

SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **December 28, 2014**

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

Commission File Number: 0-12919

**RAVE RESTAURANT GROUP, INC.**

(Exact name of registrant as specified in its charter)

Missouri  
(State or other jurisdiction of  
Incorporation or organization)

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

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

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

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 and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

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 February 11, 2015, 10,000,849 shares of the issuer's common stock were outstanding.

RAVE RESTAURANT GROUP, INC.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

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

	Three Months Ended		Six Months Ended	
	December 28, 2014	December 29, 2013	December 28, 2014	December 29, 2013
<b>REVENUES:</b>	\$ 11,127	\$ 10,028	\$ 22,434	\$ 20,095
<b>COSTS AND EXPENSES:</b>				
Cost of sales	9,534	8,445	19,148	17,119
General and administrative expenses	1,215	1,135	2,324	2,151
Franchise expenses	750	806	1,465	1,473
Pre-opening expenses	136	70	172	156
Bad debt	12	65	92	110
Interest expense	3	36	109	79
	<u>11,650</u>	<u>10,557</u>	<u>23,310</u>	<u>21,088</u>
<b>LOSS FROM CONTINUING OPERATIONS BEFORE TAXES</b>	(523)	(529)	(876)	(993)
Income tax benefit	(167)	(180)	(282)	(334)
<b>LOSS FROM CONTINUING OPERATIONS</b>	(356)	(349)	(594)	(659)
Loss from discontinued operations, net of taxes	(43)	(48)	(70)	(89)
<b>NET LOSS</b>	<u>\$ (399)</u>	<u>\$ (397)</u>	<u>\$ (664)</u>	<u>\$ (748)</u>
<b>LOSS PER SHARE OF COMMON STOCK - BASIC:</b>				
Loss from continuing operations	\$ (0.04)	\$ (0.04)	\$ (0.06)	\$ (0.08)
Loss from discontinued operations	-	(0.01)	(0.01)	(0.01)
Net loss	<u>\$ (0.04)</u>	<u>\$ (0.05)</u>	<u>\$ (0.07)</u>	<u>\$ (0.09)</u>
<b>LOSS PER SHARE OF COMMON STOCK - DILUTED:</b>				
Loss from continuing operations	\$ (0.04)	\$ (0.04)	\$ (0.06)	\$ (0.07)
Loss from discontinued operations	-	-	(0.01)	(0.01)
Net loss	<u>\$ (0.04)</u>	<u>\$ (0.04)</u>	<u>\$ (0.07)</u>	<u>\$ (0.08)</u>
<b>Weighted average common shares outstanding - basic</b>	<u>9,393</u>	<u>8,615</u>	<u>9,392</u>	<u>8,510</u>
<b>Weighted average common and potential dilutive common shares outstanding</b>	<u>9,895</u>	<u>9,246</u>	<u>9,905</u>	<u>9,115</u>

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	<b>December 28, 2014 (unaudited)</b>	<b>June 29, 2014</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,189	\$ 2,796
Accounts receivable, less allowance for bad debts accounts of \$259 and \$276, respectively	2,751	3,276
Notes receivable	88	81
Inventories	1,444	1,703
Income tax receivable	384	386
Deferred income tax assets	1,010	951
Prepaid expenses and other	679	173
Total current assets	8,545	9,366
<b>LONG-TERM ASSETS</b>		
Property, plant and equipment, net	6,014	5,133
Long-term notes receivable	125	134
Long-term deferred tax asset	1,220	939
Deposits and other	268	396
Total assets	\$ 16,172	\$ 15,968
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable - trade	\$ 1,233	\$ 2,023
Accrued expenses	976	926
Deferred rent	143	163
Deferred revenues	328	177
Bank debt	-	500
Total current liabilities	2,680	3,789
<b>LONG-TERM LIABILITIES</b>		
Bank debt, net of current portion	-	267
Deferred rent, net of current portion	904	822
Deferred revenues, net of current portion	1,154	791
Deferred gain on sale of property	21	34
Other long-term liabilities	30	23
Total liabilities	4,789	5,726
<b>COMMITMENTS AND CONTINGENCIES (See Note 3)</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Common stock, \$.01 par value; authorized 26,000,000 shares; issued 16,573,335 and 16,240,412 shares, respectively; outstanding 9,453,935 and 9,121,012 shares, respectively	166	162
Additional paid-in capital	17,706	15,905
Retained earnings	18,147	18,811
Treasury stock at cost		
Shares in treasury: 7,119,400	(24,636)	(24,636)
Total shareholders' equity	11,383	10,242
	\$ 16,172	\$ 15,968

*See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.*

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

	Six Months Ended	
	December 28, 2014	December 29, 2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (664)	\$ (748)
Adjustments to reconcile net loss to cash (used in) provided by operating activities:		
Depreciation and amortization	741	687
Stock compensation expense	53	30
Deferred income taxes	(340)	(388)
Gain on sale of assets	-	(40)
Provision for bad debt	92	110
Changes in operating assets and liabilities:		
Notes and accounts receivable	438	(526)
Inventories	259	249
Accounts payable - trade	(790)	465
Accrued expenses	58	111
Deferred revenue	501	263
Prepaid expenses and other	(376)	(26)
<b>Cash (used in) provided by operating activities</b>	<u>(28)</u>	<u>187</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of assets	-	40
Capital expenditures	(1,564)	(1,873)
<b>Cash used in investing activities</b>	<u>(1,564)</u>	<u>(1,833)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from sale of stock	1,752	2,625
Repayments of bank debt	(767)	(1,019)
<b>Cash provided by financing activities</b>	<u>985</u>	<u>1,606</u>
Net decrease in cash and cash equivalents	(607)	(40)
Cash and cash equivalents, beginning of period	2,796	919
Cash and cash equivalents, end of period	<u>\$ 2,189</u>	<u>\$ 879</u>

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

**CASH PAYMENTS FOR:**

Interest	\$ 12	\$ 79
Income taxes - net	<u>\$ -</u>	<u>\$ 1</u>

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

The accompanying condensed consolidated financial statements of Rave Restaurant Group, Inc. (the "Company") have been prepared without audit pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in the financial statements have been omitted pursuant to such rules and regulations. The unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended June 29, 2014.

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

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

**Principles of Consolidation**

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

**Cash and Cash Equivalents**

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

**Fiscal Quarters**

The three month periods ended December 28, 2014 and December 29, 2013, each contained 13 weeks. The six month periods ended December 28, 2014 and December 29, 2013, each contained 26 weeks.

**Revenue Recognition**

The Company recognizes revenue when products are delivered and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. The Company's Norco division sells food and supplies to franchisees on trade accounts under terms common in the industry. Food and supply sales revenues, including shipping and handling costs, are recognized upon delivery of the product. Revenue from restaurant sales is recognized when food and beverage products are sold. The Company reports revenue net of sales taxes collected from customers and remitted to governmental taxing authorities.

Franchise revenue consists of income from license fees, royalties, and area development and foreign master license fees. License fees are recognized as income when there has been substantial performance under the agreement by the Company. Domestic license fees are generally recognized at the time the restaurant is opened. Foreign master license fees are generally recognized upon execution of the agreement as all material services relating to the sale have been substantially performed by the Company and the fee has been collected. Royalties are recognized as income when earned.

**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.

**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 and actual results could differ materially from estimates.

**Reclassification**

Certain items have been reclassified in the prior year financial statements to conform to current year presentation.

**(2) Long-Term Debt**

On August 28, 2012, the Company entered into a Loan and Security Agreement (the "F&M Loan Agreement") with The F&M Bank & Trust Company ("F&M") providing for a \$2.0 million revolving credit facility (with a \$500 thousand letter of credit subfacility), a \$2.0 million fully funded term loan facility and a \$6.0 million advancing term loan facility. An origination fee of 0.5% of the total credit facilities was paid at closing. At closing, F&M funded a \$2.0 million term loan payable in 48 equal monthly installments of principal plus accrued interest at a fixed rate of 4.574% per annum. Amounts repaid under this fully funded term loan may not be reborrowed. Initial proceeds from the F&M Loan Agreement were used to repay amounts borrowed under a previous credit facility that subsequently was canceled.

On June 13, 2013 the Company entered into a First Amendment to the F&M Loan Agreement that revised certain financial covenants to address proceeds from the Company's at-the-market offering of common stock. On September 10, 2013 the Company entered into a Second Amendment to the F&M Loan Agreement that specified the application of prepayments to the loan amortization schedule and revised certain definitions.

The Company could borrow, repay and reborrow under the revolving credit facility through August 28, 2014, at which time all amounts outstanding under the revolving credit facility matured. At that date, the Company had no borrowings on the revolving credit facility and allowed it to expire. An unused commitment fee of 0.50% per annum was payable quarterly on the average unused portion of the revolving credit facility.

Through August 28, 2014, F&M had agreed to make up to \$6.0 million in additional term loans to the Company. However, no amounts were outstanding on the advancing term loan facility at the expiration of the advance period. As of December 28, 2014, the balance on the initial term loan facility was also paid in full. As a result, the F&M Loan Agreement has expired by its terms.

**(3) Commitments and Contingencies**

On April 22, 2009, the Company's board of directors amended the stock purchase plan first adopted on May 23, 2007, and previously amended on June 2, 2008, to increase the number of shares of common stock the Company may repurchase to a total of 3,016,000 shares. As of December 28, 2014, up to an additional 848,425 shares could be purchased under the plan.

The Company is subject to various 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.

**(4) Stock-Based Compensation**

For the three months and six months ended December 28, 2014, the Company recognized stock-based compensation expense of \$30,000 and \$53,000, respectively. As of December 28, 2014, unamortized stock-based compensation expense was \$0.3 million.

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



	Six Months Ended	
	December 28, 2014	December 29, 2013
Outstanding at beginning of year	921,198	851,306
Granted	108,800	70,392
Exercised	(77,000)	-
Forfeited/Canceled/Expired	-	-
Outstanding at end of period	<u>952,998</u>	<u>921,698</u>
Exercisable at end of period	<u>478,823</u>	<u>502,506</u>

(5) **Earnings per Share (EPS)**

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

	Three Months Ended		Six Months Ended	
	December 28, 2014	December 29, 2013	December 28, 2014	December 29, 2013
Loss from continuing operations	\$ (356)	\$ (349)	\$ (594)	\$ (659)
Discontinued operations	(43)	(48)	(70)	(89)
Net loss available to common stockholders	<u>\$ (399)</u>	<u>\$ (397)</u>	<u>\$ (664)</u>	<u>\$ (748)</u>
<b>BASIC:</b>				
Weighted average common shares	9,393	8,615	9,392	8,510
Loss from continuing operations per common share	\$ (0.04)	\$ (0.04)	\$ (0.06)	\$ (0.08)
Discontinued operations per common share	-	(0.01)	(0.01)	(0.01)
Net loss per common share	<u>\$ (0.04)</u>	<u>\$ (0.05)</u>	<u>\$ (0.07)</u>	<u>\$ (0.09)</u>
<b>DILUTED:</b>				
Weighted average common shares	9,393	8,615	9,392	8,510
Stock options	502	631	513	605
Weighted average common shares outstanding	<u>9,895</u>	<u>9,246</u>	<u>9,905</u>	<u>9,115</u>
Loss from continuing operations per common share	\$ (0.04)	\$ (0.04)	\$ (0.06)	\$ (0.07)
Discontinued operations per common share	-	-	(0.01)	(0.01)
Net loss per common share	<u>\$ (0.04)</u>	<u>\$ (0.04)</u>	<u>\$ (0.07)</u>	<u>\$ (0.08)</u>

For the three months and six months ended December 28, 2014, options to purchase 15,000 and 30,000 shares of common stock at an exercise price of \$8.16 and \$8.05, respectively, were excluded from the computation of diluted EPS because the options' exercise price exceeded the average market price of the common shares for the period.

(6) **Closed restaurants and discontinued operations**

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

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

Discontinued operations reflect losses from two Company-owned Pizza Inn locations in Texas. These losses were attributable to leasehold expense associated with a restaurant closed during fiscal 2008 and operating results for a restaurant closed in the fourth quarter of fiscal 2014.

(7) **Income Taxes**

For the three and six month periods ended December 28, 2014, income tax benefit of \$0.2 million and \$0.3 million, respectively, were calculated on an effective income tax rate that is consistent with the statutory U.S. federal income tax rate of 34% adjusted for state income tax effects and permanent difference items. Management believes that future operations will generate sufficient taxable income, along with the reversal of temporary differences, to fully realize the net deferred tax asset of \$2.2 million.

(8) **Related Party Transactions**

On February 20, 2014, the Company entered into an Advisory Services Agreement (the "Agreement") with NCM Services, Inc. ("NCMS") pursuant to which NCMS will provide certain advisory and consulting services to the Company. NCMS is indirectly owned and controlled by Mark E. Schwarz, the Chairman of the Company. The term of the Agreement commenced December 30, 2013, and will continue for four fiscal quarters of the Company and quarterly thereafter until terminated by either party. Pursuant to the Agreement, NCMS was paid an initial fee of \$150,000 and earns quarterly fees of \$50,000 and an additional fee of up to \$50,000 per quarter (not to exceed an aggregate of \$100,000 in additional fees). The quarterly and additional fees are waived if the Company is not in compliance with all financial covenants under its primary credit facility or to the extent that payment of those fees would result in non-compliance with such financial covenants.

(9) **Subsequent Events**

Effective January 7, 2015, the Articles of Incorporation of the Company were amended and restated to, among other things, change its corporate name from "Pizza Inn Holdings, Inc." to "Rave Restaurant Group, Inc." Effective January 9, 2015, the Company's ticker symbol on NASDAQ was changed from "PZZI" to "RAVE".

(10) **Segment Reporting**

Summarized in the following tables are net sales and operating revenues, operating income and geographic information (revenues) for the Company's reportable segments for the three month and six month periods ended December 28, 2014 and December 29, 2013 (in thousands). Operating income reported below excludes income tax provision and discontinued operations.

	Three Months Ended		Six Months Ended	
	December 28, 2014	December 29, 2013	December 28, 2014	December 29, 2013
<b>Net sales and operating revenues:</b>				
Franchising and food and supply distribution	\$ 8,331	\$ 7,764	\$ 16,817	\$ 15,563
Company-owned restaurants (1)	2,796	2,264	5,617	4,532
Consolidated revenues	<u>\$ 11,127</u>	<u>\$ 10,028</u>	<u>\$ 22,434</u>	<u>\$ 20,095</u>
<b>Depreciation and amortization:</b>				
Franchising and food and supply distribution	\$ 6	\$ 5	\$ 11	\$ 7
Company-owned restaurants (1)	303	286	624	592
Combined	309	291	635	599
Corporate administration and other	56	31	106	88
Depreciation and amortization	<u>\$ 365</u>	<u>\$ 322</u>	<u>\$ 741</u>	<u>\$ 687</u>
<b>Income (loss) from continuing operations before taxes:</b>				
Franchising and food and supply distribution (2)	\$ 387	\$ 328	\$ 808	\$ 620
Company-owned restaurants (1) (2)	(343)	(307)	(444)	(705)
Combined	44	21	364	(85)
Corporate administration and other (2)	(567)	(550)	(1,240)	(908)
Loss from continuing operations before taxes	<u>\$ (523)</u>	<u>\$ (529)</u>	<u>\$ (876)</u>	<u>\$ (993)</u>
<b>Geographic information (revenues):</b>				
United States	\$ 10,969	\$ 9,778	\$ 22,109	\$ 19,621
Foreign countries	158	250	325	474
Consolidated total	<u>\$ 11,127</u>	<u>\$ 10,028</u>	<u>\$ 22,434</u>	<u>\$ 20,095</u>

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

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

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

The following discussion should be read in conjunction with the consolidated financial statements and accompanying notes appearing elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended June 29, 2014, and may contain certain forward-looking statements that are based on current management expectations. Generally, verbs in the future tense and the words "believe," "expect," "anticipate," "estimate," "intends," "opinion," "potential" and similar expressions identify forward-looking statements. Forward-looking statements in this report include, without limitation, statements relating to our business objectives, our customers and franchisees, our liquidity and capital resources, and the impact of our historical and potential business strategies on our business, financial condition, and operating results. Our actual results could differ materially from our expectations. Further information concerning our business, including additional factors that could cause actual results to differ materially from the forward-looking statements contained in this Quarterly Report on Form 10-Q, are set forth in our Annual Report on Form 10-K for the year ended June 29, 2014. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. The forward-looking statements contained herein speak only as of the date of this Quarterly Report on Form 10-Q and, except as may be required by applicable law, we do not undertake, and specifically disclaim any obligation to, publicly update or revise such statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

### Results of Operations

#### Overview

Rave Restaurant Group, Inc., through its subsidiaries (collectively, the "Company" or "we," "us" or "our") operates and franchises pizza buffet ("Buffet Units"), delivery/carry-out ("Delco Units") and express ("Express Units") restaurants domestically and internationally under the trademark "Pizza Inn" and operates domestic fast casual pizza restaurants ("Pie Five Units") under the trademarks "Pie Five Pizza Company" or "Pie Five". We provide or facilitate food, equipment and supply distribution to our domestic and international system of restaurants through our Norco Restaurant Services Company ("Norco") division and through agreements with third party distributors. At December 28, 2014, Company-owned and franchised restaurants consisted of the following:

**Three Months Ended December 28, 2014**  
(in thousands, except unit data)

	Pizza Inn		Pie Five		All Concepts
	Ending Units	Retail Sales	Ending Units	Retail Sales	Ending Units
Company-Owned	2	\$ 358	15	\$ 2,438	17
Domestic Franchised	179	21,825	16	2,724	195
Total Domestic Units	181	\$ 22,183	31	\$ 5,162	212
International Franchised	71		-		71

**Six Months Ended December 28, 2014**  
(in thousands, except unit data)

	Pizza Inn		Pie Five		All Concepts
	Ending Units	Retail Sales	Ending Units	Retail Sales	Ending Units
Company-Owned	2	\$ 774	15	\$ 4,843	17
Domestic Franchised	179	44,793	16	4,548	195
Total Domestic Units	181	\$ 45,567	31	\$ 9,391	212
International Franchised	71		-		71

Domestic restaurants are located predominantly in the southern half of the United States, with Texas, North Carolina, Arkansas and Tennessee accounting for approximately 31%, 14%, 11% and 7%, respectively, of the total number of domestic restaurants. International restaurants are located in seven foreign countries.

Basic income per common share improved \$0.01 to a loss of \$0.04 per share for the three month period ended December 28, 2014, compared to a loss of \$0.05 per share in the comparable period in the prior fiscal year. Diluted income per common share for the second fiscal quarter remained the same at a loss of \$0.04 per share. The Company had a net loss of \$0.4 million for both the three month period ended December 28, 2014 and the comparable period in the prior fiscal year, on revenues of \$11.1 million for the three month period ended December 28, 2014 compared to \$10.0 million in the comparable period in the prior fiscal year.

For the six months ended December 28, 2014, basic income per share improved \$0.02 per share to a loss of \$0.07 per share compared to a loss of \$0.09 per share for the comparable period in the prior fiscal year. Diluted income per share improved \$0.01 per share to a loss of \$0.07 per share compared to a loss of \$0.08 per share for the comparable period in the prior fiscal year. The Company had a net loss of \$0.7 million for both the six months ended December 28, 2014 and the comparable period of the prior year.

Adjusted EBITDA for the fiscal quarter ended December 28, 2014, improved \$0.1 million to a loss of \$0.1 million compared to a loss of \$0.2 million for the comparable period of the prior fiscal year. Adjusted EBITDA for the six month period ended December 28, 2014 increased \$0.3 million to a profit of \$0.1 million compared to a loss of \$0.2 million for the comparable period in the prior fiscal year. The following table sets forth a reconciliation of net income to Adjusted EBITDA for the periods shown (in thousands):

	Three Months Ended		Six Months Ended	
	December 28,	December 29,	December 28,	December 29,
	2014	2013	2014	2013
Net loss	\$ (399)	\$ (397)	\$ (664)	\$ (748)
Interest expense	3	36	109	79
Income Taxes--Continuing Operations	(167)	(180)	(282)	(334)
Income Taxes--Discontinued Operations	(19)	(25)	(34)	(47)
Depreciation and amortization	365	322	741	687
EBITDA	<u>\$ (217)</u>	<u>\$ (244)</u>	<u>\$ (130)</u>	<u>\$ (363)</u>
Stock compensation expense	30	15	53	30
Pre-opening costs	120	65	134	143
Asset disposals, closure costs and restaurant impairment	43	(70)	70	(64)
Adjusted EBITDA	<u>\$ (24)</u>	<u>\$ (234)</u>	<u>\$ 127</u>	<u>\$ (254)</u>

#### Pizza Inn Brand Summary

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

	Three Months Ended		Six Months Ended	
	December 28,	December 29,	December 28,	December 29,
	2014	2013	2014	2013
<b>Pizza Inn Retail Sales - Total Domestic Stores</b>	(in thousands, except average data)		(in thousands, except average data)	
Domestic Units				
Buffet - Franchised	\$ 19,775	\$ 19,702	\$ 40,580	\$ 40,377
Delco/Express - Franchised	2,050	1,945	4,213	3,998
Buffet - Company-owned	358	410	774	1,020
Total domestic retail sales	<u>\$ 22,183</u>	<u>\$ 22,057</u>	<u>\$ 45,567</u>	<u>\$ 45,395</u>
<b>Pizza Inn Comparable Store Retail Sales - Total Domestic</b>	\$ 21,577	\$ 20,271	\$ 43,730	\$ 41,416
<b>Pizza Inn Average Units Open in Period</b>				
Domestic Units				
Buffet - Franchised	98	107	99	108
Delco/Express - Franchised	77	70	77	69
Buffet - Company-owned	2	2	2	3
Total domestic Units	<u>177</u>	<u>179</u>	<u>178</u>	<u>180</u>

Total Pizza Inn domestic franchisee retail sales increased \$0.1 million, or 0.6%, for the three months ended December 28, 2014 when compared to the same period of the prior year. Pizza Inn domestic comparable store retail sales increased \$1.3 million, or 6.4%, for the three months ended December 28, 2014 when compared to the same period of the prior year. Total Pizza Inn domestic franchisee retail sales increased \$0.2 million, or 0.4%, for the six months ended December 28, 2014 when compared to the same period of the prior year. Pizza Inn domestic comparable store retail sales increased \$2.3 million, or 5.6%, for the six months ended December 28, 2014 when compared to the same period of the prior year. Loss from continuing operations before taxes for Pizza Inn Company-owned restaurants was \$63 thousand for the three months ended December 28, 2014 and \$13 thousand for the three months ended December 29, 2013. Loss from continuing operations before taxes for Pizza Inn Company-owned restaurants was \$108 thousand for the six months ended December 28, 2014 and \$109 thousand for the six months ended December 29, 2013.

The following chart summarizes Pizza Inn restaurant activity for the three month and six month periods ended December 28, 2014:

	Three Months Ended December 28, 2014				Six Months Ended December 28, 2014			
	Beginning Units	Opened	Closed	Ending Units	Beginning Units	Opened	Closed	Ending Units
Domestic Units								
Buffet - Franchised	100	1	-	101	103	1	3	101
Delco/Express - Franchised	78	2	2	78	77	3	2	78
Buffet - Company-owned	2	-	-	2	2	-	-	2
Total domestic Units	180	3	2	181	182	4	5	181
International Units (all types)	71	-	-	71	71	-	-	71
Total Units	251	3	2	252	253	4	5	252

We believe that the net decrease of one domestic Pizza Inn unit during fiscal 2015 continues an improving trend in net domestic store closures. The number of international Pizza Inn units continues to remain steady.

#### Pie Five Brand Summary

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

	Three Months Ended		Six Months Ended	
	December 28, 2014	December 29, 2013	December 28, 2014	December 29, 2013
	(in thousands, except average data)		(in thousands, except average data)	
<b>Pie Five Retail Sales - Total Stores</b>				
Domestic - Franchised	\$ 2,724	\$ 527	\$ 4,520	\$ 805
Domestic - Company-owned	2,438	1,840	4,842	3,493
Total domestic retail sales	\$ 5,162	\$ 2,367	\$ 9,362	\$ 4,298
<b>Pie Five Comparable Store Retail Sales - Total</b>	\$ 1,453	\$ 1,243	\$ 2,943	\$ 2,513
<b>Pie Five Average Units Open in Period</b>				
Domestic - Franchised	12	4	10	3
Domestic - Company-owned	14	12	14	11
Total domestic Units	26	16	24	14

Total Pie Five system-wide retail sales increased \$2.8 million, or 118.1%, for the three months ended December 28, 2014 when compared to the same period of the prior year. For stores open on December 28, 2014, system-wide average weekly sales improved by \$3,543, or 31.6%, from \$11,216 in the same fiscal quarter of the prior year to \$14,759 for the three months ended December 28, 2014. Compared to the same fiscal quarter of the prior year, average units open in the period increased from 16 to 26. Comparable store retail sales increased by 16.9% during the second quarter of fiscal 2015 compared to the same period of the prior year. Total Pie Five system-wide retail sales increased \$5.1 million, or 117.8%, for the six months ended December 28, 2014 when compared to the same period of the prior year. For stores open on December 28, 2014, system-wide average weekly sales improved by \$3,659, or 32.3%, from \$11,339 in the same period of the prior year to \$14,998 for the six months ended December 28, 2014. Compared to the same period of the prior year, average units open in the period increased from 14 to 24. Comparable store retail sales increased by 17.1% during the first half of fiscal 2015 compared to the same period of the prior year.

The following chart summarizes Pie Five restaurant activity for the three month and six month periods ended December 28, 2014:

	Three Months Ended December 28, 2014				Six Months Ended December 28, 2014			
	Beginning Units	Opened	Closed	Ending Units	Beginning Units	Opened	Closed	Ending Units
Domestic - Franchised	10	6	-	16	7	11	2	16
Domestic - Company-owned	14	1	-	15	13	2	-	15
Total domestic Units	24	7	-	31	20	13	2	31

We believe that the addition of thirteen Pie Five Units during fiscal 2015 reflects the continuation of an accelerated pace of growth in the opening of Pie Five Units as franchised stores begin to open pursuant to previously executed franchise development agreements and the Company continues to develop its own stores in the Dallas-Fort Worth, Houston, and other metropolitan areas. The two closed franchised locations reflect the intent to convert a market region from franchised stores to Company-owned restaurants.

#### Pie Five - Company-Owned Restaurants

(in thousands, except store weeks and average data)

	Three Months Ended		Six Months Ended	
	December 28, 2014	December 29, 2013	December 28, 2014	December 29, 2013
Store weeks	183	156	352	296
Average weekly sales	13,322	11,805	13,759	11,820
Average number of units	14	12	14	11
Restaurant sales	2,438	1,844	4,843	3,503
Restaurant operating cash flow	224	69	517	150
Depreciation/amortization expense	(267)	(237)	(540)	(493)
Pre-opening costs	(137)	(70)	(172)	(156)
Allocated corporate administration and other expenses	(100)	(56)	(141)	(97)
Loss from continuing operations before taxes	(280)	(294)	(336)	(596)

Average weekly sales for Company-owned Pie Five restaurants increased \$1,517, or 12.9%, to \$13,322 for the three months ended December 28, 2014 compared to \$11,805 for the same period of prior year. Average weekly sales for Company-owned Pie Five restaurants increased \$1,939, or 16.4%, to \$13,759 for the six months ended December 28, 2014 compared to \$11,820 for the same period of prior year. For both the three and six month periods, the improved performance was driven by strong comparable store retail sales growth at existing Company-owned stores and higher average sales of Company-owned restaurants opened during fiscal 2014 and 2015.

Company-owned Pie Five restaurant operating cash flow increased \$0.2 million, or 224.6%, during the first quarter of fiscal 2015 compared to the same period of prior year. Loss from continuing operations before taxes for Company-owned Pie Five stores held steady at \$0.3 million for the three months ended December 28, 2014, and the same period of the prior year. Company-owned Pie Five restaurant operating cash flow increased \$0.4 million, or 244.7%, during the six month period ended December 28, 2014 compared to the same period of prior year. Similarly, loss from continuing operations before taxes for Company-owned Pie Five stores improved by \$0.3 million, to \$0.3 million for the six months ended December 28, 2014 compared to \$0.6 million for the same period of the prior year.

#### 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.

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

- "EBITDA" represents earnings before interest, taxes, depreciation and amortization.
- "Adjusted EBITDA" represents earnings before interest, taxes, depreciation and amortization, stock compensation expense, pre-opening expense, impairment, gain/loss on sale of assets, lease charges and costs related to the closed restaurants.
- "Retail sales" represents the restaurant sales reported by our franchisees and Company-owned restaurants, which may be segmented by brand or domestic/international locations.

- “System-wide retail sales” represents combined retail sales for franchisee and Company-owned restaurants for a specified brand.
- “Comparable store retail sales” includes the retail sales for restaurants that have been open for at least 18 months as of the end of the reporting period. The sales results for a restaurant that was closed temporarily for remodeling or relocation within the same trade area are included in the calculation only for the days that the restaurant was open in both periods being compared.
- “Store weeks” represent the total number of 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 divided by total store weeks in the period.
- “Restaurant operating cash flow” represents the pre-tax income earned by Company-owned restaurants before (1) depreciation and amortization, (2) pre-opening expenses, and (3) allocated corporate administration and other expenses.
- “Pre-opening expenses” consist primarily of certain costs incurred prior to the opening of a restaurant, including: (1) marketing and promotional expenses, (2) accrued rent, and (3) manager salaries, employee payroll and related training costs.

## Financial Results

### Revenues:

Revenues are derived from (1) sales of food, paper products and supplies from Norco to franchisees, (2) franchise royalties and franchise fees, and (3) Company-owned restaurant operations. Financial results are dependent in large part upon the volume, pricing and cost of the products and supplies sold to franchisees. The volume of products sold by Norco to franchisees is dependent on the level of franchisee chain-wide retail sales, which are impacted by changes in comparable store sales and restaurant count, and the products sold to franchisees through Norco rather than through third-party food distributors.

Total revenues for the three month period ended December 28, 2014 and for the same period in the prior fiscal year were \$11.1 million and \$10.0 million, respectively. Total revenues for the six month period ended December 28, 2014 and for the same period in the prior fiscal year were \$22.4 million and \$20.1 million, respectively. Revenue consisted of the following:

	Three Months Ended		Six Months Ended	
	December 28, 2014	December 29, 2013	December 28, 2014	December 29, 2013
Food and supply sales	\$ 7,263	\$ 6,903	\$ 14,731	\$ 13,864
Franchise revenue	1,068	861	2,086	1,699
Restaurant sales	2,796	2,264	5,617	4,532
Total revenue	<u>\$ 11,127</u>	<u>\$ 10,028</u>	<u>\$ 22,434</u>	<u>\$ 20,095</u>

### Food and Supply Sales

Food and supply sales by Norco include food and paper products and other distribution revenues. For the three month period ended December 28, 2014, food and supply sales increased to \$7.3 million compared to \$7.0 million the same period in the prior fiscal year due primarily to a \$2.4 million, or 10.8%, increase in total domestic franchisee retail sales primarily attributable to an increase in comparable store retail sales and an increase in the number of Pie Five franchisee stores. For the six month period ended December 28, 2014, food and supply sales increased to \$14.7 million compared to \$13.9 million the same period in the prior fiscal year.

### Franchise Revenue

Franchise revenue, which includes income from domestic and international royalties and license fees, increased by \$0.2 million for the three month period ended December 28, 2014 compared to the same period in the prior fiscal year. This increase was the result of higher royalties resulting from increased franchisee retail sales and an increase in franchise fees and development fees primarily related to Pie Five. Franchise revenue increased by \$0.4 million for the six month period ended December 28, 2014 compared to the same period in the prior fiscal year for similar reasons.



#### Restaurant Sales

Restaurant sales, which consist of revenue generated by Company-owned restaurants, increased 23.5%, or \$0.5 million, to \$2.8 million for the three month period ended December 28, 2014, compared to \$2.3 million for the comparable period in the prior year. This increase was primarily due to positive comparable store retail sales and the opening of two new Company-owned Pie Five restaurants in fiscal 2015. Restaurant sales increased 23.9%, or \$1.1 million, to \$5.6 million for the six month period ended December 28, 2014, compared to \$4.5 million for the comparable period in the prior year for similar reasons.

#### *Costs and Expenses:*

#### Cost of Sales

Cost of sales, which primarily includes food and supply costs, distribution fees, and labor and general and administrative expenses directly related to restaurant sales, increased to \$9.5 million for the three month periods ended December 28, 2014 compared to \$8.4 million in December 29, 2013. The increase in costs was primarily the result of higher food and supply costs associated with new Company-owned restaurants and increased food and supply sales by Norco. Cost of sales increased to \$19.1 million for the six month period ended December 28, 2014 compared to \$17.1 million for the six month period ended December 29, 2013 for similar reasons.

#### General and Administrative Expenses

General and administrative expenses increased to \$1.2 million for the three month period ended December 28, 2014 compared to \$1.1 million for the quarter ended December 29, 2013. General and administrative expenses were \$2.3 million for the six month period ended December 28, 2014 compared to \$2.2 million for the six months ended December 29, 2013.

#### Franchise Expenses

Franchise expenses include selling, general and administrative expenses directly related to the sale and continuing service of domestic and international franchises. These expenses remained relatively consistent at \$0.8 million for the three month periods ended December 28, 2014 and December 29, 2013. Franchise expenses remained consistent at \$1.5 million for the six month periods ended December 28, 2014 and December 29, 2013.

#### Bad Debt Expense

The Company monitors franchisee retail sales and receivable balances and adjusts credit terms when necessary to minimize the Company's exposure to high risk accounts receivable. Bad debt expense decreased \$53 thousand for the three month period ended December 28, 2014 as compared to the comparable period in the prior fiscal year. Bad debt expense decreased \$18 thousand for the six month period ended December 28, 2014 as compared to the comparable period in the prior fiscal year.

#### Interest Expense

Interest expense decreased \$33 thousand for the three month period ended December 28, 2014 as compared to the comparable period in the prior fiscal year. A zero debt balance in the current period resulted from the payoff of the Company's bank credit facilities. Interest expense increased \$30 thousand for the six month period ended December 28, 2014 as compared to the comparable period in the prior fiscal year due to the write-off of capitalized loan origination costs following payoff of the bank credit facilities.

#### Provision for Income Tax

For the three month period ended December 28, 2014, an income tax benefit of \$0.2 million was calculated on an effective income tax rate that is consistent with the statutory U.S. federal income tax rate of 34% adjusted for state income tax effects and permanent difference items. Management believes that future operations will generate sufficient taxable income, along with the reversal of temporary differences, to fully realize the net deferred tax asset of \$2.2 million.

#### Discontinued Operations

Discontinued operations reflect losses from two Company-owned Pizza Inn locations in Texas. These losses were attributable to leasehold expense associated with a restaurant closed during fiscal 2008 and operating results for a restaurant closed in the fourth quarter of fiscal 2014.

## Liquidity and Capital Resources

Our primary sources of liquidity are cash flow from operating activities and proceeds from the sale of common stock.

Cash flows from operating activities generally reflect net income adjusted for certain non-cash items including depreciation and amortization, changes in deferred tax assets, share based compensation, and changes in working capital. Cash provided by operating activities decreased \$0.2 million to cash used of \$28 thousand for the six month period ended December 28, 2014 compared to cash provided of \$0.2 million for the six months ended December 29, 2013 primarily as a result of a \$0.8 million reduction of trade accounts payable and \$0.4 million of prepaid expenses.

Cash flows from investing activities generally reflect capital expenditures for the purchase of Company assets. The Company used cash of \$1.6 million for the six month period ended December 28, 2014, primarily for new Company-owned Pie Five restaurants. This compares to cash used by investing activities of \$1.9 million during the same period in the prior fiscal year attributable to Company-owned Pie Five restaurants that opened during the period.

Cash flows from financing activities generally reflect changes in the Company's borrowings and stock activity during the period. Net cash provided by financing activities was \$1.0 million and \$1.6 million for the six month periods ended December 28, 2014 and December 29, 2013, respectively, which in each case reflected proceeds from the sale of stock offset by the repayment of bank debt.

On May 20, 2013, the Company entered into an At-the-Market Issuance Sales Agreement with MLV & Co. LLC ("MLV") pursuant to which the Company could offer and sell shares of its common stock having an aggregate offering price of up to \$3,000,000 from time to time through MLV, acting as agent (the "2013 ATM Offering"). The 2013 ATM Offering was undertaken pursuant to Rule 415 and a shelf Registration Statement on Form S-3 which was declared effective by the SEC on May 13, 2013. On November 20, 2013, the Company and MLV amended the At-the-Market Issuance Sales Agreement and the SEC declared effective a new shelf Registration Statement on Form S-3 to increase the 2013 ATM Offering by \$5,000,000. Through December 28, 2014, the Company had sold an aggregate of 1,257,609 shares in the 2013 ATM Offering, realizing aggregate net proceeds of \$8.0 million.

On October 1, 2014, the Company entered into a new At Market Issuance Sales Agreement with MLV 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 MLV, acting as agent (the "2014 ATM Offering"). The 2014 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 August 8, 2014. Through December 28, 2014, the Company had sold an aggregate of 59,263 shares in the 2014 ATM Offering, realizing aggregate net proceeds of \$0.4 million.

On August 28, 2012, the Company entered into a Loan and Security Agreement (the "F&M Loan Agreement") with The F&M Bank & Trust Company ("F&M") providing for a \$2.0 million revolving credit facility (with a \$500 thousand letter of credit subfacility), a \$2.0 million fully funded term loan facility and a \$6.0 million advancing term loan facility. An origination fee of 0.5% of the total credit facilities was paid at closing. At closing, F&M funded a \$2.0 million term loan payable in 48 equal monthly installments of principal plus accrued interest at a fixed rate of 4.574% per annum. Amounts repaid under this fully funded term loan may not be reborrowed. Initial proceeds from the F&M Loan Agreement were used to repay amounts borrowed under a previous credit facility that subsequently was canceled.

On June 13, 2013 the Company entered into a First Amendment to the F&M Loan Agreement that revised certain financial covenants to address proceeds from the Company's at-the-market offering of common stock. On September 10, 2013 the Company entered into a Second Amendment to the F&M Loan Agreement that specified the application of prepayments to the loan amortization schedule and revised certain definitions.

The Company could borrow, repay and reborrow under the revolving credit facility through August 28, 2014, at which time all amounts outstanding under the revolving credit facility matured. At that date, the Company had no borrowings on the revolving credit facility and allowed it to expire. An unused commitment fee of 0.50% per annum was payable quarterly on the average unused portion of the revolving credit facility.

Through August 28, 2014, F&M had agreed to make up to \$6.0 million in additional term loans to the Company. However, no amounts were outstanding on the advancing term loan facility at the expiration of the advance period. As of December 28, 2014, the balance on the initial term loan facility was paid in full. As a result, the F&M Loan Agreement has expired by its terms.

Management believes the cash on hand combined with cash from operations and proceeds from the 2014 ATM Offering will be sufficient to fund operations for the next 12 months.

#### ***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 food and supply sales to franchisees and franchise royalties. The Company records a provision for doubtful receivables to allow for any amounts which may be unrecoverable 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.

Inventory, which consists primarily of food, paper products and supplies primarily warehoused by the Company's third-party distributors, is stated at lower of cost or market, with cost determined according to the weighted average cost method. The valuation of inventory requires us to estimate the amount of obsolete and excess inventory. The determination of obsolete and excess inventory requires us to estimate the future demand for the Company's products within specific time horizons, generally six months or less. If the Company's demand forecast for specific products is greater than actual demand and the Company fails to reduce purchasing accordingly, the Company could be required to write down inventory, which would have a negative impact on the Company's gross margin.

The Company reviews long-lived assets for impairment when events or circumstances indicate that the carrying value of such assets may not be fully recoverable. Impairment is evaluated based on the sum of undiscounted estimated future cash flows expected to result from use of the assets compared to its carrying value. If impairment is recognized, the carrying value of the impaired asset is reduced to its fair value, based on discounted estimated future cash flows.

The Company periodically evaluates the realizability of its deferred tax assets based upon the Company's analysis of existing tax credits by jurisdiction and expectations of the Company's ability to utilize these tax assets through a review of estimated future taxable income and establishment of tax strategies. These estimates could be materially impacted by changes in future taxable income, the results of tax strategies or changes in tax law.

The Company recognizes food and supply revenue when products are delivered and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. Franchise revenue consists of income from license fees, royalties, and area development and foreign master license sales. License fees are recognized as income when there has been substantial performance of the agreement by both the franchisee and the Company, generally at the time the restaurant is opened. Royalties are recognized as income when earned.

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 December 28, 2014 and December 29, 2013, the Company had no uncertain tax positions.

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

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Not required for a smaller reporting company.

**Item 4. Controls and Procedures**

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

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

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

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 1A. Risk Factors**

Not required for a smaller reporting company.

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

On May 23, 2007, the board of directors of the Company approved a stock purchase plan (the "2007 Stock Purchase Plan") authorizing the purchase of up to 1,016,000 shares of the Company's 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 the Company may repurchase by 1,000,000 shares to a total of 2,016,000 shares. On April 22, 2009, the board of directors further amended the 2007 Stock Purchase Plan by increasing the aggregate number of shares 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 three months ending December 28, 2014. As of December 28, 2014, up to an additional 848,425 shares could be purchased under the 2007 Stock Purchase Plan.

**Item 3. Defaults upon Senior Securities**

Not applicable.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

Not applicable.

**Item 6. Exhibits**

- 1.1 At Market Issuance Sales Agreement between Pizza Inn Holdings, Inc. and MLV & Co. LLC dated October 1, 2014 (incorporated by reference to Exhibit 1.1 to the registrant's Current Report on Form 8-K filed October 1, 2014).
- 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 By-laws 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).
- 10.1 Pizza Inn Holdings, Inc. 2015 Long Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed November 20, 2014).
- 10.2 Form of Stock Option Grant Agreement under the Pizza Inn Holdings, Inc. 2015 Long Term Incentive Plan (incorporated by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K filed November 20, 2014).
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer.
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer.
- 32.1 Section 1350 Certification of Principal Executive Officer.
- 32.2 Section 1350 Certification of Principal Financial Officer.
- 101 Interactive data files pursuant to Rule 405 of Regulation S-T

**SIGNATURES**

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

**RAVE RESTAURANT GROUP, INC.**  
(Registrant)

By: /s/ Randall E. Gier  
Randall E. Gier  
President and Chief Executive Officer  
(Principal Executive Officer)

By: /s/ Timothy E. Mullany  
Timothy E. Mullany  
Chief Financial Officer  
(Principal Financial Officer)

Dated: February 11, 2015



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

I, Randall E. Gier, certify that:

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

Date: February 11, 2015

By: /s/ Randall E. Gier  
Randall E. Gier  
President and Chief Executive Officer  
(Principal Executive Officer)



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

I, Timothy E. Mullany, certify that:

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

Date: February 11, 2015

By: /s/ Timothy E. Mullany  
Timothy E. Mullany  
Chief Financial Officer  
(Principal Financial Officer)

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

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

The accompanying Quarterly Report on Form 10-Q for the quarter ended December 28, 2014 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Form 10-Q.

Date: February 11, 2015

By: /s/ Randall E. Gier  
Randall E. Gier  
President and Chief  
Executive Officer  
(Principal Executive Officer)

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

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

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

The accompanying Quarterly Report on Form 10-Q for the quarter ended December 28, 2014 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Form 10-Q.

Date: February 11, 2015

By: /s/ Timothy E. Mullany  
Timothy E. Mullany  
Chief Financial Officer  
(Principal Financial Officer)

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