall continue to pay Tenant's Proportionate Share of Operating Expenses and Electrical Costs in the current estimated monthly amount of \$15,250.47 pursuant to the terms of the Lease. Therefore, Monthly Base Rental during the Deferral Period shall be as set forth below:

Months	Base Rental per Rentable Square Foot	Monthly Base Rental (Original Premises)	One-Half Monthly Base Rental (Original Premises)	Monthly Base Rental (Test Kitchen)	One-Half Monthly Base Rental (Test Kitchen)	Full Monthly Base Rental During Deferral Period
June 1, 2020-December 31,	\$ 18.00	\$ 28,164.00	\$ 14,082.00*	\$ 1,200.00	\$ 600.00	\$ 14,682.00
January 1, 2021-May 31, 2021	\$ 18.50	\$ 28,946.33	\$ 14,473.17	\$ 1,233.33	\$ 616.67	\$ 15,089.84

* Tenant shall pay \$29,364.00 plus proportionate share of Operating Expenses in the amount of \$30,500.94 (totaling \$59,864.94) on or before the date of Tenant's execution of this Amendment for one-half (1/2) of June, 2020 and July, 2020 Monthly Base Rental due under the Lease.

2. **Repayment of Deferred Monthly Base Rental.** Landlord and Tenant have agreed to defer One Hundred Seventy-Eight Thousand Two Hundred Twenty-Three and 20/100s Dollars (\$178,223.20) (the "Deferred Rental"). In the event of a default under the Lease during the Deferral Period, the entire amount of Deferred Rental shall be immediately due and payable in full by Tenant to Landlord. If no default occurs during the Deferral Period, then in addition to the Monthly Base Rental and Tenant's Proportionate Share of Operating Expenses and Electrical Costs due for each month pursuant to the terms of the Lease, Tenant shall also pay back the Deferred Rental in sixty-seven (67) equal monthly installments of Two Thousand Six Hundred Sixty and 05/100s Dollars (\$2,660.05) (the "Monthly Deferred Rental Payment"), commencing on June 1, 2021 through and including December 31, 2026, payable at the same time as Monthly Base Rental and Tenant's Proportionate Share of Operating Expenses and Electrical Costs are due and payable. Tenant's default in the payment of Monthly Deferred Rental Payment shall have the same effect and Landlord shall have the same remedies as Tenant's failure to pay Monthly Base Rental under the Lease.

3. **Sublease During Deferral Period.** In the event Tenant subleases some or all of the Premises during the Deferral Period, Tenant shall pay, as part of the repayment of the Deferred Rent, one hundred percent (100%) of any rentals payable by the subtenant to Landlord during the Deferral Period within five (5) days following receipt by Tenant from the subtenant. Any amounts paid in this manner shall reduce the number of monthly installments paid in section 2 above until such time that the entire Deferred Rent has been repaid.

4. **Confidentiality.** Tenant covenants and agrees that the economic and lease terms and conditions of this Amendment and any amendments, deferred payments, rental amounts, concessions, or other inducements granted or offered herein in connection with this Lease (collectively, the "Confidential Information"), are to remain confidential for Landlord's benefit, and may not be disclosed by Tenant to anyone, by any manner or means, directly or indirectly, without Landlord's prior written consent; however, Tenant may disclose the Confidential Information if required by law or court order, and to its attorneys, accountants, employees and existing or prospective financial partners provided same are advised by Tenant of the confidential nature of the Confidential Information and each agrees to maintain the confidentiality thereof prior to disclosure. Tenant shall be liable to Landlord for any disclosures made in violation of this Section by Tenant or by any entity or individual to whom the Confidential Information was disclosed or made available to by Tenant.

5. **Ratification:** The Lease, as amended hereby, is hereby ratified, confirmed and deemed in full force and effect in accordance with its terms. Tenant represents to Landlord that, to the best of Tenant's knowledge, Tenant (a) is currently unaware of any default by Landlord under the Lease; and (b) has full power and authority to execute and deliver this Amendment and this Amendment represents a valid and binding obligation of Tenant enforceable in accordance with its terms. Tenant agrees that its existing Lease shall be amended to reflect the agreements in this Amendment.

6. **Multiple Counterparts.** This Amendment may be executed in multiple counterparts, each of which shall constitute an original instrument, but all of which shall constitute one and the same agreement.

7. **Amendment:** This Amendment may not be modified, amended or terminated nor any of its provisions waived except by written agreement signed by both parties. Except as amended previously and hereby, the Lease and all previous amendments shall remain in full force and effect, enforceable in accordance with its terms.

[Signature Page to Follow]

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the Effective

Date.

Landlord:

A & H PROPERTIES PARTNERSHIP,
a Texas partnership

By:

Ali Khoshgowari
Authorized Signatory

Tenant:

RAVE RESTAURANT GROUP, INC.,
a Texas corporation

By:

Name: _____

Title: _____

Signature Page

SUBSIDIARIES OF RAVE RESTAURANT GROUP, INC.

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

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



Consent of Independent Registered Public Accounting Firm

Rave Restaurant Group, Inc.
The Colony, Texas

We hereby consent to the incorporation by reference in the Registration Statements on Forms S-8 (No. 333-177436 and 333-207428) and Forms S-3 (Nos. 333-219483 and 333-221169) of Rave Restaurant Group, Inc. of our report dated September 28, 2020 relating to its consolidated financial statements and financial statement schedules for the year ended June 28, 2020 appearing in this Annual Report on Form 10-K.

ArmaninoLLP
Dallas, Texas

September 28, 2020

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Rave Restaurant Group, Inc.
The Colony, Texas

We hereby consent to the incorporation by reference in the Registration Statements on Forms S-8 (Nos. 333-177436 and 333-207428) and Forms S-3 (Nos. 333-219483 and 333-221169) of Rave Restaurant Group, Inc. of our report dated March 13, 2020, relating to the consolidated financial statements, which appears in this Form 10-K.

Baker Tilly US, LLP

Plano, TX

September 28, 2020

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

I, Brandon L. Solano, certify that:

1. I have reviewed this Annual Report on Form 10-K of Rave Restaurant Group, Inc. (“the Registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Date: September 28th, 2020

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

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

I, Clinton D. Fendley, certify that:

1. I have reviewed this Annual Report on Form 10-K of Rave Restaurant Group, Inc. (“the Registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Date: September 28, 2020

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**

The undersigned officer of Rave Restaurant Group, Inc. (the “Company”), does hereby certify, to such officer’s knowledge, that the accompanying Annual Report on Form 10-K for the fiscal year ended June 28, 2020, and filed with the Securities and Exchange Commission on the date hereof (the “Form 10-K”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 28, 2020

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

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

The undersigned officer of Rave Restaurant Group, Inc. (the “Company”), does hereby certify, to such officer’s knowledge, that the accompanying Annual Report on Form 10-K for the fiscal year ended June 28, 2020, and filed with the Securities and Exchange Commission on the date hereof (the “Form 10-K”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 28, 2020

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