

FRANCHISE DISCLOSURE DOCUMENT

Pizza Inn®

Pizza Inn, Inc.
a Missouri corporation
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The Colony, Texas 75056
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www.pizzainn.com

The franchise offered under this disclosure document is the right to develop, own and operate a “Pizza Inn”-branded restaurant featuring pizzas, salads, and other approved food items (a “Pizza Inn Restaurant”). These Franchised Restaurants include the opportunity for a standard Buffet Restaurant, a Delco Restaurant and an Express Restaurant.

The total investment necessary to begin operation of a Pizza Inn Buffet Restaurant ranges from \$359,000 to \$790,500. This includes approximately \$37,000 to \$50,000 that must be paid to us or our affiliates. The total investment necessary to begin operation of a Delco Restaurant ranges from \$78,000 to \$204,000. This includes approximately \$15,000 to \$27,000 that must be paid to us or our affiliates. The total investment necessary to begin operation of an Express Restaurant ranges from \$37,000 to \$87,000. This includes approximately \$9,000 to \$14,000 that must be paid to us or our affiliates. We may also allow you to enter into an Area Development Agreement under which you would commit to acquiring franchises to develop, and opening, at least two (2) franchised Pizza Inn Buffet Restaurants within a defined territory and pursuant to a development schedule, each of which you and we would agree to before signing the Area Development Agreement. When you sign the Area Development Agreement, you would pay us a development fee equal the amount for each Pizza Inn Restaurant concept you commit to developing (not including the 1st one). For a standard 2-unit development commitment, your total investment under an Area Development Agreement ranges from \$374,500 to \$805,500. This includes approximately \$52,000 to \$65,000 that must be paid to us or our affiliates.

This disclosure document summarizes certain provisions of your franchise agreement and other information in plain English. Read this disclosure document and all accompanying agreements carefully. You must receive this disclosure document at least 14 calendar-days before you sign a binding agreement with, or make any payment to, the franchisor or an affiliate in connection with the proposed franchise sale. **Note, however, that no governmental agency has verified the information contained in this document.**

You may wish to receive your disclosure document in another format that is more convenient for you. To discuss the availability of disclosures in different formats, contact Franchise Sales, Pizza Inn, Inc. at 3551 Plano Parkway, The Colony, Texas 75056, (469) 384-5000.

The terms of your contract will govern your franchise relationship. Don’t rely on the disclosure document alone to understand your contract. Read all of your contract carefully. Show your contract and this disclosure document to an advisor, like a lawyer or an accountant.

Buying a franchise is a complex investment. The information in this disclosure document can help you make up your mind. More information on franchising, such as “A Consumer’s Guide to Buying a Franchise,” which can help you understand how to use this disclosure document, is available from the Federal Trade Commission (“FTC”). You can contact the FTC at 1-877-FTC-HELP or by writing to the FTC at 600 Pennsylvania Avenue, NW, Washington, D.C. 20580. You can also visit the FTC’s home page at www.ftc.gov for additional information. Call your state agency or visit your public library for other sources of information on franchising. There may also be laws on franchising in your state. Ask your state agencies about them.

Issuance Date: October 27, 2021

How to Use This Franchise Disclosure Document

Here are some questions you may be asking about buying a franchise and tips on how to find more information:

QUESTION	WHERE TO FIND INFORMATION
How much can I earn?	Item 19 may give you information about an outlet sales, costs, profits or losses. You should also try to obtain this information from others, like current and former franchisees. You can find their names and contact information in Item 20 or Exhibit I.
How much will I need to invest?	Items 5 and 6 list fees you will be paying to the franchisor or at the franchisor's direction. Item 7 lists the initial investment to open. Item 8 describes the suppliers you must use.
Does the franchisor have the financial ability to provide support to my business?	Item 21 or Exhibit A includes financial statements. Review these statements carefully.
Is the franchise system stable, growing, or shrinking?	Item 20 summarizes the recent history of the number of company-owned and franchised outlets.
Will my business be the only PIZZA INN business in my area?	Item 12 and the "territory" provisions in the franchise agreement describe whether the franchisor and other franchisees can compete with you.
Does the franchisor have a troubled legal history?	Items 3 and 4 tell you whether the franchisor or its management have been involved in material litigation or bankruptcy proceedings.
What's it like to be a PIZZA INN franchisee?	Item 20 or Exhibits I and J list current and former franchisees. You can contact them to ask about their experiences.
What else should I know?	These questions are only a few things you should look for. Review all 23 Items and all Exhibits in this disclosure document to better understand this franchise opportunity. See the table of contents.

What You Need To Know About Franchising *Generally*

Continuing responsibility to pay fees. You may have to pay royalties and other fees even if you are losing money.

Business model can change. The franchise agreement may allow the franchisor to change its manuals and business model without your consent. These changes may require you to make additional investments in your franchise business or may harm your franchise business.

Supplier restrictions. You may have to buy or lease items from the franchisor or a limited group of suppliers the franchisor designates. These items may be more expensive than similar items you could buy on your own.

Operating restrictions. The franchise agreement may prohibit you from operating a similar business during the term of the franchise. There are usually other restrictions. Some examples may include controlling your location, your access to customers, what you sell, how you market, and your hours of operation.

Competition from franchisor. Even if the franchise agreement grants you a territory, the franchisor may have the right to compete with you in your territory.

Renewal. Your franchise agreement may not permit you to renew. Even if it does, you may have to sign a new agreement with different terms and conditions in order to continue to operate your franchise business.

When your franchise ends. The franchise agreement may prohibit you from operating a similar business after your franchise ends even if you still have obligations to your landlord or other creditors.

Some States Require Registration

Your state may have a franchise law, or other law, that requires franchisors to register before offering or selling franchises in the state. Registration does not mean that the state recommends the franchise or has verified the information in this document. To find out if your state has a registration requirement, or to contact your state, use the agency information in Exhibit H.

Your state also may have laws that require special disclosures or amendments be made to your franchise agreement. If so, you should check the State Specific Addenda. See the Table of Contents for the location of the State Specific Addenda.

Special Risks to Consider About *This* Franchise

Certain states require that the following risk(s) be highlighted:

1. **Out-of-State Dispute Resolution.** The franchise agreement requires you to resolve disputes with the franchisor by mediation, arbitration and/or litigation only in Texas. Out-of-state mediation, arbitration, or litigation may force you to accept a less favorable settlement for disputes. It may also cost more to mediate, arbitrate, or litigate with the franchisor in Texas than in your own state.

Certain states may require other risks to be highlighted. Check the “State Specific Addenda” (if any) to see whether your state requires other risks to be highlighted.

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ITEM 1

THE FRANCHISOR AND ANY PARENTS, PREDECESSORS, AND AFFILIATES

The Franchisor and Our Parent

To simplify the language in this Disclosure Document, “Franchisor,” “we,” or “us” means Pizza Inn, Inc., the franchisor. “You” means the person or legal entity that is granted the franchise. If you are a corporation, partnership, limited liability company, or other business entity, certain provisions of this Disclosure Document also apply to your owners and will be noted.

We are a corporation formed in Missouri on February 22, 1983. Our principal business address is 3551 Plano Parkway, The Colony, Texas 75056. We do business under the name “Pizza Inn,” as well as our corporate name. Our agents for service of process in various states are listed in Exhibit H.

Effective September 25, 2011, we were reorganized in a series of transactions in which all of our outstanding shares of common stock were automatically converted into identical shares of common stock of Pizza Inn Holdings, Inc., a Missouri corporation incorporated on August 26, 2011 (which later changed its name to Rave Restaurant Group, Inc.). Consequently, following the reorganization, Rave Restaurant Group, Inc. (“Rave”) became the same entity we had been prior to the reorganization, including having the same charter, bylaws, directors and general officers, and we became a wholly owned subsidiary of Rave. Rave’s principal business address is the same as ours. Rave does not offer franchises in any business and does not engage in any business other than owning us and our affiliates.

We and our predecessors have operated Pizza Inn restaurants since 1958, when the first Pizza Inn Restaurant in Dallas, Texas opened, and have granted franchises for Pizza Inn dine-in restaurants since 1961. We have operated and franchised Pizza Inn restaurants since our formation. We began franchising captive market Pizza Inn Restaurants (“Express Restaurants”) in 1995, and we continue to offer franchises for Express Restaurants and Delco Restaurants. As of the end of our most recent fiscal year (June 27, 2021), there were 156 franchised Pizza Inn Restaurants. The 124 domestic franchised Pizza Inn restaurants were comprised of 70 Buffet restaurants, 10 Delco restaurants and 44 Express restaurants. As of June 27, 2021, there were 32 international franchised Pizza Inn restaurants. Through agreements with third party distributors, we also provide or facilitate food, equipment and supply distribution to our domestic and international system of restaurants. In 2017, we stopped operating Pizza Inn Restaurants and, instead, have focused on selling franchises and supporting our franchisees in the United States and internationally.

We have not offered franchises in any other line of business, and we do not engage in any business not described in this Item 1.

Affiliates

We have only one affiliate that offers franchises under a different brand and concept. Pie Five Pizza Company, Inc. (“Pie Five”) is a Texas corporation incorporated on June 16, 2011, and shares our principal business address. Pie Five began offering franchises for Pie Five Restaurants in September 2011. As of June 27, 2021, there were 33 franchised Pie Five Restaurants in operation. Pie Five has not offered franchises in any line of business other than Pie Five Restaurants and has not engaged in any business other than franchising Pie Five Restaurants.

The Franchises Offered

Under this Disclosure Document, we offer franchises for Pizza Inn Buffet Restaurants, Pizza Inn Express Restaurants and Pizza Inn Delco Restaurants. Our Buffet Restaurants may have ample seating, a salad bar and a full pizza buffet, and feature dine-in, carry-out and delivery services, along with a drive-thru where

available. Our Express Restaurants have a setting within a larger food court or non-restaurant facility, such as a convenience store, airport terminal, hospital or educational facility. Pizza Inn Delcos are stand-alone offerings not associated with other offerings (non-food court) with no buffet and limited or no seating and grab-n-go as well as delivery.

Our focused menu is designed to present an appealing variety of high-quality pizza, pasta, salads and desserts to our customers. Our menu offers up to three crusts (Original Thin Crust, New York Pan and Italian), with standard toppings and special combinations of toppings. Pizza Inn Restaurants also offer a variety of appetizers 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. We believe that our focus on three crust types creates a better brand identity among customers, improves operating efficiency and maintains food quality and consistency.

Our pizza crusts are hand-made from dough made fresh in the restaurant each day. We do not use a centralized commissary for mass production of dough, and our dough is never frozen (with the exception of certain dough products used for pizza crusts in some Express Restaurants as well as cauliflower crusts). Pizza Inn pizzas are made from a proprietary all-in-one flour mixture, all-in-one pizza sauce, real mozzarella cheese, specially designed toppings, and a proprietary mix of classic pizza spices. All ingredients and toppings, including Proprietary Products (as defined in Item 8), can be purchased from us.

We have implemented an updated image for our domestic Pizza Inn Buffet Restaurants, including significant exterior and interior changes in signage, color schemes and dining area configuration, including the addition of a back-fed buffet bar offering an attractive and efficient presentation. The interior features a return to colors that define our heritage, graphic accents, and updated signage and logos. The interior decor is designed to promote a casual, lively, contemporary, family-style atmosphere. Some Restaurants feature game rooms that offer a range of electronic game entertainment for the entire family. The new image has been introduced in new franchised Restaurants and several existing, remodeled franchised Restaurants.

All Pizza Inn Restaurants are established and operated under a unique and comprehensive system (“System”), which includes: (i) technical information and expertise relating to the preparation and service of food products, (ii) the use of our proprietary products, all of which constitute trade secrets and are identified by the public with our products, (iii) special recipes and menu items, (iv) distinctive exterior and interior design, décor, fixtures, and furnishings, (v) standards and specifications for products and services, (vi) procedures for food service management and quality control, (vii) training and assistance, and (viii) advertising and promotional programs, all of which we may change, improve, or further develop from time to time. Each food service concept utilizes the System as adapted for that concept. The System is identified by means of certain trade names, service marks, trademarks, logos, and designs.

Single Unit Franchise

We offer our franchises to individuals and entities meeting our qualification requirements. A franchise authorizes you to operate one Pizza Inn Restaurant at a designated location (“Franchised Restaurant” or “Restaurant”) in accordance with the terms of the standard franchise agreement (“Standard Franchise Agreement”). Our current form of Franchise Agreement is attached to this disclosure document as Exhibit B.

Area Development Rights

If you desire to acquire area development rights, and we are willing to grant you those rights (based, in our discretion, on factors such as your financial and operational wherewithal and the area in which you are interested in developing), you and we will enter into an Area Development Agreement, the current form of which is attached to this disclosure document as Exhibit C. Under the Area Development Agreement, you will agree to acquire multiple franchises and enter into multiple Franchise Agreements to develop Pizza Inn

Restaurants within a defined geographic area and to open those restaurants in accordance with a development schedule, each of which would be described in the Area Development Agreement you and we sign. We require a minimum of two (2) restaurants to be developed under a Development Agreement.

With respect to each Franchised Restaurant developed under the Development Agreement, the form of Franchise Agreement that you will sign will be our then-current standard form in general use at the time of site acceptance, the terms and conditions of which may be materially different than those reflected in Exhibit B, except that the amount of the Initial Franchise Fee will be determined in accordance with the Development Agreement.

Market, Competition, and Regulations

The market for pizza restaurants is generally very well developed and highly competitive. Moreover, the restaurant and food service industry is highly competitive in general. All of our concepts compete with other franchised and chain pizza systems, individually owned pizza restaurants, so-called “quick service” and “fast casual” restaurants offering a variety of types of food, and an increasing number of concepts that serve other types of moderately priced foods for dine-in, carryout, and delivery.

Each of our concepts must comply with local, state, and federal laws and regulations that apply to food service operations, including those relating to safety, health, sanitation, food handling and labeling, and alcoholic beverages. You should be aware of federal, state, and local employment laws and regulations, including minimum age and minimum wage requirements. The Americans with Disabilities Act of 1990 requires readily accessible accommodations for disabled people. If you intend to sell beer or wine at your Restaurant, you will need to obtain a special permit authorizing you to do so, and you may have liability imposed on you under Dram Shop laws. Details of local law requirements vary from location to location, and you should consult with your attorney or other advisors concerning laws and regulations that may affect your operations.

ITEM 2 BUSINESS EXPERIENCE

Chief Executive Officer and Director: Brandon Solano

Mr. Solano has served as our Chief Executive Officer and Director since October 2019 in The Colony, Texas. From May 2017 to May 2019, he served as Chief Marketing Officer and Digital Officer with Pei Wei Asian Diner and its affiliated companies (“Pei Wei”) in Irving, Texas. From December 2015 to February 2017, he served as Chief Marketing Officer with Papa Murphy’s Pizza and its affiliated companies in Vancouver, Washington. Mr. Solano was not working from Mar 2017 to April 2017 and from June 2019 to Sept 2019.

Chief Operations Officer: Michael Burns

Mr. Burns became Chief Operations Officer at Rave Restaurant Group on November 25, 2019 in The Colony, Texas. From September 2017 through November 2019, he was Vice President of Operations at Pei Wei in Irving, Texas. From May 2013 through August 2017, he had been Regional Vice President of Bojangles’ Restaurant in Charlotte, North Carolina.

Senior Director of Operations: Justin Smith

Mr. Smith became Senior Director of Operation at Rave Restaurant Group on December 2, 2019 in Charlotte, North Carolina. From December 2017 through November 2019 he was a Market Partner at Pei Wei in Dallas, Texas. From December 2008 through December 2017 he was an Area Director at Bojangles Restaurant in Charlotte, North Carolina.

Senior Director of Franchise Sales and Development: Christopher P. Cochran

Christopher Cochran became Sr. Director of Franchise Sales and Development at Rave Restaurant Group on August 30, 2021 in Dallas, Texas. From September 2003 until September 2021 he was Director of Operations, Director of Franchise Operations and Sr. Director of Operations at Pizza Inn and Rave Restaurant Group in The Colony, Texas.

Senior Director Marketing: Charles Hugh Black, III

Charles Black became Sr. Director of Marketing at Rave Restaurant Group July 13, 2021 in The Colony, Texas. Mr. Black was Local Director at Dickey's Barbeque in Dallas, Texas from April 2021 until July, 2021. Prior to that, Mr. Black held the position of Sr. Manager Digital Marketing at LEC Entertainment in Irving, Texas.

Senior Manager of Training and Operations Services: Margaret "Maggie" Fox

Maggie Fox became Senior Manager of Training and Operations Services at Rave Restaurant Group in April 2010 in The Colony, Texas.

Certain Services Provided by Existing Franchisees

Since 1990, we have contracted with certain multi-unit developers to provide support services on our behalf directly to other franchisees within the developer's territory in exchange for receiving a share of the royalty and fee income generated in that territory. The following individuals and entities Our Area Developers are set forth below:

Southern Pizza Company, Inc., whose office is located in Greenwood, Mississippi, is contracted to provide these services to franchisees in Mississippi and certain counties in Alabama and Louisiana. Its President, Director, and sole shareholder is Bhupinder "Bob" Singh, and it has been a Pizza Inn franchisee since 1990.

**ITEM 3
LITIGATION**

Carl A. Dissette, et al. v. Pie Five Pizza Company, Inc., et al., Case No. 16 C 11389 (United States District Court for the Northern District of Illinois). On December 16, 2016, Carl Dissette, an individual, and three Pie Five franchisee entities in which he is the sole shareholder (B & C Resources, Inc., MBT Five, Inc. and MBT-Five Iowa, Inc.) filed this action against Pie Five and our parent, Rave, and certain of our and Pie Five's former officers who were never served and were voluntarily dismissed from the case on August 7, 2017. The plaintiffs alleged various violations of the Illinois Franchise Disclosure Act, the Indiana Code, the Indiana Deceptive Franchise Practices Act, the Iowa Code, common law fraud, and breach of contract. The plaintiffs alleged that various pre-sale disclosures were false or misleading, that certain material facts were not disclosed, that various arrangements with suppliers were contrary to statute and/or not fully disclosed, and that Pie Five failed to comply with certain obligations under the terms of the franchise agreements. The plaintiffs sought unspecified damages, conditional rescission of unspecified franchise agreements, a declaratory judgment that Pie Five was subject to the implied covenant of good faith and fair dealing, punitive damages, and attorneys' fees and costs. Pie Five filed its Answer to the Complaint on May 25, 2017, denying the material allegations of the Complaint, and asserting counterclaims against the plaintiffs. On August 15, 2017 the parties entered into a Settlement Agreement pursuant to which the plaintiffs paid an agreed amount under a promissory note, and Pie Five agreed to waive the initial franchise fee and reduce the royalty fee under certain franchise agreements, allow the franchisee to purchase directly from approved suppliers, agreed to pay the costs incurred in resolving landlord claims at sites Pie Five leased to the franchisee, and modified the termination provision

of certain franchise agreements.

Pizza Inn, Inc. v. Bob Clairday, No. 3:18-cv-00221-N (U.S. District Court, Northern District of Texas – Dallas Division). On December 4, 2017, we sought a declaratory judgment against Bob Clairday (“Clairday”) in state court in Texas to declare that Clairday has no contractual or equitable right to renewal of his area development agreements that expired on December 1, 2017. On January 26, 2018, Clairday removed the case to the U.S. District Court for the Northern District of Texas and filed counterclaims against us asserting breach of contract and statutory claims for our refusal to renew. Clairday also asserted that he has equitable rights to renewal of his area development agreements. The case proceeded to trial on February 19, 2019. The Court awarded Clairday damages, plus interest, costs of court, and attorney fees. Pizza Inn, Inc. filed an appeal in the United States Fifth Circuit Court of Appeals, which on November 4, 2020 reversed the trial court and rendered judgment in favor of Pizza Inn. Pizza Inn and Clairday subsequently entered into a settlement agreement for the payment by Clairday of an amount of attorney fees and costs to Pizza Inn incurred in the litigation.

Pizza Inn, Inc. v. The Pizza Inn Advertising Plan Cooperative, No. 4:20-cv-00064-RWS (U.S. District Court, Eastern District of Texas – Sherman Division). On January 24, 2020, Pizza Inn filed a declaratory judgment action against The Pizza Inn Advertising Plan Cooperative (“PIAP”) to declare that Pizza Inn is the exclusive owner of all Pizza Inn trademarks, that Pizza Inn has the right to revoke PIAP’s right, if any, to use of the trademarks, and that Pizza Inn may lawfully discontinue cooperative marketing efforts with PIAP. PIAP filed counterclaims against Pizza Inn asserting breach of contract and tortious interference with contract by Pizza Inn in ceasing cooperative marketing with PIAP and refusing to allow PIAP to use Pizza Inn’s trademarks. On January 5, 2021 the Court granted summary judgment in favor of Pizza Inn on its claims for trademark infringement, and dismissed all remaining claims. Thereafter Pizza Inn and PIAP entered into a settlement agreement on all remaining claims with PIAP agreeing to dissolve as an entity and tender all funds in its possession to Pizza Inn for the purpose of marketing for the benefit of Pizza Inn franchisees.

Division One Foods, Inc. v. Pizza Inn, Inc., No. 3:20-cv-02065-X (U.S. District Court, Northern District of Texas – Dallas Division). On August 4, 2020, Division One Foods, Inc. (“Division One”) filed a breach of contract action against Pizza Inn, Inc. following the decision by Pizza Inn, Inc. to terminate three area developer agreements with Division One due to failed contractual performance and fraud by Division One. Pizza Inn filed counterclaims asserting fraud and breach of contract against Division One. The matter is currently pending.

Pizza Inn, Inc. v. Sweeps, Inc. and Jan Broome, No. 4:20-cv-00587-ALM (U.S. District Court, Eastern District of Texas – Sherman Division). On July 31, 2020, Pizza Inn filed breach of contract and trademark infringement claims against former franchisee, Sweeps, Inc. and its principal, Jan Broome, related to operation of a competing pizza restaurant at the former franchise location in Elizabethton, Tennessee after the expiration of the franchise agreement in violation of the noncompete provisions of the franchise agreement. Additionally, the competing pizza restaurant was discovered to have used the Pizza Inn registered trademarks in advertising the new competing restaurant. The matter is currently pending.

Pizza Inn, Inc. v. Fawzi (Allen) Odetallah, No. CIV-21-322-PRW (U.S. District Court, Western District of Oklahoma). On November 20, 2019, Pizza Inn filed breach of contract and trademark infringement claims against former franchisee, Fawzi (Allen) Odetallah, related to operation of a “Pizza Inn” restaurant at the former franchise location in Ponca City, Oklahoma after the expiration of the franchise agreement in violation of the noncompete provisions of the franchise agreement, as well as use of federally protected trademarks owned by Pizza Inn. The matter was resolved at mediation by agreement of the franchisee to cease operations both as a Pizza Inn and in competing in the sale of pizza and related menu items at the location consistent with the noncompete provisions in the franchise agreement. However, Pizza Inn re-filed against Odetallah in the Western District of Oklahoma federal court asserting that Odetallah failed to abide by the terms of the settlement agreement and continues to operate a Pizza Inn branded franchise agreement in breach

of contract and infringing on federally protected trademarks. The matter is currently pending.

Pizza Inn, Inc. v. Oke Pies, LLC and Jack Saucy, Case No. 21-1385-431 (Denton County District Court, Texas). On February 23, 2021 Pizza Inn filed breach of contract claim against former franchisee, Oke Pies, LLC and guarantor Jack Saucy, related to closure of a franchise Pizza Inn restaurant located in Waycross, Georgia in violation of the term provision of the franchise agreement. The matter is currently pending.

Pizza Inn, Inc. v. Kavi Khambhati, Case No. 21-1386-431 (Denton County District Court, Texas). On February 23, 2021 Pizza Inn filed breach of contract claim against former franchisee, Kavi Khambhati, related to closure of a franchise Pizza Inn restaurant located in Pearl, Mississippi in violation of the term provision of the franchise agreement. The matter is currently pending.

Pizza Inn, Inc. v. Wes, Inc. and William Simmons, Case No. 21-2403-442 (Denton County District Court, Texas). On March 26, 2021 Pizza Inn filed breach of contract claim against former franchisee, Wes, Inc. and guarantor William Simmons, related to closure of a franchise Pizza Inn restaurant located in High Point, North Carolina in violation of the term provision of the franchise agreement. The matter was settled with notice of nonsuit September 13, 2021 by payment of an agreed amount to Pizza Inn.

Pizza Inn, Inc. v. Thomas C. Vail, No. DC-21-02292 (Dallas County District Court, Texas). On February 23, 2021, Pizza Inn filed breach of contract claim against former franchisee, Thomas C. Vail, related to operation of a competing pizza restaurant at the former franchise location in Pikeville, North Carolina after the expiration of the franchise agreement in violation of the non-compete provisions of the franchise agreement. The matter is currently pending.

Other than these actions, no litigation is required to be disclosed in this Item.

ITEM 4 BANKRUPTCY

No bankruptcy information is required to be disclosed in this Item.

ITEM 5 INITIAL FEES

Development Fee

If you enter into a Development Agreement, at the time that you sign it, you must pay us a development fee (“Development Fee”) equal to \$15,000 for each Pizza Inn Buffet Restaurant (after the 1st one) that you agree to develop. We will apply the Development Fee as a credit against the Initial Franchise Fee (defined below) due under each Franchise Agreement (after the 1st one) executed pursuant to the Development Agreement, subject to a maximum credit of \$15,000 under each Pizza Inn Buffet Franchise Agreement and, for all Restaurants, of the total amount of the Development Fee. You will sign the 1st Franchise Agreement and will pay the Initial Franchise Fee due thereunder when you sign the Development Agreement. The Franchise Agreement for each subsequent Restaurant developed under the Development Agreement must be paid by the first to occur of our acceptance of a site for the Restaurant or 90 days before the expiration of the applicable Development Period (as defined in the Development Agreement). The Development Fee is uniformly imposed, is fully earned by us when paid, is not refundable and, except as provided in this paragraph, is not credited against any other fees to be paid to us.

Initial Franchise Fee

When you sign a Franchise Agreement, you must pay us an initial franchise fee (“Initial Franchise

Fee”) of \$30,000 for a Pizza Inn Buffet Restaurant or (ii) \$10,000 for a Delco or (iii) \$5,000 for an Express less any applicable credit from the Development Fee. The Initial Franchise Fee is uniformly imposed, is fully earned when paid, and is not refundable under any circumstances. During the last fiscal year, we waived the initial franchise fee under certain circumstances for some franchisees.

Initial Inventory

You must purchase from us your opening inventory of Proprietary Products, which costs between \$7,000 to \$20,000 for a Pizza Inn Buffet Restaurant, \$5,000 to \$17,000 for a Delco, and \$4,000 to \$9,000 for an Express depending on inventory mix and anticipated sales volume. You may also purchase from us or from other approved suppliers the opening inventory of specification ingredients and other supplies. See Item 7. The cost of Proprietary Products and non-proprietary products and other supplies are not refundable.

ITEM 6 OTHER FEES

Type of Fee ⁽¹⁾	Amount	Due Date	Remarks
Royalty	4% of Gross Sales for Buffet 4% of Gross Sales for Delco 4% of Gross Sales for Express	Postmarked on Tuesday and payable on Friday of each week on sales for the week ending on the preceding Sunday	“Gross Sales” means the total gross revenues from cash and credit sales of all food and beverages, whether consumed on or off the premises, less applicable sales taxes. Gross Sales includes the proceeds of any business interruption insurance.
Brand Fund Contribution/ Advertising Obligation	Currently, 4% of Gross Sales must be spent on the Advertising Obligation (see remarks)	Same as Royalty	You must spend and/or contribute for advertising up to 4% of the Gross Sales of the Franchised Restaurant (“Advertising Obligation”). Your Advertising Obligation may be allocated among a Brand Fund and/or local marketing (each as described in Item 11). Currently, Pizza Inn Restaurants are required to pay 3% of Gross Sales to the Brand Fund, and 1% of Gross Sales will be spent on Local Marketing. Following written notice to you, we may modify the amount (but not to exceed 6% of Gross Sales) and allocation of the Advertising Obligation; however, once a Regional Advertising Fund that covers the Franchised Location is established, we will not increase the Advertising Obligation by more than 0.5% of Gross Sales in any 24-month period and it will never exceed 6%.
Transfer Fee	\$7,500 for Buffet \$5,500 for Delco \$2,500 for Express	Upon signing transfer agreement	Payable in connection with a sale of your Restaurant and certain ownership interests in you or the Restaurant.

Type of Fee ⁽¹⁾	Amount	Due Date	Remarks
Renewal Fee	25% of then-current initial franchise fee	Upon signing renewal franchise agreement	If we are not currently offering franchises, then the renewal fee is calculated using the initial franchise fee from our most recent FDD.
Additional training	Not currently charged, but we reserve the right to do so in the future.	Payable in advance of the training or assistance	You are responsible for the costs of travel, meals, and accommodations for Pizza Inn employees or for your employees if attending training at our facility.
Audit/Inspection Fee	Cost of audit or inspection	On demand	Payable if the audit reveals that you have not complied with our record keeping requirements or that you have understated Gross Sales or if triggered by your default of the Franchise Agreement.
Late Payment Fee	\$100 per invoice	On demand	Assessed on any amounts that are not paid when due.
Interest on late payments	The lower of 1.5% per month or highest applicable legal rate for open account business, royalty payments, advertising contributions	After due date and cure period, if any	
Indemnification	Varies with circumstances	On demand	You must indemnify us and our related parties for all losses and expense we incur because of your actions.
Products and supplies	Varies	Upon purchase	You must purchase certain items from us or our affiliates.
Food Sample Testing and Inspection Fees	Cost of testing, inspection	On demand	If you want to use a product or supplier that we have not approved, you must pay our costs of the inspection and actual cost of the test.
Relocation of Restaurant	\$500 plus our costs	Upon relocation and when services are rendered	If we elect, in our discretion, to consider your request to relocate your Restaurant
Securities offering fee	\$1,500	Prior to our review of your proposed offering document	We must consent to any private placement or offering. You cannot make a public offering.
Insurance Placement Fee	Our costs, including premiums	On demand	Payable only if you fail to procure required insurance, and we elect (in our discretion) to procure it for you
Opening Deadline Extension Fee	\$500	At the time that we grant the extension	Payable only if you request, and we agree (in our discretion) to grant you an extension of your required opening deadline
Quality Assurance Audit ("QA Audit")	Costs and expenses of QA Audit	As incurred	Payable if you fail to obtain a passing score on any QA Audit. You must reimburse us for all costs and expenses incurred in connection with the next QA Audit.

Type of Fee ⁽¹⁾	Amount	Due Date	Remarks
Lost Revenue Damages ⁽²⁾	Will vary under circumstances	As incurred	Payable only if we terminate the Franchise Agreement for your breach or you terminate the agreement without cause

NOTES:

- (1) Unless otherwise noted, all fees imposed by and payable to us are non-refundable and are uniformly imposed on our franchisees. You must pay all amounts that you owe us or our affiliates by electronic depository transfer account.
- (2) If this obligation is triggered, you must pay us an amount equal to the net present value of the royalty fees, brand fund contributions (if any) that would have become due had the Franchise Agreement not been terminated, from the date of termination to the earlier of: (a) five years following termination, or (b) the scheduled expiration date of the Franchise Agreement ("Measurement Period"). Lost Revenue Damages will be calculated as follows: (1) the number of calendar months in the Measurement Period; multiplied by (2) the aggregate of the royalty fee, brand fund (if any) percentages; multiplied by (3) the average monthly Gross Sales of the Restaurant during the 12 full calendar months immediately preceding the termination date (or, if as of the effective date of termination, the Restaurant has not been operating for at least 12 full calendar months, the average monthly Gross Sales of all Pizza Inn Restaurants (excluding Express Restaurants and Delco Restaurants) operating during that 12-month period will be used). These damages compensate us only for our lost Royalty and brand fund revenue streams and not for other damages resulting from the termination.

**ITEM 7
ESTIMATED INITIAL INVESTMENT**

YOUR ESTIMATED INITIAL INVESTMENT

Single Restaurant

Type of Expenditure	Amount (Buffet Restaurants)	Amount (Delco Restaurants)	Amount (Express Restaurants)	Method of Payment	When Due	To Whom Payment Made
Initial Franchise Fee	\$30,000	\$10,000	\$5,000	Lump sum	On signing the Franchise Agreement	Us
Architectural Design Services ⁽¹⁾	\$7,500 - \$15,000	\$3,500 - \$10,000	\$0 - \$3,000	As arranged	As incurred	Suppliers
Leasehold Improvements ⁽²⁾	\$78,000 - \$337,500	\$10,000 - \$45,000	\$3,400 - \$12,000	As arranged	As arranged	Suppliers
Fixtures, Equipment, Décor and Signage ⁽³⁾	\$160,000 - \$270,000	\$30,000 - \$57,000	\$16,700 - \$33,500	As arranged	As incurred	Suppliers
Smallwares ⁽⁴⁾	\$20,000 - \$26,000	\$3,500 - \$15,000	\$2,000 - \$3,500	As arranged	As arranged	Suppliers

Type of Expenditure	Amount (Buffet Restaurants)	Amount (Delco Restaurants)	Amount (Express Restaurants)	Method of Payment	When Due	To Whom Payment Made
Opening Inventory ⁽⁵⁾	\$7,000 - \$20,000	\$5,000 - \$17,000	\$4,000 - \$9,000	As arranged	As arranged	Us, or affiliates and other suppliers
Other Pre-Opening Expenses ⁽⁶⁾	\$5,000 - \$15,000	\$1,000 - \$5,000	\$500 - \$5,000	As arranged	As arranged	Suppliers
Initial Training ⁽⁷⁾	\$15,000 - \$22,000	\$3,000 - \$10,000	\$1,000 - \$3,000	Lump sum	As incurred	Suppliers
Register or Point of Sale System	\$17,000 - \$25,000	\$5,000 - \$15,000	\$0 - \$12,000	As arranged	As arranged	Suppliers
Additional Funds - 3 months ⁽⁸⁾	\$20,000 - \$30,000	\$10,000 - \$20,000	\$5,000 - \$10,000	As arranged	As incurred	Suppliers
TOTAL	\$359,500 - \$790,500	\$78,000 - \$204,000	\$37,000 - \$87,000			

Area Development (2 Buffet Restaurants)

Type of Expenditure	Amount	Method of Payment	When Due	To Whom Payment Made
Development Fee ⁽⁹⁾	\$15,000	Lump sum	On signing the Area Development Agreement	Us
Initial Investment to Open Initial Buffet Restaurant)	\$359,500 to \$790,500	See initial investment table above.		
Total Estimated Initial Investment	\$374,500 to \$805,500			

Any amounts you pay to us are non-refundable. The refundability of other amounts will depend on your ability to negotiate refund provisions with the third-party provider of the goods or services. Neither we nor our affiliates offer financing directly or indirectly for any part of the initial investment. The availability and terms of financing depend on the availability of financing generally, your creditworthiness and collateral, and lending policies of financial institutions. The estimate does not include any finance charge, interest, or debt service obligation. The estimated initial investment figures are based primarily on our affiliates' and franchisees' experience developing Pizza Inn Restaurants.

Notes:

- (1) We will provide you with an approved equipment floor plan. Typically, we require that you obtain architectural and design services locally for any modifications to our standard floor plan, although we must pre-approve those modifications.

- (2) Most Pizza Inn Restaurants operate on leased (not owned) premises. The estimated initial investment assumes that you will rent your premises and, therefore, does not include any amounts you might spend to purchase property. Costs may vary substantially based upon local conditions, including the availability and price of labor and material. Improvements (including interior finish-out) to an in-line shell space will vary based on the condition of the shell, subject to offset from landlord contribution, if any. Construction costs for build-out and improvements for a restaurant in a typical in-line retail center space may range from \$60 to \$75 per square foot. Costs for a similarly sized ground-up, freestanding building of standard construction could range from about \$125 to \$152 per square foot.
- (3) These amounts include the cost of furniture, fixtures, equipment, and signage. Major items of expense in this category include building sign, pylon sign (if allowed by your landlord and local code requirements), ovens, make table, mixer, and dining tables and chairs. The high figure includes a triple-stack oven and more audio-visual equipment and furniture. The low figure includes a double-stack oven.
- (4) Smallwares include kitchen utensils, pizza pans, silverware, glasses, and dishes.
- (5) Opening inventory includes food ingredients, paper and cleaning supplies, and other consumable items we anticipate that you may use during training and the first week of operation. You must purchase certain Proprietary Products from us.
- (6) These amounts include estimates for: (i) utility deposits (electricity, gas, water, and telephone), (ii) security deposits for various other services (trash removal, security system, etc.), (iii) government permit fees (licenses and permits for the sale of beer and wine, if you choose to offer them and if permitted by law, could increase these amounts significantly depending upon local requirements), (iv) three-month premium for typical insurance coverage, (v) recruiting, hiring, and uniforming initial restaurant personnel, and (vi) legal, accounting and other professional services. See Item 8 for a description of the minimum insurance you are required to procure and maintain.
- (7) These amounts include travel, lodging, and wage expenses for you and each of your Restaurant employees attending training class at a Regional Certified Training Restaurant. The training period is approximately four weeks. You and at least one of your employees are required to attend training.
- (8) This is our estimate of the amounts you should have in reserve to supplement your revenue to cover your expenses for the start-up phase of your Restaurant (3 months from the Restaurant's opening date), and they include things like replenishing your inventory, lease payments, initial advertising and promotional activities, payroll for managers and other employees, uniforms, utilities and other variable costs. They do not include any amounts for debt service. There are many variables that might affect the reserves that you should maintain, including things such as sales volume, number of employees, rates of pay, frequency of inventory turnover, your own management and business skills, local economic conditions and competition.
- (9) This estimate assumes you commit to develop 2 Buffet Restaurants. See Item 5 for a description of how the Development Fee is calculated.

You should review these figures carefully with a business advisor before you decide to purchase the franchise. Your actual costs will depend on factors such as: geography, the availability of sites; your Restaurant size and location; construction costs; your discretionary expenditures; the availability of leasing or financing arrangements; your credit rating; and other factors. Because the figures listed in the chart above are only estimates, it is possible both to reduce and to exceed costs in any of the areas listed above.

ITEM 8

RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

All food and non-food products, supplies, equipment and services that you purchase for use, sale or resale in the Restaurant must meet our requirements. We have the right to require that all food and non-food products, supplies, equipment and services that you purchase for use, sale or resale in the Restaurant: (a) meet our specifications; (b) be purchased only from approved suppliers (which may include us or our affiliates); and/or (c) be purchased only from a single source or from a limited number of designated sources (which may include us or our affiliates). To the extent that we establish specifications, require our consent to suppliers or designate specific suppliers for particular items, we will publish our requirements in our manuals (“Manual”) or otherwise in writing. We may create purchasing restrictions to control the quality and selection, and ensure the consistency, of menu items, ingredients and other merchandise; to consolidate System purchases to reduce costs or ensure availability of products; or for other valid business reasons. In particular, we have developed and may continue to develop certain proprietary food products that will be prepared by or for us according to our proprietary special recipes and formulas (“Proprietary Products”), and you must purchase those Proprietary Products only from us, our affiliates or a third party designated and licensed by us to prepare and sell such products.

Certain Proprietary Products are made using our trade secret formulations and procedures to produce the taste, texture, and other characteristics of Pizza Inn pizza and other menu items. The formulations are only disclosed to the suppliers who need to use them to produce the Proprietary Products. The list of Proprietary Products is provided to you in the Pizza Inn recipe manual, which we may change periodically to accommodate changes in the menu, preparation techniques, and other factors affecting the System. Currently, you must purchase the following Proprietary Products from us or our affiliates: dough mixes, pizza cheese, string cheese, mozzarella cheese, beef toppings, pepperoni, pork toppings, Italian sausage, pizza sauce, marinara sauce, meat sauce, Stromboli dessert filling, streusel topping, magic dust, pizzert mix and pizza boxes.

You must offer for sale and sell in the Restaurant only the products, services and brands that we have designated in the Manual or otherwise in writing. You must offer all items that we designate as mandatory. We may also designate some items as optional. We may change the mandatory and optional menu items, recipes, ingredients and other products and services in our sole discretion. We may require that you sell certain brands and prohibit you from selling other brands. You may sell products only in the varieties, weights, sizes, forms and packages that we designate. You must use only authorized ingredients and follow our recipes in the preparation of menu items. You may not use the Restaurant premises for the sale or display of items not authorized by us. Within 15 days after we provide written notice to you, you must begin selling any newly authorized menu items (or using any newly authorized ingredients) and cease selling any menu item that is no longer authorized (or using any ingredient that is no longer authorized); however, if the discontinued menu item or ingredient could pose a hazard to the public or prove detrimental to the System, you must cease selling or using that item or ingredient immediately. All food, beverages and merchandise authorized for sale at the Restaurant must be offered for sale under the name that we specify.

We will provide you suggested retail prices for the products and services offered at the Restaurant and, to the extent permitted by applicable law, we may require you to adhere to our suggested prices, including minimum and maximum prices.

If you have a suggestion for a new menu item or ingredient, or for a change to an authorized menu item or ingredient, or you wish to participate in a test market program, you must notify us before you implement any such change or commence any such program. You may not add or modify any menu item or participate in a test market program without obtaining our prior written approval.

In addition, you must purchase certain elements and components of the interior image and décor package (“Required Décor”) from suppliers that we approve for certain Pizza Inn concepts. In order to maintain

a consistent image throughout the System and to ensure the proper display of our name and trademarks, we require that all exterior signage be of uniform quality and appearance. To assist you in obtaining approved signage, we can recommend sign vendors with whom we regularly deal. You are free to select a sign vendor of your own choosing, provided that we approve it in advance. We reserve the right to disapprove any sign vendor if we reasonably believe that it cannot comply with our criteria.

We have entered into a distribution agreement with Performance Food Group (“PFG”). Pursuant to this agreement, PFG is authorized to act as a distributor of virtually all food and paper products, and other items related to the System. Product orders are placed with the distributor and products are distributed to the Restaurants at least once a week. Any products not available for purchase from us, our affiliates, PFG or not otherwise made available for distribution through these companies can be purchased through other third-party distributors and suppliers previously approved by us.

Purchases of Specification Items from Approved Suppliers

As stated above, in order to maintain consistently high standards in Pizza Inn products and services, we require that you use food products and ingredients, supplies, equipment, and other items in your Restaurant that conform to our specifications and are from suppliers we have approved (“Specification Items”). We formulate and modify the specifications through laboratory and field-testing. We evaluate suppliers based upon their ability to consistently meet such specifications and our standards regarding quality control, production capacity, service, and value. We inform you of the specifications and the approved items and suppliers in our recipe manual and other written communications. You must purchase approved food ingredients through us or distributors and suppliers that are approved by us. For all Pizza Inn Restaurants, to ensure product quality and consistency, we require that you purchase ovens, dough mixers, dough rollers, and make tables that are new, or used models certified as operating within specifications and tolerances by a manufacturer’s representative. These equipment items may be purchased directly from approved suppliers. We may require that you provide us in advance with performance specifications and capabilities to ensure that any such equipment can achieve and maintain product quality and consistency.

Approval of Alternative Suppliers

If you desire to purchase products (other than Proprietary Products or products that must be purchased from a single source or a limited number of sources) from a supplier to which we have not consented, you must submit a written request for consent. We have the right to inspect the proposed supplier’s facilities and test samples of the proposed products. You must pay us a reasonable fee, not to exceed the actual cost of the inspection and testing the proposed product or evaluating the proposed supplier, including personnel and travel costs, whether or not the product or supplier is accepted. We have the right to grant, deny or revoke consent to products, services and suppliers in our sole discretion. We will notify you of our decision as soon as practicable following our evaluation, usually within 30 days of your and the supplier’s submission of all information we require to perform the assessment. We reserve the right to re-inspect the facilities and products of any accepted supplier and revoke acceptance upon the supplier’s failure to meet any of our then-current criteria.

Purchase Arrangements, Material Benefits and Revenue

We set specifications or designate certain vendors to ensure uniformity and compliance with our system standards. As a result, many of your initial and ongoing purchases are restricted in some manner. We estimate that 95% to 100% of your initial purchases and 95% to 100% of your ongoing purchases are restricted.

We and our affiliates may derive revenue and other consideration based on purchases you and other Pizza Inn Restaurant franchisees make from vendors with whom we have or will negotiate to pay us rebates or provide us other consideration based on those purchases. For the fiscal year ended June 27, 2021, supplier

incentive rebates received from third-party suppliers were based on the volume of purchases, and in total represented approximately 4.5% of retail sales.

During our last fiscal year (which ended June 27, 2021), we and our affiliates received revenue of \$3,575,263 (54.3% of our total revenue and 41.6% of Rave's total revenue) from sales we and our affiliates made to Pizza Inn Restaurant franchisees. During that same fiscal year, we and our affiliates received \$3,007,396 (45.7% of our total revenue and 35.0% of Rave's total revenue) in rebates and other consideration from designated or approved vendors based on sales they made to Pizza Inn Restaurant franchisees.

None of our officers currently own an interest in any of our suppliers.

We will provide our standards to you through our Manuals for each concept. We will loan you a copy of, or provide you electronic access to, our Manual after you sign the Franchise Agreement and pay us the Initial Franchise Fee and any other amounts then due. We may update and revise these standards periodically, and will notify you of these changes in writing. We develop standards internally, and sometimes we develop standards with the assistance of our franchisees, consultants, and suppliers.

Advertising Materials

All advertising and promotional materials, signs, menus, decorations, paper goods, and other items we designate must bear our trademarks in the form, color, location, and manner we prescribe. See Item 13. In addition, all your advertising and promotion in any medium must be conducted in a dignified manner and must conform to our standards and requirements. You must obtain our approval before you use any advertising and promotional materials if Pizza Inn has not prepared or approved them during the 12 months before their proposed use.

Site Selection

You will select the location of the Restaurant, subject to our acceptance. We must also approve the final plans and specifications for each Restaurant. You must obtain our consent to the proposed sublease, lease or purchase contract ("lease") for the accepted location within 90 days following our acceptance thereof (when necessary). The lease must, in form and substance, be satisfactory to us and contain our required provisions. We reserve the right to require that you and your landlord enter into an addendum to modify the terms of the lease to comply with those provisions.

When determining whether to renew franchises or to grant additional franchises to a franchisee, we consider many factors, including compliance with the above requirements.

Insurance

During the term of the Franchise Agreement, you must maintain in full force and effect at your expense, an insurance policy or policies having, at minimum, the following coverages:

(1) Comprehensive General Liability Insurance, including broad form contractual liability, broad form property damage, personal injury, advertising injury, completed operations, and products liability in the amount of \$1,500,000 combined single limit and fire legal liability in the amount of \$100,000 combined single limit;

(2) If beer, wine or other alcoholic beverages are served at the Franchised Restaurant, liquor legal liability insurance, including personal injury and property damage coverage, in the amount of \$1,000,000 combined single limit;

(3) Automobile liability coverage, including bodily injury and property damage coverage, for

non-owned and hired vehicles, with coverage in amounts of not less than \$1,000,000 combined single limit. If you use owned vehicles for delivery service, you must maintain owned automobile liability insurance coverage in a minimum amount of \$1,000,000 combined single limit;

(4) Worker’s compensation insurance in amounts provided by applicable law or, if permissible under applicable law, legally appropriate alternative coverage providing substantially similar compensation for injured workers satisfactory to us, provided that you (a) maintain an excess indemnity policy covering employer’s liability and, at your election, a medical/disability policy covering medical expenses for on-the-job accidents, which policy or policies shall contain such coverage amounts reasonably acceptable to us and (b) conduct and maintain a management and safety program for your employees reasonably acceptable to us;

(5) Business interruption insurance in an amount sufficient to cover six months of operations; and

(6) Such other insurance as may be required by the state or locality in which the Franchised Restaurant is located and operated.

Each insurance policy must be written by an insurance company that maintains an “A+” or better rating by the latest edition of Best’s Insurance Rating Service (or another rating service designated by us). The insurance policy or policies must be in effect when you take possession of the Restaurant location. The insurance policy or policies must protect you, us, the specified indemnitees and their respective past, present and future officers, directors, owners, employees, servants, representatives, consultants, attorneys and agents. We and our designated affiliates must be named as additional insureds in the policy or policies (statutory policies excepted). Each policy must include a waiver of subrogation in our favor.

We may require additional types of coverage or increase the required minimum amount of coverage upon reasonable notice. Upon our request or as specified in the Manual, you must provide us with certificates of insurance evidencing the required coverage and proof of payment therefor. The evidence of insurance must include a statement by the insurer that the policy or policies will not be canceled or materially altered without at least 30 days’ prior written notice to us. If you fail to obtain and maintain insurance coverage as required by the Franchise Agreement, we have the right, but not the obligation, to obtain the required insurance on your behalf and to charge you for the cost of the insurance, plus a reasonable fee for our services in procuring the insurance. Your obligation to obtain and maintain the required insurance policies in the required amounts will not be limited in any way by reason of any insurance that may be maintained by us, nor will your performance of that obligation relieve you of liability under the indemnity provisions in the Franchise Agreement.

ITEM 9 FRANCHISEE’S OBLIGATIONS

This table lists your principal obligations under the franchise and other agreements. It will help you find more detailed information about your obligations in these agreements and in other items of this Disclosure Document.

Obligation	Section in Franchise Agreement (FA) and Development Agreement (DA)	Disclosure Document Item
a. Site selection and acquisition/lease	FA: 7.A, 7.B DA: 6.A, 7.A	Items 7, 8, and 11
b. Pre-opening purchases/leases	FA: 7.A, 7.B DA: 7.A(3)	Items 5, 7, 8 and 11
c. Site development and other pre-opening requirements	FA: 7.A, 7.B DA: 4, 7.A	Items 5, 7, 8, and 11

Obligation	Section in Franchise Agreement (FA) and Development Agreement (DA)	Disclosure Document Item
d. Initial and ongoing training	FA: 6.A, 7.B, 7.C, 8, 10.C, 11.P DA: 6.A	Items 7, 11, and 15
e. Opening	FA: 7.B DA: 4, 6	Items 5, 7, 8, and 11
f. Fees	FA: 3, 7, 8, 10, 12 DA: 3, 10.C, 10.K	Items 5, 6, 7, and 11
g. Compliance with standards and policies/operating manual	FA: 6, 7, 8, 9, 10, 11, 12, 13, 15 DA: 7, 9, 10, 12, 13	Items 8, 11, 14, and 17
h. Trademarks and proprietary information	FA: 2, 4, 7, 11, 12, 13, 15 DA: 9, 13.C	Items 13, 14, and 17
i. Restrictions on products/services offered	FA: 5, 7 DA: Not Applicable	Items 1, 5, 8, 12, 16, and 17
j. Warranty and customer service requirements	FA: 5, 7.B, 7.C DA: Not Applicable	Item 16
k. Territorial development and sales quotas	FA: 4 DA: 4	Items 12 and 16
l. Ongoing product/service purchases	FA: 7.B DA: Not Applicable	Items 8 and 11
m. Maintenance, appearance and remodeling requirements	FA: 7, 10, 13 DA: Not Applicable	Items 7, 11, and 17
n. Insurance	FA: 7.D DA: 7.D	Items 6 and 7
o. Advertising	FA: 3, 7.B, 9.C DA: Not Applicable	Items 5, 6, 7, 8 and 11
p. Indemnification	FA: 7.D, 10.K DA: 7.D: 7.E	Items 5, 13, and 17
q. Owner's participation/management/staffing	FA: 7.B, 9.E DA: Not Applicable	Items 7, 15, and 17
r. Records and reports	FA: 7.B, 7.C, 11 DA: 12.D	Item 17
s. Inspections and audits	FA: 7.B, 7.C, 13 DA: Not Applicable	Items 5, 8, and 11
t. Transfer	FA: 10 DA: 10	Items 5 and 17
u. Renewal	FA: 8 DA: Not Applicable	Items 5, 6, and 17
v. Post-termination obligations	FA: 9, 12, 13, 14, 15 DA: 12, 13	Item 17
w. Non-competition covenants	FA: 9.E., 13, 14 DA: 13	Item 17
x. Dispute resolution	FA: 21 DA: 14.E	Item 17
y. Confidentiality	FA: 9 DA: 9, 13, 14	Items 11 and 14

ITEM 10 FINANCING

Neither we nor any of our agents or affiliates offer direct or indirect financing to you, guarantee any of your notes, leases or obligations, or have any practice or intent of selling, assigning or discounting to a third party all or any part of any of your financing arrangements.

ITEM 11 FRANCHISOR'S ASSISTANCE, ADVERTISING, COMPUTER SYSTEMS, AND TRAINING

Except as listed below, we are not required to provide you with any assistance. (All references below are to sections of the Franchise Agreement.)

Our Pre-Opening Obligations

Before you open your Restaurant, we will:

1. Supply information regarding the evaluation and selection of a location for your Restaurant so far as may be practicable. (6.A.2)
2. Review locations you propose and accept a location you select that meets our standards. (6.A.3, 6.A.4)
3. Furnish an approved equipment floor plan for your adaptation (subject to our approval), at your expense, in obtaining necessary permits, licenses and approvals. (6.A.1)
4. Furnish lists and descriptions of the furniture, fixtures, equipment, and signs required to outfit and furnish a restaurant, together with a list of our approved suppliers. (6.A.5)
5. Loan one set of, or provide electronic access to, our Manual. (6.A.7)
6. Furnish lists and specifications of approved paper goods, promotional materials, food and ingredients, supplies, and other inventory items required or recommended to stock and operate a Restaurant, together with the names of suppliers. (6.A.8)
7. Provide a training program for you, your managers, and other associates we approve, as described below in this Item 11. (6.A.9)
8. Furnish information and instruction regarding our recommended accounting system. (6.A.10)
9. Offer advice in establishing a local program for advertising and promoting the opening of your Restaurant. (6.A.11)
10. If the Restaurant is your first Restaurant, send an operations specialist to advise and assist you in various aspects of operating your Restaurant during the opening period. (6.A.12)

We do not provide the above services to renewal franchisees and may not provide all of the above services to franchisees that purchase existing Restaurants.

Our Obligations During Operation of the Franchise

During the operation of your Restaurant, we will:

1. Offer you the opportunity to purchase certain inventory items from us or an approved distributor. (6.B.1)
2. Furnish additional training programs as we may deem appropriate. (6.B.2)
3. Perform periodic on-site visits to inspect and make recommendations regarding your operating methods and use of proprietary marks and trade secrets. (6.B.3)
4. Maintain a continuing advisory relationship with you, including consultation in the areas of marketing and operations. (6.B.4)
5. Furnish continuing training and assistance through inspections, consultation, bulletins, and other materials and communications as we determine, in our discretion, to be appropriate. (6.B.5)
6. Loan, or provide electronic access to, Manual updates and additional materials as we may deem appropriate to incorporate new developments regarding standards, specifications, procedures, and techniques. (6.B.6)
7. Review all proposed advertising and promotional materials not prepared by or on behalf of us. (6.B.7)
8. Provide the opportunity to purchase promotional and employee training materials developed by or for us and belonging to us. (6.B.8)

Area Developers

As noted in Item 2, in certain markets, we have appointed certain multi-unit Restaurant operators to provide certain services to franchisees in their markets. If you are in a market with one of these appointees, you will receive certain services from them. However, they are providing the services as our designee and on our behalf. We remain obligated to you under the Franchise Agreement for any services we are obligated to provide to you.

Brand Fund and Marketing

Advertising Obligation. You will pay that portion of the Advertising Obligation as we direct to the Brand Fund (“Brand Fund Contribution”) as described below. The remainder of the Advertising Obligation will be spent by you for local marketing and, if applicable, will be paid to a Regional Advertising Fund, if established. As of the date of this Disclosure Document, your total Advertising Obligation is 4% of Gross Sales. Following written notice to you, we may modify the amount (but not to exceed 6% of Gross Sales) and the allocation of your Advertising Obligation. If applicable, once we establish a Regional Advertising Fund that covers the Franchised Location, we will not increase the Advertising Obligation by more than 0.5% of Gross Sales in any 24-month period and it will never exceed 6%. If we allocate any portion of your Advertising Obligation to the Brand Fund or, if applicable, to a Regional Advertising Fund, you must pay the required amounts at the same time and in the same manner as the Royalty.

Brand Fund. As of the date of this Disclosure Document, as part of your Advertising Obligation, you must contribute 3% of the Gross Sales of the Franchised Restaurant to our National Advertising Fund (“Brand Fund”). We may use the Brand Fund Contributions and any earnings of the Brand Fund for any costs associated with advertising, marketing, public relations, promotional programs and materials (which may be national, regional or local in scope), and/or any other activities that we believe would benefit the System, including the following: advertising campaigns in various media; point-of-purchase materials; review of locally-produced ads; free standing inserts; brochures; purchasing and/or developing promotional materials; market research,

including secret shoppers; sponsorships; design and maintenance of a web site; celebrity endorsements; trade shows; association dues; search engine optimization costs; establishment of a third party facility for customizing local advertising; accounting costs; and holding an annual franchise convention. We will not use the Brand Fund for any activity whose sole purpose is the marketing of franchises or the soliciting of franchisees; however, you acknowledge that the Pizza Inn web site, public relations activities, community involvement activities, and other activities that may be supported by the Brand Fund may contain information about franchising opportunities. We have the right to direct all programs supported by the Brand Fund, with final discretion over creative concepts, the materials and media used in the programs, and their placement. You must participate in all advertising, marketing, promotions, research, public relations, loyalty and other programs instituted by the Brand Fund. We may work with our in-house advertising department or a third-party national advertising agency to develop advertising for creative materials. In spending advertising monies, we are not obligated to make expenditures for any franchisee that are equivalent or proportionate to that franchisee's contribution or to ensure that any particular franchisee benefits directly or on a pro rata basis from expenditures of the funds. We are not obligated to spend any amount on advertising in the geographic area in which your Franchised Restaurant is located.

We will not use any contributions to the Brand Fund to defray any of our general operating expenses, except for reasonable administrative costs and overhead that we incur in activities reasonably related to the administration of the Brand Fund or the management of Brand Fund-supported programs (including salaries of our personnel who devote time to Brand Fund activities). We will separately account for the Brand Fund, but we do not need to segregate Brand Fund monies from our other monies.

Any point-of-sale materials produced with Brand Fund monies will be made available to you at a reasonable cost, and the proceeds of such sales will be credited to the Brand Fund. We are not required to have an independent audit of the Brand Fund completed. We will make available an unaudited statement of contributions and expenditures for the Brand Fund no sooner than 90 days after the close of our fiscal year to franchisees who make a written request for a copy. Pizza Inn Restaurants owned by us or our affiliates will contribute to the Brand Fund on the same basis as comparable franchisees. If we reduce the Brand Fund Contribution for franchisees, we will have the right to reduce by the same amount the required contribution for Pizza Inn Restaurants operated by us or our affiliates.

Regional Advertising Fund (if applicable). We have the right, in our sole discretion, to establish one or more regional advertising funds for Pizza Inn Restaurants ("Regional Advertising Funds"). We will determine the geographic area covered by a Regional Advertising Fund based on the location of Pizza Inn Restaurants in the area and the reach of print, radio and television media in the area. If a Regional Advertising Fund is established for a geographical area that includes the Franchised Location, you must contribute to that Regional Advertising Fund in the amount that we specify.

We or our designee will direct all advertising, marketing, and public relations programs and activities financed by the Regional Advertising Fund, with sole discretion over the creative concepts, materials and endorsements used in those programs and activities, the geographic, market and media placement, and the allocation of advertising and marketing materials. The Regional Advertising Fund may be used to pay the costs of preparing and producing such associated materials and programs as we or our designee may determine, including video, audio, and written advertising materials; employing advertising agencies; sponsorship of sporting, charitable, or similar events; administering regional and multi-regional advertising programs, including, without limitation, purchasing direct mail and other media advertising and employing advertising agencies to assist with these efforts; and supporting public relations, market research, and other advertising, promotional, and marketing activities. You must participate in all advertising, marketing, promotions, research, and public relations programs instituted by your Regional Advertising Fund.

We will separately account for each Regional Advertising Fund, but we do not need to segregate any Regional Advertising Fund monies from our other monies. We are not required to have an independent audit

of the Regional Advertising Fund completed. We will make available an unaudited statement of contributions and expenditures for a Regional Advertising Fund no sooner than 90 days after the close of our fiscal year to franchisees who contribute to that Regional Advertising Fund and who make a written request for a copy.

We have not yet established any Regional Advertising Funds. Pizza Inn Restaurants operated by us or our affiliates in an area covered by a Regional Advertising Fund will contribute to the Regional Advertising Fund on the same basis as comparable franchisees.

With respect to the Brand Fund or a Regional Advertising Fund, while we may spend in any fiscal year an amount greater or less than the aggregate contribution of Pizza Inn Restaurants to the applicable Fund, generally, we believe that we will spend all advertising payments during the taxable year in which the contribution and earnings are received. If we do not spend the advertising payments in one year, we will likely spend them in the following year or distribute any surplus to then-current franchisees who contribute to the applicable Fund and restaurants operated by us or our affiliates. During our prior fiscal year ending June 27, 2021, the Brand Fund was disbursed as follows: 31% to production, 49% to media placement, 20% to market research activities, and 0% to administrative expenses.

Local Marketing. You must spend that portion of the Advertising Obligation not otherwise spent or contributed to the Brand Fund or a Regional Advertising Fund (currently, 1% of Gross Sales) for local marketing in authorized advertising media and for authorized advertising expenditures. We or our designee periodically will advise you of the authorized advertising media and authorized advertising expenditures.

You must conduct all marketing in a dignified manner and in accordance with the standards and requirements we specify periodically. We may provide to you a marketing manual, guidelines for creating a marketing plan, scripts, and branding tools. You may be required to pay a reasonable fee for accessing and customizing local advertising and promotional materials. All advertising and promotional materials must bear the Proprietary Marks in the form, color, location, and manner that we prescribe. We will have the final decision on all creative development of advertising and promotional messages. You also agree we own all advertising and promotional materials developed by you, and you will take all actions we specify to vest ownership in us.

You must submit to us in writing for our prior acceptance all sales promotion materials and advertising that have not been prepared, or previously accepted, by us and identify the proposed media in which you propose to place the advertising. If our written consent to the material and its proposed placement is not received within 10 days after the date that we received the material, the material may not be used. In no event will your advertising or marketing materials contain any statement or material that, in our sole discretion, may be considered: **(a)** in bad taste or offensive to the public or to any group of persons; **(b)** defamatory of any person or an attack on any competitor; **(c)** to infringe upon the use, without permission, of any other persons' trade name, trademark, service mark or identification; **(d)** inconsistent with the public image of the System or the Proprietary Marks; or **(e)** not in accordance with any federal or state laws. We reserve the right to require you to discontinue the use of any advertising or marketing materials.

Social Media. You may not promote, offer, or sell any products or services relating to the Franchised Restaurant through, or use any of the Proprietary Marks in, any form of electronic communications, including Internet web sites, social networking sites, applications or other future technological avenues that enable users to create and share content or to participate in social networking (collectively, "Social Media") without our prior written consent, which we may withhold for any or no reason. You must, at all times, comply with our Social Media policy, as modified periodically. Your use of any Social Media relating to the Franchised Restaurant is subject to our prior written approval. You may not establish an independent site or page on any Social Media. If we authorize you to have and/or design a site or a page on any Social Media for the Franchised Restaurant, your site and page may only be accessed from our site or page, and we may prohibit links between your site or page and any other site. Any use of Social Media by you with respect to the Franchised Restaurant constitutes advertising and promotion, and you must comply with any additional policies and standards we

issue from time to time with respect to Social Media. Any copyright in your sites or pages on any Social Media will be deemed to be owned by us, and you agree to sign any documents that we reasonably deem necessary to affirm our ownership of the copyright. If necessary, you must ensure cooperation with us by any web site service provider or web site hosting company with which you do business. You must have or will have the lawful right to use any proprietary materials of others that appear on your sites or pages on Social Media. We periodically may provide to you content for your sites and pages on Social Media, including copy, news stories and photographs. We must consent to any changes to your sites and pages on Social Media.

Public and Media Relations. You may not issue any press or other media releases or other communications without our prior consent. As a franchisee of the System, you may only participate in internal and external communications activities that create goodwill, enhance our public image, and build the Pizza Inn brand.

Franchisee Advisory Committee. We currently have a franchisee advisory committee composed of franchisees. Members are selected by our executive management. The committee serves only in an advisory capacity without operational or decision-making authority. We may modify or dissolve the committee at any time in our discretion.

Advertising Cooperatives. You are not required under the Area Development Agreement or the Franchise Agreements to participate in a local or regional advertising cooperative.

Operations Manual

We provide information about the development and operation of Pizza Inn Restaurants and other guidance through our Manual, which includes manuals and bulletins, and which may include one or more separate manuals as well as audiotapes, videotapes, compact discs, computer software, information available on an Internet site, other electronic media, or written materials. Currently the Manual is available online, but it is subject to change from time to time which could expand or reduce its size. The table of contents of the Manual as of the date of this Disclosure Document is attached as Exhibit G.

Training

We require that you attend and satisfactorily complete our Manager In Training program (“MIT”) if you will actively participate in the operation of your Restaurant. We also require that at least one of your employees attend and complete MIT. The employees who attend training must be those who will have day-to-day supervisory and/or operational responsibilities. All required initial training must be completed within the time we specify and before we approve your Restaurant to open for business.

If you fail, or your manager fails, to complete the training program to our standards and reasonable satisfaction by passing written and practical exams, we may require additional training as we may deem appropriate. We may delay the opening of your Restaurant if necessary, to ensure proper training. Upon your request and at your expense, we may allow additional employees of yours to attend our initial training. We may require additional training if the time between completion of the initial training and the Restaurant opening exceeds four months. We reserve the right to require that subsequent managers or other employees attend training programs at a location or locations of our choosing. We also may require that you and any of your employees attending the training program sign a nondisclosure and non-competition agreement before such training begins. You must have on your staff at all times at least two managers who have been certified according to our current standards and requirements.

We will provide the required initial training for you and your employees without charge. We may charge a fee if you or your employees are required to repeat any initial training program, or if we conduct follow up training. You and your employees may be required to attend additional training programs as we may

reasonably determine from time to time. We currently do not charge a fee for required or optional additional training programs, but we reserve the right to do so in the future. You are responsible for any other expenses incurred in connection with all training programs, including the cost of transportation, lodging, meals, wages and recipe charts.

Training programs are typically conducted at Regional Certified Training Restaurants. Instructional materials include videos, workbooks, various manuals, on-the-job training guides, classroom guides, job aids and online training materials. The initial training program is conducted approximately once a month.

Our training is directed and conducted by staff members who are qualified and experienced in the subjects taught. Maggie Fox became Senior Manager of Training and Operations Services at Rave Restaurant Group in April 2010 in The Colony, Texas.

MIT is a hands-on technical class that covers the following topics: technical skills for all restaurant positions, cost management, administrative and accounting systems, employee recruiting, training and scheduling, and food preparation procedures. The MIT course is four weeks long. MIT is held at a Regional Certified Training Restaurant approximately 10 times per year, or at other intervals as necessary, and includes an online training component. You or your primary restaurant manager must complete the MIT course to our satisfaction and also be ServSafe® certified (nationally recognized food handlers certification) before we will approve the opening of your Restaurant.

The subjects covered, hours of classroom and on-the-job training in our initial training program and location are described below. The subjects and time periods required for any particular trainee may vary, depending on past experience and training. We may change the subjects and time periods from time to time without notice to you.

TRAINING PROGRAM FOR BUFFET

Subject	Hours of Classroom Training	Hours of On-the-Job Training	Location
Restaurant Management	35 (completed online)	140	Regional Certified Training Restaurant
Fresh Dough Management	8 (completed online)	28	Regional Certified Training Restaurant
Delivery Service (applicable only if we approve you to offer delivery service)	3 (completed online)	22	Regional Certified Training Restaurant
Totals	43-46	168-190	

TRAINING PROGRAM FOR DELCO

Subject	Hours of Classroom Training	Hours of On-the-Job Training	Location
Restaurant Management	4-15 (completed online)	8-70	Regional Certified Training Restaurant
Delivery Service (applicable only if we approve you to offer delivery service)	2 (completed online)	22	Regional Certified Training Restaurant
Totals	2-17	8-92	

TRAINING PROGRAM FOR EXPRESS

Subject	Hours of Classroom Training	Hours of On-the-Job Training	Location
Restaurant Management	4-12 (completed online)	8-60	Regional Certified Training Restaurant
Delivery Service (applicable only if we approve you to offer delivery service)	2 (completed online)	22	Regional Certified Training Restaurant
Totals	2-14	8-82	

Each of your primary restaurant managers must have successfully completed the MIT training program and any subsequently required supplemental training. Any additional or replacement managers must be MIT and ServSafe® certified within six months of hiring.

Your principal operations employee (such as a general manager) may be required to complete an accelerated training program prior to the opening of your Restaurant.

Electronic Cash Register, Computer System and Sales Reporting

You must procure and install, at your sole expense, such data processing equipment, computer hardware and software, required dedicated telephone and power lines, high speed Internet connections, modems, printers and other computer-related accessory or peripheral equipment as necessary to permit us to receive from you, within the time periods or as otherwise required by us, that information and in that format/media as we reasonably specify (“POS System”). We have the right to require that you use specific brands and models of equipment and software. You are required to use the POS systems described in the Manual. These systems record customer transactions and collect and generate gross sales for the Franchised Restaurant and sales by categories. The current cost to obtain a hardware and software system is approximately \$17,000 to \$25,000 with a monthly service fee of approximately \$500.

We will have independent access to the information and data on the POS System, daily sales, menu mix, and similar data and information, and there are no contractual limitations on our right to access that information. Neither us, our affiliates, nor any third parties are required to provide ongoing maintenance, repairs, upgrades, or updates to your computer system. Currently, there are no optional or required maintenance/upgrade contracts for your POS System. We estimate that the annual cost of optional or required maintenance, upgrades, or updates for your POS System is approximately \$1,000.

Site Selection and Opening

We do not own or lease the location to you. You will select a location and submit it to us for our acceptance. The factors that we consider in accepting your location can include, among others, (i) whether the proposed location is an in-line space or an out-parcel or pad site for a free-standing restaurant, (ii) the characteristics of other food concepts located within the general market or trade area, (iii) the customer demographic, and (iv) your business and financial background. We have 30 days to accept or reject your proposed location. If we cannot agree on a site, you cannot move ahead with development. We do not assure the success of any location or site.

Within 90 days after the effective date of the Franchise Agreement, unless you obtain from us a written

extension of this time period, you must: (i) obtain rights to use the location, (ii) arrange construction financing, (iii) have us approve your completed plans and specifications, (iv) secure a contract for construction, and (v) begin renovation. Within 180 days after the effective date of the Franchise Agreement, you must strictly comply with each of your pre-opening obligations under the Franchise Agreement and open the Franchised Restaurant for business. The typical time from signing the Franchise Agreement to opening of the Restaurant is between 9 and 12 months. If you fail to perform any of those obligations and/or open the Franchised Restaurant by the required opening deadline, we may, at our sole option and without liability or obligation to you, terminate the Franchise Agreement by giving you written notice of such termination at any time after the opening deadline. If we terminate the Franchise Agreement under these conditions, we will be entitled to retain the Initial Franchise Fee and all other fees paid by you to us through the date of termination. Upon your written request, however, we may, in our sole discretion, extend that opening deadline by six months, if you pay us a \$500 Extension Fee.

ITEM 12 TERRITORY

Franchise Agreement

You will not receive an exclusive territory. You may face competition from other franchisees, from outlets that we own, or from other channels of distribution or competitive brands that we control.

Under the Franchise Agreement, you will be licensed to develop and operate a Pizza Inn Buffet, Delco or Express Restaurant at a designated location. If you comply with the Franchise Agreement, we will not operate or license others to operate a restaurant within an agreed-upon geographic area surrounding the Restaurant premises (“Protected Area”), except for various forms of licensing and distribution of Pizza Inn services and products to be offered pursuant to our Express license format or from other express-type or kiosk points of distribution at special use or non-public locations, such as at public and private schools, colleges and other institutions, within department stores, shopping malls, convenience stores and at public auditoriums, sports arenas, concert halls, airports, and other similar venues.

The size and configuration of the Protected Area will be determined by us, in our sole discretion, once the Restaurant’s site has been located and approved. We typically consider a variety of factors, including the site’s and market’s demographics, the market penetration of similar businesses, the availability of appropriate sites, and the growth trends in the market. Although the size and configuration of each Protected Area may vary, a typical Protected Area will be a 3-mile radius around the location, but the characteristics of your site and market conditions may warrant a different description, to be determined by us in our sole and final judgment, and we may describe the Protected Area using roads or geographic or geo-political boundaries. There is no minimum area that will comprise your Protected Area. We will determine the Protected Area and insert a description of it in an exhibit to the Franchise Agreement once the location for the Restaurant has been accepted. If you disagree with our determination of the Protected Area, your sole recourse will be to forego the proposed site and look for a replacement.

Depending on the demographics and economic conditions of the geographic area in which your Restaurant is located, we may authorize you to offer delivery service within a pre-determined area (“Primary Area of Responsibility”). The Primary Area of Responsibility is determined on a case-by-case basis but is generally the geographic area comprising the 3-mile radius around the location of your Restaurant. We may change the size and configuration of any Primary Area of Responsibility at any time in our sole discretion. If applicable, you may offer delivery service outside the Primary Area of Responsibility only with our prior written approval and, then, only to the extent that such delivery service does not encroach on the Primary Area of Responsibility of any other restaurant and complies with the Manual.

The specifics of the location will be set forth in the Location Acceptance Form attached to your

Franchise Agreement.

Subject to the restrictions above, we and any affiliated entity have and retain the right, at any time or place, to: (1) advertise and promote the System using the Proprietary Marks (as defined in Item 13) and fill customer orders by catering, delivery, or other services; (2) produce and/or offer for sale by any method of distribution any food, beverage, or other product or service, including prepackaged foods and memorabilia, using the Proprietary Marks or any other names and trademarks, whether owned by us or others; and (3) franchise or license others to perform any of the foregoing activities.

Except as otherwise provided in this Item 12, there are no restrictions on our or our affiliates' right to use other channels of distribution, such as the Internet, catalog sales, telemarketing, or other direct marketing sales, to make sales of products or services within your territory: (A) using the Proprietary Marks; or (B) under trademarks different from the Proprietary Marks. We are not required to pay for soliciting or accepting orders from within your territory.

Under the Franchise Agreement, you do not have any options, rights of first refusal or similar rights to acquire additional franchises.

The territorial rights granted to you under the Franchise Agreement are not dependent on your achieving certain sales volumes, market penetration or other contingency other than as provided in the Franchise Agreement.

Relocation

Under certain circumstances (such as loss of occupancy rights under a lease or a significant change in the character of a location or market), we will consider your written request to relocate your Restaurant. We retain an absolute right to approve or disapprove any request for relocation. We may charge a \$500 relocation processing fee, and we reserve the right to charge you for other costs you may incur in connection with the relocation, including travel and lodging expenses for its employees. Relocation is at your expense, and your new premises will have to conform to any new System image, standards, and specifications for signage, décor, and equipment. You must make sure your old location is de-identified (that is, all of the distinctive or unique identifiers associated with the System will have to be removed) before we will allow you to open your new location.

Development Agreement

Under the Development Agreement you will not receive an exclusive territory. You may face competition from other franchisees, from outlets that we own, or from other channels of distribution or competitive brands that we control. You must obtain our prior written acceptance of each site for a Franchised Restaurant, which will be based on our then-current site selection and approval guidelines and requirements.

Under certain circumstances, which are determined on a case-by-case basis, we may grant you a protected area, which will be identified in the Development Agreement. If we grant you a protected area, we retain the right to: (1) develop and operate, and license others to develop and operate, Restaurants and other points of sale under the Proprietary Marks or other trademarks, trade names, or service marks at any location outside of the protected area; (2) offer and sell, and license others to offer and sell, within and without the protected area, similar and dissimilar products and services, whether identified by the Proprietary Marks or by other trademarks, trade names, or service marks, through any channel or by any means or method of distribution other than a Pizza Inn Restaurant (including, without limitation, through the Internet or other electronic means), on such terms as we consider appropriate; and (3) offer and sell, and license others to offer and sell, within and without the protected area, similar or dissimilar products and services through non-traditional points of sale, including a food court, mall, cafeteria, office building, school (including universities

and colleges), hotel, stadium or other athletic venue, military facility, or fair grounds. If we grant you a protected area and you default on your obligations under the Development Agreement and fail to cure that default within the applicable cure period (if any), in lieu of terminating the Development Agreement, we may terminate or modify your territorial rights.

We generally do not grant options or rights of first refusal under the Development Agreement.

There are no restrictions on our or our affiliates' right to use other channels of distribution, such as the Internet, catalog sales, telemarketing, or other direct marketing sales, to make sales of products or services within the generally defined area in which you are permitted to develop Restaurants: (A) using the Proprietary Marks; or (B) under trademarks different from the Proprietary Marks. We are not required to pay for soliciting or accepting orders from within that area.

Other Operations. Pie Five currently offers franchises for a system relating to the development, establishment and operation of Pie Five Restaurants, and our affiliate owns and operates Pie Five-branded restaurants. Pie Five Restaurants are fast casual restaurants that feature specialty pizzas and offer counter-service sales where customers can choose the toppings to be placed on a standard 9" pizza, which is then baked in front of the customer in less than 5 minutes. As of the date of this Disclosure Document, our affiliate had 42 franchised Pie Five Restaurants. Pie Five Restaurants are operated under the marks "Pie Five" and "Pie Five Pizza." Pie Five and Pizza Inn Restaurants could be operating in the same or nearby markets and competing for the same or nearby sites, and neither concept is restricted in its ability to solicit or accept orders from the other's customers. Any potential conflict between the franchisees of each system will be resolved on a case by case basis. The principal business address of Pie Five is the same as ours. We have no plans to maintain physically separate offices. To the extent training occurs in our corporate offices, there may be overlap regarding training facilities. Other training will take place in each system's respective training restaurants.

ITEM 13 TRADEMARKS

We grant you the right to operate a Restaurant under the name "Pizza Inn" and to use our other current or future Proprietary Marks in the operation of your Franchised Restaurant. By Proprietary Marks, we mean trade names, trademarks, service marks and logos used to identify your Franchised Restaurant.

We have registered the following principal Proprietary Marks and other related marks with the U.S. Patent and Trademark Office on the Principal Register, and all required affidavits of continued use have been filed and accepted:

Description	Registration Number	Registration Date
	4,195,405	August 21, 2012
	3,822,543	July 20, 2010
	3,803,762	June 15, 2010

Description	Registration Number	Registration Date
	3,803,761	June 15, 2010
PIZZAINN.COM (Typed Drawing)	2,415,358 (Renewed)	December 26, 2000
PIZZA INN (Typed Drawing)	923,553 (Renewed)	November 9, 1971

No agreements limit our right to use, or license the use of, our trademarks.

There are no currently effective determinations of the U.S. Patent and Trademark Office, the trademark trial and appeal board, the trademark administrator of any state or any court, no pending infringement, opposition or cancellation proceedings, no pending material federal or state court litigation regarding our use or ownership rights in any Proprietary Mark, and no currently effective agreements that significantly limit our rights to use or license the use of any Proprietary Marks. We know of no superior prior rights or infringing uses of any Proprietary Mark that would materially affect your use of the Proprietary Marks.

You must promptly notify us of any apparent infringement of the Proprietary Marks or challenge to your use of any of the Proprietary Marks or claim by any person to any rights in any of the Proprietary Marks. We can take action and have the right to exclusively control any litigation or administrative proceeding related to any infringement, challenge or claim, or otherwise relating to any of the Proprietary Marks. You must provide reasonable assistance in any litigation or administrative proceeding. We will reimburse you for any reasonable actual costs you incur to provide such assistance unless it is directly related to protection of your own rights.

You may not use the Proprietary Marks as a part of your corporate or other legal name, and you must comply with our instructions in filing, maintaining, and terminating trade name or fictitious name registrations. You must execute any documents we require to protect the Proprietary Marks or to maintain their continued validity and enforceability. In addition, you may not directly or indirectly contest the validity of our ownership of the Proprietary Marks. We reserve the right to review and approve the use of the Proprietary Marks in any Web site, Internet home page, or link used in connection with your operation of the restaurant.

Except as provided above, we are not obligated to protect any rights granted to you to use the Proprietary Marks or to indemnify you against claims of infringement or unfair competition with respect to them. Although we are not contractually obligated to protect the Proprietary Marks or your right to use them, as a matter of policy we intend to defend the Proprietary Marks vigorously.

We have the right to withdraw your permission to use a Proprietary Mark or grant you the right to use other Proprietary Marks and we may require you, at your expense, based on good faith determination and reasonable notice, to add to, discontinue, or modify your use of any of the Proprietary Marks.

ITEM 14 PATENTS, COPYRIGHTS, AND PROPRIETARY INFORMATION

We do not own any rights to, or have any applications pending for, any patents that are material to the operation of a Pizza Inn Restaurant. The written and videotaped training materials and the Manual are

protected by common law copyright and are considered material to your franchise. We intend to protect materials that we develop by asserting common law copyrights to all such materials.

You must operate your Restaurant in accordance with the standards and procedures specified in our Manual. We will loan you one copy of, or provide you electronic access to, the Manual for the term of the Franchise Agreement.

You must treat as confidential the Manual and any other trade secret material that we provide for use in your operation. You must also use all reasonable efforts to maintain this information as secret and confidential and, other than as may be necessary for you to operate the Restaurant, you must not duplicate, copy, record, or otherwise reproduce these materials, in whole or in part, or make them available to any unauthorized person. The Manual remains our sole property and, if we loan you a copy of the Manual, must be kept in a secure place on the restaurant premises. The Manual, and any copies you have made thereof, must be returned to us upon expiration or termination of the Franchise Agreement.

We may revise the contents of the Manual, and you must comply with each new or changed standard. You must also ensure that the Manual is kept current at all times. If there is a dispute as to the contents of the Manual, the terms of our copy will be controlling.

We claim proprietary rights in recipes that are included in the Manual and that are our trade secrets, and trade secret rights in our Proprietary Products. You are prohibited, during and after the term of the Franchise Agreement, from communicating, or using for the benefit of any other person or entity, and, after the term of the Franchise Agreement, from using for your or their benefit, any confidential information, trade secret, knowledge, or know-how concerning the Proprietary Products and methods of operation of your Restaurant that may be communicated to you or of which you may learn. You can divulge this confidential information only to your employees who must have access to it to operate your Restaurant. We may require those employees to sign a confidentiality agreement prior to your divulging such confidential information. Any and all information, knowledge, know-how, and techniques related to the System or your Restaurant that we communicate to you, including the Manual, plans and specifications, marketing information and strategies, and site evaluation, selection guidelines, and techniques, are considered confidential.

We own all data that you collect from customers or others in connection with the Restaurant, and that data may not be sold or otherwise transferred to any third party. You may use the customer data while the Franchise Agreement or a renewal agreement is in effect but only in accordance with any privacy policy that we establish.

ITEM 15

OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS

We recommend, but do not require, that you, or your Controlling Principals, personally supervise operation of your Restaurant. We believe, however, that your increased supervision, whether on or off premises, often results in a more successful operation. We require that you and your manager and/or other key employees successfully complete our training programs. See Item 11. If you are not directly involved in the day-to-day operation, we require that a manager who has satisfactorily completed our initial and ongoing training programs supervise the Restaurant. If you do not have properly trained supervisory personnel in the restaurant, we may require that you cease selling the licensed products until you do. You are subject to various restrictions in the Franchise Agreement, including the covenants to maintain confidentiality and not to compete with us. If the franchisee is a corporation, partnership, or other legal entity, you and/or one or more other equity owners may be required to sign a guaranty in the form attached to this Disclosure Document as Exhibit E. See Items 11, 14 and 17.

ITEM 16 RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

You must sell in your Restaurant only those products that we have approved for sale within the System. If we designate a brand name for an approved product, you must sell that approved product under the brand name designated. You may not sell or distribute any licensed product or Proprietary Product except as a complete, fully processed approved food product. Except for a restriction prohibiting you from delivering any product to customers outside of any delivery area for which you have been approved, we impose no restrictions on the customers to whom you may sell licensed products. We reserve the right to change the menu of authorized products from time to time or to allow a more limited or expanded menu under certain unique circumstances. We do not currently set minimum or maximum prices for any products, goods or services, although we do suggest such prices. We reserve the right to change that practice at any time and for any goods or services.

ITEM 17 RENEWAL, TERMINATION, TRANSFER, AND DISPUTE RESOLUTION

THE FRANCHISE RELATIONSHIP

This table lists certain important provisions of the franchise and related agreements. You should read these provisions in the agreements attached to this Disclosure Document.

Provision	Section in Franchise Agreement (FA) and Development Agreement (DA)	Summary
a. Length of the franchise term	FA: 8 DA: 5	FA: 20-year initial term for Buffet Restaurants; 10-year term for Delco Restaurants and 5 year term for Express Concept Restaurants DA: The Development Agreement expires on the earlier of: the date that you complete your development obligations; or midnight on the last day of the last Development Period specified in the Development Schedule.
b. Renewal or extension of the term	FA: 8 DA: 5.B	FA: One 10-year term for Buffet and one 5-year term for Delco and Express DA: You will have the option to extend the term of the Development Agreement, subject to specified conditions. The length of the extension term will depend on the agreed-upon number of additional Restaurants that you will open.
c. Requirements for franchisee to renew or extend	FA: 8 DA: 5.B	FA: You must be in compliance, provide written notice, sign our then-current agreement, the terms of which likely will differ from your original Franchise Agreement, including, without limitation, those relating to royalty fees and advertising obligations, pay a renewal fee, remodel, comply with training requirements and sign general release. DA: You must have complied with the Development Schedule and other obligations; you must give us timely written notice; you and we must agree on a new development schedule; you must pay us an additional development fee; and you and your Controlling Principals and guarantors must sign a general

Provision	Section in Franchise Agreement (FA) and Development Agreement (DA)	Summary
		release. The form of franchise agreement to be signed during the extended term (including the fees to be paid) will be the standard form in general use at the time that we accept a site for the Restaurant.
d. Termination by franchisee	FA: Not Applicable DA: Not Applicable	
e. Termination by franchisor without cause	FA: Not Applicable DA: Not Applicable	
f. Termination by franchisor with cause	FA: 11, 12 DA: 11	We may terminate upon default, which includes, but is not limited to, remaining in default beyond any applicable cure period under any agreement with us or our affiliates, including any Development Agreement or Franchise Agreement.
g. "Cause" defined - curable defaults (1)	FA: 11 DA: 11.B	FA: You have 3 days to cure your failure to properly use the Proprietary Products, follow our recipes, comply with operating standards, or prepare and consistently offer high quality food products. You have 10 days to cure your failure to provide operations and financial reports and unauthorized use of Proprietary Marks, Confidential Information or Trade Secrets. You have 5 days to cure monetary defaults. You generally have 30 days to cure all other defaults except those discussed in paragraph h. below. DA: You have 24 hours to cure your misuse of the Proprietary Marks or material impairment of System goodwill. You have 5 days to cure monetary defaults. Generally, you have 30 days to correct all other defaults, except for those identified in h. below.

Provision	Section in Franchise Agreement (FA) and Development Agreement (DA)	Summary
h. “Cause” defined – non-curable defaults	FA: 11 DA: 11.A	FA: Non-curable defaults include failure to comply with pre-opening obligations and/or open the Restaurant for business by the opening deadline (180 days after the effective Date of the Franchise Agreement), unless extended by us; failure to continue operating the Restaurant; pleading guilty or no contest to a felony or otherwise engaging in any activity determined to be detrimental to the goodwill and image of the System; insolvency; bankruptcy; breach of covenants; unauthorized transfer; material misrepresentation; failure to operate Restaurant in strict compliance with applicable health, safety and sanitation codes; unsatisfied final judgment for 30 days or longer; failure to attend and complete training; knowingly maintaining false books; default on 3 or more occasions within any 12-month period; and default beyond the applicable cure period (if any) under any other agreement with us or our affiliates, any real estate lease, equipment lease or financing instrument relating to the Restaurant or any agreement with any vendor or supplier to the Restaurant. DA: Non-curable defaults include insolvency; bankruptcy; receiver appointed; unsatisfied final judgment for 30 days or longer; dissolution; execution is levied against business property; foreclosure suit; failure to qualify for franchise; failure to comply with Development Schedule; failure to execute Franchise Agreement as required; felony conviction; threat or danger to public health or safety from any Restaurant; unauthorized transfer; breach on 3 or more occasions within any 12-month period; and default beyond the applicable cure period (if any) under any other agreement with us or our affiliates, any real estate lease, equipment lease or financing instrument relating to a Restaurant or any agreement with any vendor or supplier to a Restaurant.
i. Franchisee’s obligations on termination/ non-renewal	FA: 9, 12, 13, 14, 15 DA: 12, 13	Discontinue use of the Proprietary Marks and trade secrets, de-identify the Restaurant, return Manual and other proprietary information and confidential information to us, pay all amounts due, comply with non-competition obligations, deliver all customer data that you have compiled, uninstall any software that we have provided and pay us all costs incurred by us in successfully enforcing the agreement or obtaining any remedy available to us. You are prohibited from selling or otherwise transferring to any third party any customer data, our Manual or our other proprietary and confidential information, and we have no obligation to provide any consideration in exchange for those materials.

Provision	Section in Franchise Agreement (FA) and Development Agreement (DA)	Summary
j. Assignment of contract by franchisor	FA: 10.A. DA: 10.A	There are no restrictions on our right to assign. We have the right to assign certain responsibilities under the agreement to an Area Developer.
k. “Transfer” by franchisee – defined	FA: 10.B DA: 10.B	Includes any transfer of the business or assets used in the business or other action by which ownership or control is shifted in whole or in part to from one entity or person to another.
l. Franchisor approval of transfer by franchisee	FA: 10.B DA: 10.B	Our written consent is required before transfer.
m. Conditions for franchisor approval of transfer	FA: 10.C DA: 10.C	Requirements, as applicable, include: 45 days prior written notice of your intent to transfer; financial qualification of transferee; execution by transferee of assignment agreement and/or then-current form of agreement, guaranty and other agreements we may require; payment of transfer fee; training of transferee and manager; your payment of all obligations owed to us and our affiliates, and co-op; remodeling requirements as we determine; execution of general release by you, Controlling Principals and any guarantor; and execution of two-year guaranty by you and any guarantor.
n. Franchisor’s right of first refusal to acquire franchisee’s business	FA: 15 DA: 10.F	If you request an assignment of the Franchise Agreement and the Restaurant to a third party, we or our nominee will have a right of first refusal to acquire such interests on the same terms that you would have been paid by the proposed transferee as evidenced by a bona fide written offer. Under the Development Agreement, you may not sell or transfer any of the rights under that agreement without first offering, in writing, to sell the same to us on the same terms and conditions offered by the third party.
o. Franchisor’s option to purchase franchisee’s business	FA: 15 DA: Not Applicable	Upon expiration or termination of the Franchise Agreement, we have the right, but not the obligation, to purchase some or all of the assets used in the Restaurant.
p. Death or disability of franchisee	FA: 10.H, 10.I DA: 10.I, 10.J	Upon the death of anyone holding a majority interest in the license, we must approve a transfer of the agreement and the transfer must be made within 12 months. If a majority interest holder or principal operator becomes permanently disabled and is unable to operate the Restaurant, we may require that an approved transfer be made within 6 months.

Provision	Section in Franchise Agreement (FA) and Development Agreement (DA)	Summary
q. Non-competition covenants during the term of the franchise	FA: 14 DA: 13.B(1)	You are prohibited from any involvement in a competing business. In addition, under the Development Agreement, you may not divert, or attempt to divert any business or customers of the business to any competitor or act in such a way as to damage the Proprietary Marks or the System.
r. Non-competition covenants after the franchise is terminated or expires	FA: 14 DA: 13.B(2)	You are prohibited from any involvement in a competing business located within 3 miles of the former Restaurant premises, within the Protected Area, within 3 miles of the border of the Protected Area or within 3 miles of any other Pizza Inn Restaurant for two years following expiration, transfer or termination. Under the Development Agreement, this restriction applies within your exclusive territory (if any) or within a 10-mile radius of any Pizza Inn restaurant or food service facility in existence or under construction for two years following expiration, transfer or termination. In addition, under the Development Agreement, for the two-year period following expiration, transfer or termination, you may not: (1) divert or attempt to divert any business or customer of the business to any competitor or act in such a way as to damage the Proprietary Marks or the System; (2) employ or seek to employ any person who at that time, or within the preceding 60 days, was employed by us or by any of our franchisees, or induce that person to leave his employment. If, after we disclose confidential information to you in connection with your franchise application, you do not enter into a Franchise Agreement with us, for six months thereafter, you may not be involved in a competing business.
s. Modification of the agreement	FA: 26.D DA: 14.J	No modification generally without signed agreement, but we may modify the System and the Manual.
t. Integration/merger clause	FA: 26.B DA: 14.H	Only terms of the Franchise Agreement and Development Agreement (and other related written agreements) are binding (subject to state law); no previous agreements, representations, or promises are binding. This is not intended to disclaim any representation made in this Disclosure Document.
u. Dispute resolution by arbitration or mediation	FA: Not Applicable DA: Not Applicable	

Provision	Section in Franchise Agreement (FA) and Development Agreement (DA)	Summary
v. Choice of forum	FA: 21 DA: 14.E	You must file any suit against us only in the federal or state court having jurisdiction in Collin County, Texas. We may file any suit against you in Collin County, Texas, where our principal offices are located at the time that the suit is filed (currently, The Colony, Texas), in the Development Area or where the Restaurant is or was located, or where the claim arose. Subject to state law.
w. Choice of law	FA: 21 DA: 14.E	Texas law applies (subject to state law).

ITEM 18 PUBLIC FIGURES

We do not use any public figure to promote our franchise.

ITEM 19 FINANCIAL PERFORMANCE REPRESENTATIONS

The FTC's Franchise Rule permits a franchisor to provide information about the actual or potential financial performance of its franchised and/or franchisor-owned outlets, if there is a reasonable basis for the information, and if the information is included in the disclosure document. Financial performance information that differs from that included in Item 19 may be given only if: (1) a franchisor provides the actual records of an existing outlet that you are considering buying; or (2) a franchisor supplements the information provided in Item 19, for example, by providing information about possible performance at a particular location or under particular circumstances.

We do not make any representations about a franchisee's future financial performance or the past financial performance of company-owned or franchised Pizza Inn Restaurants. We also do not authorize our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing outlet, however, we may provide you with the actual records of that outlet. If you receive any other financial performance information or projections of your future income, you should report it to the franchisor's management by contacting Brandon Solano, Chief Executive Officer, Pizza Inn, Inc., 3551 Plano Parkway, The Colony, Texas 75056, (469) 384-5000, the Federal Trade Commission, and the appropriate state regulatory agencies.

ITEM 20
OUTLETS AND FRANCHISEE INFORMATION

TABLE NO. 1 BUFFET
SYSTEMWIDE OUTLET SUMMARY
FOR FISCAL YEARS 2019 TO 2021*

Outlet Type	Year	Outlets at the Start of the Year	Outlets at the End of the Year	Net Change
Franchised	2019	90	87	-3
	2020	87	83	-4
	2021	83	70	-13
Company-Owned	2019	0	0	0
	2020	0	0	0
	2021	0	0	0
Total Outlets	2019	90	87	-3
	2020	87	83	-4
	2021	83	70	-13

* Fiscal years ending June 27, 2021, June 28, 2020; and June 30, 2019.

TABLE NO.2 BUFFET
TRANSFERS OF OUTLETS FROM FRANCHISEES TO NEW OWNERS
(OTHER THAN PIZZA INN)
FOR FISCAL YEARS 2019 TO 2021

State	Year	Number of Transfers
Missouri	2019	0
	2020	0
	2021	1
Mississippi	2019	2
	2020	0
	2021	0
North Carolina	2019	0
	2020	1
	2021	0
Texas	2019	0
	2020	0
	2021	3 (a)
Totals	2019	2
	2020	1
	2021	3

(a) Location transferred and downsized to a Delco (Duncanville, TX)

**TABLE NO. 3 BUFFET
STATUS OF FRANCHISED OUTLETS
FOR FISCAL YEARS 2019 TO 2021**

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations -Other Reasons	Outlets at Year End
Alabama	2019	0	0	0	0	0	0	0
	2020	0	0	0	0	0	0	0
	2021	0	0	0	0	0	0	0
Arkansas	2019	7	0	0	0	0	1	6
	2020	6	0	0	0	0	0	6
	2021	6	1	1	1	0	0	5
Georgia	2019	5	0	0	0	0	1	4
	2020	4	0	0	0	0	0	4
	2021	4	0	0	0	0	2	2
Kentucky	2019	2	0	0	0	0	0	2
	2020	2	0	0	0	0	0	2
	2021	2	0	0	0	0	0	2
Louisiana	2019	1	0	0	0	0	0	1
	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
Mississippi	2019	10	1	0	0	0	1	10
	2020	10	0	0	0	0	0	10
	2021	10	0	1	0	0	0	9
Missouri	2019	4	0	0	0	0	0	4
	2020	4	0	0	0	0	0	4
	2021	4	0	0	0	0	0	4
New Mexico	2019	3	0	0	0	0	0	3
	2020	3	0	0	0	0	0	3
	2021	3	0	0	0	0	0	3
North Carolina	2019	20	0	0	1	0	0	19
	2020	19	0	0	0	0	1	18
	2021	18	0	1	0	0	1	16
Oklahoma	2019	6	1	1	0	0	1	5
	2020	5	2	1	1	0	0	5
	2021	5	0	2	0	0	1	2
South Carolina	2019	11	0	0	0	0	0	11
	2020	11	0	0	0	0	1	10
	2021	10	0	0	0	0	1	9

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations -Other Reasons	Outlets at Year End
Tennessee	2019	6	1	0	0	0	0	7
	2020	7	0	0	0	0	1	6
	2021	6	0	0	0	0	1	5
Texas	2019	13	1	1	0	0	0	13
	2020	13	0	0	0	0	1	12
	2021	12	0	0	0	0	1(a)	11
Virginia	2019	2	0	0	0	0	0	2
	2020	2	0	0	0	0	0	2
	2021	2	0	1	0	0	0	1
Totals	2019	90	4	2	1	0	4	87
	2020	87	2	1	1	0	4	83
	2021	83	1	6	1	0	7	70

(a) Location became a Delco (Duncanville TX)

TABLE NO. 4 BUFFET
STATUS OF COMPANY-OWNED OUTLETS
FOR FISCAL YEARS 2019 TO 2021

State	Year	Outlets at Start of Year	Outlets Opened	Outlets Reacquired From Franchisee	Outlets Closed	Outlets Sold to Franchisee	Outlets at End of Year
Texas	2019	0	0	0	0	0	0
	2020	0	0	0	0	0	0
	2021	0	0	0	0	0	0
Totals	2019	0	0	0	0	0	0
	2020	0	0	0	0	0	0
	2021	0	0	0	0	0	0

TABLE NO. 5 BUFFET
PROJECTED OPENINGS
AS OF JUNE 27, 2021

State	Franchise Agreements Signed But Outlet Not Opened	Projected New Franchised Outlets in the Next Fiscal Year	Projected New Company Owned Outlets in the Next Fiscal Year
Arkansas	0	1	0
Oklahoma	0	0	0
South Carolina	0	0	0
Tennessee	0	0	0
Texas	1	0	0
Totals	1	1	0

**TABLE NO. 1 EXPRESS
SYSTEMWIDE OUTLET SUMMARY
FOR FISCAL YEARS 2019 TO 2021***

Outlet Type	Year	Outlets at the Start of the Year	Outlets at the End of the Year	Net Change
Franchised	2019	52	50	-2
	2020	50	45	-5
	2021	45	44	-1
Company-Owned	2019	0	0	0
	2020	0	0	0
	2021	0	0	0
Total Outlets	2019	52	50	-2
	2020	50	45	-5
	2021	45	44	-1

* Fiscal years ending June 27, 2021, June 28, 2020; and June 30, 2019.

**TABLE NO.2 EXPRESS
TRANSFERS OF OUTLETS FROM FRANCHISEES TO NEW OWNERS
(OTHER THAN PIZZA INN)
FOR FISCAL YEARS 2019 TO 2021**

State	Year	Number of Transfers
Alabama	2019	0
	2020	3
	2021	0
Arkansas	2019	1
	2020	0
	2021	0
North Carolina	2019	1
	2020	0
	2021	0
Texas	2019	0
	2020	0
	2021	1 (a)
Totals	2019	2
	2020	3
	2021	1

(a) In FY 2021, one franchised Express Restaurant in Texas was converted to a franchised Delco Restaurant

**TABLE NO. 3 EXPRESS
STATUS OF FRANCHISED OUTLETS
FOR FISCAL YEARS 2019 TO 2021**

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non- Renewals	Reacquired by Franchisor	Ceased Operations- Other Reasons	Outlets at Year End
Alabama	2019	3	0	0	0	0	0	3
	2020	3	0	0	0	0	0	3
	2021	3	0	0	0	0	0	3
Arkansas	2019	18	0	0	0	0	0	18
	2020	18	1	0	0	0	0	19
	2021	19	2	0	0	0	1	20
Florida	2019	1	0	0	0	0	1	0
	2020	0	0	0	0	0	0	0
	2021	0	0	0	0	0	0	0
Kentucky	2019	0	0	0	0	0	0	0
	2020	0	0	0	0	0	0	0
	2021	0	0	0	0	0	0	0
Mississippi	2019	1	0	0	0	0	0	1
	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
Missouri	2019	2	0	0	0	0	0	2
	2020	2	0	0	0	0	0	2
	2021	2	0	0	0	0	0	2
North Carolina	2019	3	1	0	0	0	0	4
	2020	4	0	0	0	0	0	4
	2021	4	0	0	0	0	1	3
Oklahoma	2019	0	0	0	0	0	0	0
	2020	0	0	0	0	0	0	0
	2021	0	0	0	0	0	0	0
South Carolina	2019	1	0	0	0	0	0	1
	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
Tennessee	2019	2	0	0	0	0	1	1
	2020	1	0	0	1	0	0	0
	2021	0	0	0	0	0	0	0
Texas	2019	21	1	0	0	0	2 (a)	20
	2020	19 (b)	0	0	1	0	4	14
	2021	14	0	0	0	0	1 (c)	13
Virginia	2019	1	0	0	0	0	0	1
	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
Totals	2019	52	2	0	0	0	4	50

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations-Other Reasons	Outlets at Year End
	2020	50	1	0	2	0	4	45
	2021	45	2	0	0	0	3	44

NOTE:

- (a) In FY 2019, one franchised Express Restaurant in Texas was converted to a franchised Delco Restaurant.
- (b) In FY 2020, an audit of locations corrected Texas total open at beginning of the year.
- (c) In FY 2021, one franchised Express Restaurant in Texas was converted to a franchised Delco Restaurant (Arcola TX).

**TABLE NO. 4 EXPRESS
STATUS OF COMPANY-OWNED OUTLETS
FOR FISCAL YEARS 2019 TO 2021**

State	Year	Outlets at Start of Year	Outlets Opened	Outlets Reacquired From Franchisee	Outlets Closed	Outlets Sold to Franchisee	Outlets at End of Year
Totals	2019	0	0	0	0	0	0
	2020	0	0	0	0	0	0
	2021	0	0	0	0	0	0

**TABLE NO. 5 EXPRESS
PROJECTED OPENINGS
AS OF JUNE 27, 2021**

State	Franchise Agreements Signed But Outlet Not Opened	Projected New Franchised Outlets in the Next Fiscal Year	Projected New Company Owned Outlets in the Next Fiscal Year
Arkansas	0	0	0
Mississippi	0	0	0
North Carolina	0	0	0
Texas	0	0	0
Totals	0	0	0

**TABLE NO. 1 DELCO
SYSTEMWIDE OUTLET SUMMARY
FOR FISCAL YEARS 2019 TO 2021***

Outlet Type	Year	Outlets at the Start of the Year	Outlets at the End of the Year	Net Change
Franchised	2019	8	9	+1
	2020	9	10	1

Outlet Type	Year	Outlets at the Start of the Year	Outlets at the End of the Year	Net Change
	2021	10	10	0
Company-Owned	2019	0	0	0
	2020	0	0	0
	2021	0	0	0
Total Outlets	2019	8	9	+1 (a)
	2020	9	10	1
	2021	10	10 (b)	0

* Fiscal years ending June 27, 2021, June 28, 2020, and June 30, 2019.

(a) 1 Express moved to Delco

(b) In FY 2021, two locations were added to Texas openings when they converted from a Buffet to Delco (Duncanville) and Express to Delco (Arcola).

**TABLE NO.2 DELCO
TRANSFERS OF OUTLETS FROM FRANCHISEES TO NEW OWNERS
(OTHER THAN PIZZA INN)
FOR FISCAL YEARS 2019 TO 2021**

State	Year	Number of Transfers
Arkansas	2019	0
	2020	0
	2021	0
North Carolina	2019	0
	2020	0
	2021	0
Texas	2019	0
	2020	0
	2021	2 (a/b)
Virginia	2019	0
	2020	0
	2021	0
Totals	2019	0
	2020	0
	2021	2

(a) In FY 2021, one franchised Buffet Restaurant in Texas was converted to a franchised Delco Restaurant. (Duncanville TX)

(b) In FY 2021, one franchised Express Restaurant in Texas was converted to a franchised Delco Restaurant. (Arcola TX)

TABLE NO. 3 DELCO
STATUS OF FRANCHISED OUTLETS
FOR FISCAL YEARS 2019 TO 2021

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations -Other Reasons	Outlets at Year End
Arkansas	2019	3	0	0	0	0	0	3
	2020	3	0	0	0	0	0	3
	2021	3	0	0	0	0	0	3
Missouri	2019	0	0	0	0	0	0	0
	2020	0	0	0	0	0	0	0
	2021	0	0	0	0	0	0	0
North Carolina	2019	3	0	0	0	0	0	3
	2020	3	1	0	0	0	0	4
	2021	4	0	1	1	0	0	2
Texas	2019	1	1 (a)	0	0	0	0	2
	2020	2	0	0	0	0	0	2
	2021	2	2 (b)	0	0	0	0	4
Virginia	2019	1	0	0	0	0	0	1
	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
Totals	2019	8	1	0	0	0	0	9
	2020	9	1	0	0	0	0	10
	2021	10	2	1	1	0	0	10

NOTE:

- (a) FY 2019 Hebbroville, TX relocated to larger space and became Delco
- (b) FY 2021 Two locations were added to Texas openings when they converted from a Buffet to Delco (Duncanville) and Express to Delco (Arcola).

TABLE NO. 4 DELCO
STATUS OF COMPANY-OWNED OUTLETS
FOR FISCAL YEARS 2019 TO 2021

State	Year	Outlets at Start of Year	Outlets Opened	Outlets Reacquired From Franchisee	Outlets Closed	Outlets Sold to Franchisee	Outlets at End of Year
Texas	2019	0	0	0	0	0	0
	2020	0	0	0	0	0	0
	2021	0	0	0	0	0	0
Totals	2019	0	0	0	0	0	0
	2020	0	0	0	0	0	0
	2021	0	0	0	0	0	0

**TABLE NO. 5 DELCO
PROJECTED OPENINGS
AS OF JUNE 27, 2021**

State	Franchise Agreements Signed But Outlet Not Opened	Projected New Franchised Outlets in the Next Fiscal Year	Projected New Company Owned Outlets in the Next Fiscal Year
Arkansas	0	0	0
Oklahoma	0	0	0
South Carolina	0	0	0
Tennessee	0	0	0
Texas	0	0	0
Totals	0	0	0

List of Current Franchisees

The names and contact information for our current franchisees is set forth in Exhibit I.

List of Former Franchisees

Attached as Exhibit J is a list of the name, city and state, and current business telephone number (or if unknown, the last known home telephone number) of each franchisee that had a franchised restaurant terminated, canceled, not renewed, transferred or otherwise voluntarily or involuntarily ceased to do business under a franchise agreement during our last fiscal year; or failed to communicate with us within 10 weeks of the application date of this disclosure document.

Purchase of Previously-Owned Restaurant

If you are purchasing a Pizza Inn Restaurant that previously had been owned by a franchisee, but which is now operated by us, we will provide you additional information about the Restaurant in an addendum to this Disclosure Document.

Confidentiality Clauses

During the last three fiscal years, we have signed agreements with franchisees and licensees that contain confidentiality clauses. In some instances, current and former franchisees sign provisions restricting their ability to speak openly about their experience with the System. You may wish to speak with current and former franchisees, but be aware that not all such franchisees will be able to communicate with you.

Pizza Inn Franchisee Association, Inc.

Pizza Inn Franchisee Association, Inc. (“PIFA”) is an independent franchisee organization representing Pizza Inn franchisees, organized under the laws of the State of Texas. PIFA’s contact information is as follows: 3317 Airport Boulevard, Wilson, NC 27896; telephone number (252) 291-6751; and email address sasmanagement@hotmail.com.

**ITEM 21
FINANCIAL STATEMENTS**

Attached to this disclosure document as Exhibit A are the audited consolidated financial statements of

our parent company, Rave (formerly known as Pizza Inn Holdings, Inc.) as of June 27, 2021, June 28, 2020, and June 30, 2019. Also attached are unaudited, internally prepared unaudited financial statements for the 3-month periods ended September 2020.

Rave has agreed absolutely and unconditionally to guarantee to assume our duties and obligations under the franchise agreements should we become unable to perform our duties and obligations. A copy of Rave's Guaranty is attached as Exhibit K to this disclosure document.

ITEM 22 CONTRACTS

Attached as Exhibits to this Disclosure Document are the following contracts and their attachments:

Franchise Agreement	Exhibit B
Development Agreement	Exhibit C
Location Acceptance Form	Exhibit D
Guaranty	Exhibit E
Confidentiality Agreements	Exhibit F

ITEM 23 RECEIPTS

The last two pages of this disclosure document are detachable receipt pages. Please sign and date each of them as of the date you received this disclosure document and return one copy to us.

EXHIBIT A
FINANCIAL STATEMENTS



Consent of Independent Registered Public Accounting Firm

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

We hereby consent to the use in the 2021 Franchise Disclosure Document issued by PIZZA INN, INC. ("Franchisor") on October 27, 2021, as it may be amended, of our report dated September 21, 2021 related to the financial statements of the Franchisor for the period of June 29, 2020 through June 27, 2021.

A handwritten signature in black ink that reads "Armanino LLP".

Armanino^{LLP}
Dallas, Texas

October 27, 2021

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

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Notes to Consolidated Financial Statements.	F-7

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
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 27, 2021 and June 28, 2020, the related consolidated statements of operations and comprehensive loss, changes in shareholders’ 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 27, 2021 and 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.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (i) relate to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Revenue Recognition — Refer to Note A to the Financial Statements

Critical Audit Matter Description

The Company has two primary sources of revenues: restaurant sales and 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. Each of these sources of revenues have different contract types, lengths, terms, and conditions. As such, revenue recognition requires significant analysis and a high degree of auditor judgment.

How the Critical Audit Matter Was Addressed in the Audit

Our principal audit procedures related to the Company’s revenue recognition included the following:

- We obtained the detail of all revenue transactions and performed the following procedures:
 - Identified the Company’s various revenue streams and any differences in the processes, methods, and policies applicable to each revenue stream.
 - Reviewed the entity’s revenue recognition policies and evaluated whether following those policies comply with the requirements of ASC 606.

- o Obtained a listing of franchise revenue related contracts, agreements, and invoices during the year, sampled the detail, and tested revenues by examining and documenting supporting contracts, invoices, and other documentation to determine whether revenue was recognized at the proper amount.
- o Performed various cutoff procedures to ensure revenue was recognized in the proper period.

ArmaninoLLP
Dallas, Texas

We have served as the Company's auditor since 2020.

September 21, 2021

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

	Fiscal Year Ended	
	June 27, 2021	June 28, 2020
REVENUES:	\$ 8,593	\$ 10,028
COSTS AND EXPENSES:		
Cost of sales	264	439
General and administrative expenses	4,710	5,503
Franchise expenses	2,394	3,051
Gain on sale of assets	(10)	(24)
Impairment of long-lived assets and other lease charges	21	880
Bad debt expense	121	53
Interest expense	92	95
Depreciation and amortization expense	167	186
Total costs and expenses	<u>7,759</u>	<u>10,183</u>
OTHER INCOME:		
Gain on forgiveness of PPP loan	(657)	—
Total other income	<u>(657)</u>	<u>—</u>
INCOME (LOSS) BEFORE TAXES	1,491	(155)
Income tax (benefit) expense	(29)	4,078
NET INCOME (LOSS)	<u>\$ 1,520</u>	<u>\$ (4,233)</u>
INCOME (LOSS) PER SHARE OF COMMON STOCK - BASIC:	\$ 0.09	\$ (0.28)
INCOME (LOSS) PER SHARE OF COMMON STOCK - DILUTED:	\$ 0.09	\$ (0.28)
Weighted average common shares outstanding - basic	<u>17,307</u>	<u>15,144</u>
Weighted average common and potential dilutive common shares outstanding	<u>18,105</u>	<u>15,144</u>

See accompanying Notes to Consolidated Financial Statements.

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

	June 27, 2021	June 28, 2020
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 8,330	\$ 2,969
Restricted cash	—	234
Accounts receivable, less allowance for bad debts of \$47 and \$269, respectively	911	965
Notes receivable, current	901	546
Deferred contract charges, current	35	44
Prepaid expenses and other	196	174
Total current assets	10,373	4,932
LONG-TERM ASSETS		
Property, plant and equipment, net	445	366
Operating lease right of use asset, net	2,085	3,567
Intangible assets definite-lived, net	183	155
Notes receivable, net of current portion	52	449
Deferred contract charges, net of current portion	207	231
Deposits and other	—	5
Total assets	\$ 13,345	\$ 9,705
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable - trade	\$ 644	\$ 446
Accounts payable - lease termination impairments	—	407
Accrued expenses	924	775
Other current liabilities	46	—
Operating lease liability, current	465	632
Short term loan, current	250	—
Convertible notes short term, net of unamortized debt issuance costs and discounts	1,576	—
Deferred revenues, current	626	254
Total current liabilities	4,531	2,514
LONG-TERM LIABILITIES		
Convertible notes, net of current portion	—	1,549
PPP loan	—	657
Operating lease liability, net of current portion	1,911	3,471
Deferred revenues, net of current portion	1,170	960
Other long-term liabilities	—	51
Total liabilities	7,612	9,202
COMMITMENTS AND CONTINGENCIES (SEE NOTE K)		
SHAREHOLDERS' EQUITY		
Common stock, \$.01 par value; authorized 26,000,000 shares; issued 25,090,058 and 22,550,376 shares, respectively; outstanding 18,004,904 and 15,465,222 shares, respectively	251	225
Additional paid-in capital	37,215	33,531
Accumulated deficit	(7,196)	(8,716)
Treasury stock at cost		
Shares in treasury: 7,085,154 and 7,085,154, respectively	(24,537)	(24,537)
Total shareholders' equity	5,733	503
Total liabilities and shareholders' equity	\$ 13,345	\$ 9,705

See accompanying Notes to Consolidated Financial Statements.

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

	Common Stock		Additional	Accumulated	Treasury Stock		Total
	Shares	Amount	Paid-in Capital	Deficit	Shares	Amount	
Balance, June 30, 2019	22,208	\$ 222	\$ 33,327	\$ (4,483)	(7,117)	\$ (24,632)	\$ 4,434
Stock compensation expense	—	—	(104)	—	—	—	(104)
Conversion of senior notes, net	—	—	(31)	—	32	95	64
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>

	Common Stock		Additional	Accumulated	Treasury Stock		Total
	Shares	Amount	Paid-in Capital	Deficit	Shares	Amount	
Balance, June 28, 2020	22,550	\$ 225	\$ 33,531	\$ (8,716)	(7,085)	\$ (24,537)	\$ 503
Stock compensation expense	—	—	80	—	—	—	80
Issuance of common stock	2,540	26	3,735	—	—	—	3,761
Equity issue costs - ATM Offering	—	—	(131)	—	—	—	(131)
Net Income	—	—	—	1,520	—	—	1,520
Balance, June 27, 2021	<u>25,090</u>	<u>\$ 251</u>	<u>\$ 37,215</u>	<u>\$ (7,196)</u>	<u>(7,085)</u>	<u>\$ (24,537)</u>	<u>\$ 5,733</u>

See accompanying Notes to Consolidated Financial Statements.

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

	Fiscal Year Ended	
	June 27, 2021	June 28, 2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 1,520	\$ (4,233)
Adjustments to reconcile net income (loss) to cash used in operating activities:		
Impairment of long-lived assets and other lease charges	21	880
Stock compensation expense	80	(104)
Depreciation and amortization	131	145
Amortization of operating right of use assets	569	471
Amortization of intangible assets definite-lived	36	41
Amortization of debt issue costs	27	29
Gain on the sale of assets	(10)	(24)
Provision for bad debt	7	53
Bad debt on notes receivable	114	—
Gain on forgiveness of PPP loan	(657)	—
Deferred income tax	—	4,060
Changes in operating assets and liabilities:		
Accounts receivable	47	132
Notes receivable	(119)	104
Deferred contract charges	33	(6)
Inventories	—	7
Prepaid expenses and other	(22)	167
Deposits and other	5	—
Accounts payable - trade	198	46
Accounts payable - lease termination impairments	(428)	(985)
Accrued expenses	149	(46)
Other current liabilities	46	—
Operating lease liability	(793)	(494)
Deferred revenue	582	(581)
Other long-term liabilities	(51)	(22)
Cash provided by/(used in) operating activities	1,485	(360)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments received on notes receivable	47	123
Proceeds from sale of assets	1	—
Purchase of intangible assets definite-lived	(74)	—
Purchase of property, plant and equipment	(212)	(56)
Cash provided by/(used in) investing activities	(238)	67
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of stock	3,761	357
Equity issuance costs - ATM offering	(131)	(15)
Proceeds from PPP loan	—	657
Short term loan, current	250	—
Cash provided by financing activities	3,880	999
Net increase/(decrease) in cash, cash equivalents and restricted cash	5,127	706
Cash, cash equivalents and restricted cash, beginning of period	3,203	2,497
Cash, cash equivalents and restricted cash, end of period	<u>\$ 8,330</u>	<u>\$ 3,203</u>
Reconciliation of cash, cash equivalents and restricted cash to the consolidated balance sheets		
Cash and cash equivalents	\$ 8,330	\$ 2,969
Restricted cash	—	234
Total cash, cash equivalents and restricted cash	<u>\$ 8,330</u>	<u>\$ 3,203</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
CASH PAID FOR:		
Interest	\$ 64	\$ 66
Income taxes	<u>\$ 23</u>	<u>\$ 18</u>
Non-cash activities:		
Conversion of notes to common shares	\$ —	\$ 64
Operating lease right of use assets at adoption	\$ —	\$ 4,150
Operating lease liability at adoption	<u>\$ —</u>	<u>\$ 4,894</u>

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 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 27, 2021, we had 33 franchised Pie Five Units, 156 franchised Pizza Inn restaurants, and 11 licensed Pizza Inn Express, or PIE, kiosks (“PIE Units”). The 124 domestic franchised Pizza Inn restaurants were comprised of 70 pizza buffet restaurants (“Buffet Units”), 10 delivery/carry-out restaurants (“Delco Units”), and 44 express restaurants (“Express Units”). As of June 27, 2021, there were 32 international franchised Pizza Inn restaurants. Domestic Pizza Inn restaurants and kiosks were located predominantly in the southern half of the United States, with Texas, Arkansas, North Carolina and Mississippi accounting for approximately 25%, 21%, 16% and 8%, respectively, of the total number of domestic units.

Principles of Consolidation:

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

Cash and Cash Equivalents:

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Restricted cash of \$0.2 million as of June 28, 2020 consisted of an interest-bearing money market account restricted pursuant to a letter of credit for an insurance claim dating back to the mid-1980’s. The \$0.2 million in restricted cash was released during the third quarter of fiscal 2021.

Concentration of Credit Risk:

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of cash and cash equivalents. Balances in accounts are insured up to Federal Deposit Insurance Corporation (“FDIC”) limits of \$250 thousand per institution. At June 27, 2021 and June 28, 2020, the Company had cash balances in excess of FDIC insurance coverage of approximately \$8.0 million and \$2.7 million, respectively. 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 27, 2021 and June 28, 2020, and at various times during the fiscal years then ended, the Company had concentrations of credit risk with five franchisees on notes receivables with both short and long term maturities. As of June 27, 2021, the Company had six short term notes receivable with four franchisees and the Company had one note receivable with one franchisee totaling \$1.0 million. The financed asset sales were executed with a weighted average interest rate of 0.0%. Principal payments are due monthly and mature from November 1, 2021 to December 1, 2023.

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 2021, the Company tested its long-lived assets for impairment and recognized \$21 thousand in pre-tax, non-cash impairment charges. The Company had lease charges related to closed units of \$0.7 million partially offset by \$0.2 million in sublease income.

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 principal payments are due monthly. Notes receivable mature at various dates through 2023 and bear interest at a weighted average rate of 0.0% at June 27, 2021.

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 27, 2021 (in thousands):

	Notes Receivable
2022	\$ 901
2023	52
2024	—
	<u>\$ 953</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 the valuation allowance, the Company considers both positive and negative evidence related to the likelihood of realization of

deferred tax assets. Future sources of taxable income are also considered in determining the amount of the recorded valuation allowance. The Company has continued to maintain a full valuation allowance for the year ended June 27, 2021.

At the end of tax year ended June 27, 2021, 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 \$1.78 million of the loss carryforwards are limited to 80% and do not expire.

As of June 27, 2021, tax years remained open to examination from June 24, 2012, by the federal and state tax authorities, for three or four years from the tax year in which net operating losses or tax credits are utilized. The Company was not subject to any open income tax examinations by any tax authority as of June 27, 2021.

There are no material uncertain tax positions. Management's position is that all relevant requirements are met and necessary returns have been filed, and therefore the tax positions taken on the tax returns would be sustained upon examination.

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.

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 Accompanying 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.

Rental income is income from our subleasing of some of our restaurant space to third parties.

Total revenues consist of the following (in thousands):

Fiscal Year Ended	
June 27, 2021	June 28, 2020

Restaurant sales	\$	—	\$	240
Franchise royalties		3,689		3,697
Supplier and distributor incentive revenues		3,482		3,906
Franchise license fees		308		853
Area development exclusivity fees and foreign master license fees		21		20
Advertising funds contributions		705		799
Supplier convention funds		177		278
Rental income		200		195
Other		11		40
	\$	<u>8,593</u>	\$	<u>10,028</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 (“RSUs”) 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 RSUs is measured as an amount equal to the fair value of the RSUs 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 27, 2021 contained 52 weeks and the fiscal year ended June 28, 2020 contained 52 weeks.

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

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

	Estimated Useful Lives	June 27 2021	June 28, 2020
Equipment, furniture and fixtures	3 - 7 yrs	\$ 1,021	\$ 808
Software	5 yrs	792	809
Leasehold improvements	10 yrs or lease term, if shorter	472	472
		2,285	2,089
Less: accumulated depreciation/amortization		(1,840)	(1,723)
		<u>\$ 445</u>	<u>\$ 366</u>

Depreciation and amortization expense was approximately \$131 thousand and \$145 thousand for the fiscal years ended June 27, 2021 and June 28, 2020, respectively.

Intangible assets consist of the following (in thousands):

	Estimated Useful Lives	June 27, 2021			June 28, 2020		
		Acquisition Cost	Accumulated Amortization	Net Value	Acquisition Cost	Accumulated Amortization	Net Value
Trademarks and tradenames	10 years	\$ 278	\$ (209)	\$ 69	\$ 278	\$ (181)	\$ 97
Name change	15 years	70	(30)	40	70	(25)	45
Prototypes	5 years	74	–	74	230	(217)	13
		<u>\$ 422</u>	<u>\$ (239)</u>	<u>\$ 183</u>	<u>\$ 578</u>	<u>\$ (423)</u>	<u>\$ 155</u>

Amortization expense for intangible assets was approximately \$36 thousand and \$41 thousand for the fiscal years ended June 27, 2021 and June 28, 2020, respectively.

NOTE C - ACCRUED EXPENSES:

Accrued expenses consist of the following (in thousands):

	June 27, 2021	June 28, 2020
Compensation	\$ 764	\$ 451
Other	130	236
Professional fees	30	80
Insurance loss reserves	–	8
	<u>\$ 924</u>	<u>\$ 775</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.

During fiscal 2021, none of the Notes were converted to common shares. As of June 27, 2021, \$1.6 million of the Notes were outstanding, offset by \$28 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 \$0.7 million (the “PPP Loan”) from JPMorgan Chase Bank, N.A. (the “Lender”) pursuant to the Paycheck Protection Program (the “PPP”) of the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) administered by the U.S. Small Business Administration (“SBA”). The PPP Loan was unsecured by the Company and was guaranteed by the SBA. We applied for and received a forgiveness decision in the fourth quarter of fiscal 2021, such that all of the PPP Loan was forgiven at that time. (See, “Consolidated Statement of Operations.”)

NOTE F - INCOME TAXES:

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

	Fiscal Year Ended	
	June 27, 2021	June 28, 2020
Current - Federal	\$ —	\$ —
Current - State	(29)	18
Deferred - Federal	—	4,053
Deferred - State	—	7
Provision for income taxes	<u>\$ (29)</u>	<u>\$ 4,078</u>

The effective income tax rate varied from the statutory rate for the fiscal years ended June 27, 2021 and June 28, 2020 as reflected below (in thousands):

	June 27, 2021	June 28, 2020
Federal income taxes based on a statutory rate of 21%	\$ 313	\$ (33)
State income tax, net of federal effect	(23)	20
Permanent adjustments	5	4
PPP loan forgiveness	(138)	—
Change in valuation allowance	(190)	4,081
Other	4	6
	<u>\$ (29)</u>	<u>\$ 4,078</u>

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

	June 27, 2021	June 28, 2020
Reserve for bad debt	\$ 10	\$ 61
Deferred fees	34	—
Other reserves and accruals	542	568
Operating lease liabilities	525	937
Credit carryforwards	197	171
Net operating loss carryforwards	5,563	5,371
Depreciable assets	—	306
Total gross deferred tax asset	<u>6,871</u>	<u>7,414</u>
Valuation allowance	<u>(6,307)</u>	<u>(6,515)</u>
Total deferred tax asset	<u>\$ 564</u>	<u>\$ 899</u>
Right-of-use asset	(461)	(815)
Other deferred tax liabilities	(103)	(84)
Total deferred tax liabilities	<u>\$ (564)</u>	<u>\$ (899)</u>
Net deferred tax asset	<u>\$ —</u>	<u>\$ —</u>

For the year ended June 27, 2021, the Company recorded an income tax benefit of \$29 thousand including federal deferred tax expense of zero and current state tax benefit of \$29 thousand. At the end of tax year ended June 27, 2021, 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 \$1.78 million of the loss carryforwards are limited to 80% and do not expire.

As of June 27, 2021, tax years remained open to examination from June 24, 2012, by the federal and state tax authorities, for three or four years from the tax year in which net operating losses or tax credits are utilized. The Company was not subject to any open income tax examinations by any tax authority as of June 27, 2021.

The Company continually reviews the realizability of its deferred tax assets, including an analysis of factors such as future taxable income, reversal of existing taxable temporary differences, and tax planning strategies. In assessing the need for the valuation allowance, the Company considers both positive and negative evidence related to the likelihood of realization of deferred tax assets. Future sources of taxable income are also considered in determining the amount of the recorded valuation allowance. The Company has continued to maintain a full valuation allowance for the year ended June 27, 2021.

There are no material uncertain tax positions. Management's position is that all relevant requirements are met and necessary returns have been filed, and therefore the tax positions taken on the tax returns would be sustained upon examination.

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.

On December 27, 2020, President Trump signed into law the Consolidated Appropriations Act, an omnibus spending bill that includes an array of COVID-related tax relief for individuals and businesses. The tax-related measures contained in the Act revise and expand provisions enacted earlier in the year by the Families First Coronavirus Response Act and the CARES Act. The Act also extends a number of expiring tax provisions. Additionally, the Act provides for a 100% deduction for certain business meals incurred in calendar years 2021 and 2022, which are currently deductible at 50% for years ending December 31, 2020. The Company determined that income tax effects related to the passage of the Consolidated Appropriations Act were not material to the financial statements for the year ended June 27, 2021.

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 deferred 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 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 27, 2021, 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 27, 2021, the majority of which is included in general and administrative expense in the accompanying consolidated statement of operations, are as follows (in thousands):

	Fiscal Year Ended June 27, 2021
Operating lease cost	\$ 705
Sublease income	(200)
Total lease expense, net of sublease income	<u>\$ 505</u>

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

	Fiscal Year Ended June 27, 2021
Cash paid for amounts included in the measurement of lease liabilities	\$ 755

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

	Fiscal Year Ended June 27, 2021
Operating lease right of use assets, net	\$ 2,085
Operating lease liabilities, current	465
Operating lease liabilities, net of current portion	1,911

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

	Fiscal Year Ended June 27, 2021
Weighted average remaining lease term	4.0 Years
Weighted average discount rate	4.0%

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

	Operating Leases
2022	\$ 551
2023	558
2024	511
2025	433
2026	382
Thereafter	191
Total operating lease payments	\$ 2,626
Less: imputed interest	\$ (250)
Total operating lease liability	\$ 2,376

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 27, 2021 were as follows (in thousands):

	Operating Leases
2022	\$ 1,168
2023	1,056
2024	844
2025	685
2026	490
Thereafter	364
	\$ 4,607

Future minimum sublease rental income under active non-cancelable leases with initial or remaining terms of one year or more at June 27, 2021 were as follows (in thousands):

	Sublease Rental Income
2022	\$ 175
2023	177
2024	128
2025	53
	\$ 533

Rental expense consisted of the following (in thousands):

	Fiscal Year Ended June 27, 2021	June 28, 2020
Minimum rentals	\$ 705	\$ 676
Sublease rentals	(200)	(168)
	\$ 505	\$ 508

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 27, 2021, total matching contributions to the tax advantaged savings plan by the Company on behalf of participating employees were approximately \$24 thousand. For the fiscal year ended June 28, 2020, no matching contributions were made to the tax advantaged savings plan by the Company.

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 accompanying 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 27, 2021	June 28, 2020
	Shares	Shares
Outstanding at beginning of year	206,750	216,550
Granted	—	—
Exercised	—	—
Forfeited/Canceled/Expired	(40,000)	(9,800)
Outstanding at end of period	166,750	206,750
Exercisable at end of period	166,750	206,750

	Fiscal Year Ended	
	June 27, 2021	June 28, 2020
	Weighted-Average Exercise Price	Weighted-Average Exercise Price
Outstanding at beginning of year	\$ 4.96	\$ 4.82
Granted	—	—
Exercised	—	—
Forfeited/Canceled/Expired	2.71	1.87
Outstanding at end of period	\$ 5.49	\$ 4.96
Exercisable at end of year	\$ 5.49	\$ 4.96

The intrinsic value of options outstanding at June 27, 2021 was zero.

The following table provides information on options outstanding and options exercisable as of June 27, 2021:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Options Outstanding at June 27, 2021	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Shares Exercisable at June 27, 2021	Weighted-Average Exercise Price
\$ 2.76 - 3.30	55,000	1.0	\$ 3.11	55,000	\$ 3.11
\$ 3.31 - 3.95	50,000	5.0	\$ 3.95	50,000	\$ 3.95
\$ 5.51 - 5.74	8,664	2.0	\$ 5.74	8,664	\$ 5.74
\$ 5.95 - 6.25	28,800	3.0	\$ 6.23	28,800	\$ 6.23
\$ 6.26 - 13.11	24,286	4.0	\$ 13.11	24,286	\$ 13.11
	166,750	3.0	\$ 5.49	166,750	\$ 5.49

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 27, 2021, all stock options that the Company had granted were vested. No stock compensation expense related to stock options was recognized in either fiscal years 2021 or 2020.

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, there were no grants of performance-based restricted stock units. During fiscal 2021, an aggregate of 545,600 performance-based restricted stock units were granted to certain employees.

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

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

A summary of the status of restricted stock units as of June 27, 2021 and June 28, 2020, and changes during the fiscal years then ended is presented below:

	June 27, 2021	June 28, 2020
Unvested at beginning of year	—	155,106
Granted during the year	545,600	—
Vested during the year	—	(9,053)
Forfeited during the year	—	(146,053)
Unvested at end of year	545,600	—

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 2021 and, as of June 27, 2021, 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 27, 2021, the Company had sold an aggregate of 3,064,342 shares in the 2017 ATM Offering, realizing aggregate gross proceeds of \$4.4 million. The 2017 ATM Offering expired on November 6, 2020.

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 \$131 thousand in expenses associated with the 2017 ATM Offering in fiscal 2021.

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 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 temporarily furloughed certain employees and reduced base salary by 20% for all remaining employees for the fourth quarter of fiscal 2020, as well as reducing other expenses. While the Company will remain focused on controlling expenses, future results of operations are likely to be materially adversely impacted by the pandemic and its aftermath.

We expect that Buffet Units and Pie Five Units 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 27, 2021	June 28, 2020
Income/(loss) from continuing operations	\$ 1,520	\$ (4,233)
Interest saved on convertible notes at 4%	\$ 64	\$ 65
Adjusted net income/(loss)	<u>\$ 1,584</u>	<u>\$ (4,168)</u>
BASIC:		
Weighted average common shares	17,307	15,144
Net income/(loss) per common share	<u>\$ 0.09</u>	<u>\$ (0.28)</u>

DILUTED:		
Weighted average common shares	17,307	15,144
Convertible notes	798	—
Dilutive stock options	—	—
Weighted average common shares outstanding	<u>18,105</u>	<u>15,144</u>
Income/(loss) from continuing operations per common share	<u>\$ 0.09</u>	<u>\$ (0.28)</u>

We had 166,750 and 206,750 shares of common stock potentially issuable upon exercise of employee stock options for years ended June 27, 2021 and June 28, 2020, respectively. The 166,750 and 206,750 shares of common stock were excluded from the weighted average number of shares outstanding on a diluted basis because they had an intrinsic value of zero and were anti-dilutive, respectively. These options expire at varying times from fiscal 2021 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 27, 2021 and June 28, 2020 (in thousands):

	Fiscal Year Ended	
	June 27, 2021	June 28, 2020
Net sales and operating revenues:		
Pizza Inn Franchising	\$ 6,582	\$ 6,662
Pie Five Franchising	1,816	2,894
Company-Owned Restaurants	—	240
Corporate administration and other	195	232
Consolidated revenues	<u>\$ 8,593</u>	<u>\$ 10,028</u>
Depreciation and amortization:		
Pizza Inn Franchising	\$ —	\$ —
Pie Five Franchising	—	—
Company-Owned Restaurants	—	—
Combined	—	—
Corporate administration and other	167	186
Depreciation and amortization	<u>\$ 167</u>	<u>\$ 186</u>
Income/(Loss) before taxes:		
Pizza Inn Franchising	\$ 5,205	\$ 5,365
Pie Five Franchising	799	1,140
Company-Owned Restaurants	(292)	(1,006)
Combined	5,712	5,499
Corporate administration and other	(4,221)	(5,654)
Income/(loss) before taxes	<u>\$ 1,491</u>	<u>\$ (155)</u>

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

Geographic information (revenues):		
United States	\$ 8,373	\$ 9,847
Foreign countries	220	181
Consolidated total	<u>\$ 8,593</u>	<u>\$ 10,028</u>

NOTE N - SUBSEQUENT EVENTS:

In preparation of its financial statements, the Company considered subsequent events through September 21, 2021 which was the date the Company’s financial statements were available to be issued.

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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	10,183	13,120
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)

	June 28, 2020	June 30, 2019
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	<u>4,932</u>	<u>4,703</u>
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	<u>\$ 9,705</u>	<u>\$ 10,426</u>
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	<u>2,514</u>	<u>2,378</u>
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	<u>9,202</u>	<u>5,992</u>
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	<u>503</u>	<u>4,434</u>
Total liabilities and shareholders' equity	<u>\$ 9,705</u>	<u>\$ 10,426</u>

See accompanying Notes to Consolidated Financial Statements.

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

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Treasury Stock		Total
	Shares	Amount			Shares	Amount	
BALANCE, June 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	22,208	\$ 222	\$ 33,327	\$ (4,483)	(7,117)	\$ (24,632)	\$ 4,434

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Treasury Stock		Total
	Shares	Amount			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	22,550	\$ 225	\$ 33,531	\$ (8,716)	(7,085)	\$ (24,537)	\$ 503

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):

	Adoption	July 1, 2019 Reclassification (1)	Total Adjustment
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):

	Estimated Useful Lives	June 28 2020	June 30, 2019
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
		2,089	2,111
Less: accumulated depreciation/amortization		(1,723)	(1,611)
		<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):

		June 28, 2020			June 30, 2019		
Estimated Useful Lives	Acquisition Cost	Accumulated Amortization	Net Value	Acquisition Cost	Accumulated Amortization	Net Value	
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	<u>7,414</u>	<u>6,485</u>
Valuation allowance	<u>(6,515)</u>	<u>(2,425)</u>
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	<u>\$ 684</u>

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	206,750	261,550
Exercisable at end of period	206,750	261,550

	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	\$ 4.96	\$ 4.82
Exercisable at end of year	\$ 4.96	\$ 4.82

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.

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

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Report of Independent Registered Public Accounting Firm

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

Opinion on the Consolidated Financial Statements

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

Basis for Opinion

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

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

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

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

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

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

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

See accompanying Notes to Consolidated Financial Statements.

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

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

See accompanying Notes to Consolidated Financial Statements.

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

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

See accompanying Notes to Consolidated Financial Statements.

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

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

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

CASH PAID FOR:		
Interest	\$ 72	\$ 187
Income taxes	\$ 168	\$ 64
Non-cash activities:		
Conversion of note to common shares	\$ 4	\$ 1,314
Notes receivable issued for sales of fixed assets	\$ 654	\$ -
Capital expenditures included in accounts payable	\$ -	\$ 49

See accompanying Notes to Consolidated Financial Statements.

RAVE RESTAURANT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Description of Business:

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

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

Principles of Consolidation:

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

Cash and Cash Equivalents:

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

Concentration of Credit Risk:

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

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

Inventories:

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

Closed Restaurants and Discontinued Operations:

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

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

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

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

Property, Plant and Equipment:

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

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

Impairment of Long-Lived Asset and other Lease Charges:

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

Accounts Receivable:

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

Notes Receivable:

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

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

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

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

Income Taxes:

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

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

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

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

Pre-Opening Expense:

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

Related Party Transactions:

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

Recent Accounting Pronouncements

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

Revenue Recognition:

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

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

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

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

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

Restaurant Sales

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

Franchise Revenues

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

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

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

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

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

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

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

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

Total revenues consist of the following (in thousands):

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

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

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

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

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

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

Stock-Based Compensation:

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

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

Fair Value of Financial Instruments:

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

Contingencies:

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

Use of Management Estimates:

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

Fiscal Year:

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

Discontinuation of Norco Distribution Division:

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

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

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

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

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

Intangible assets consist of the following (in thousands):

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

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

NOTE C - ACCRUED EXPENSES:

Accrued expenses consist of the following (in thousands):

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

NOTE D - CONVERTIBLE NOTES:

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

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

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

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

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

NOTE E - INCOME TAXES:

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

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

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

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

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

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

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

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

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

NOTE F - LEASES:

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

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

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

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

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

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

Rental expense consisted of the following (in thousands):

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

NOTE G - EMPLOYEE BENEFITS:

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

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

NOTE H - STOCK BASED COMPENSATION PLANS:

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

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

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

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

Stock Options:

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

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

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

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

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

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

We determine fair value following the authoritative guidance as follows:

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

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

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

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

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

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

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

Restricted Stock Units:

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

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

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

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

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

NOTE I - SHAREHOLDERS' EQUITY:

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

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

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

NOTE J - COMMITMENTS AND CONTINGENCIES:

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

NOTE K - EARNINGS PER SHARE:

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

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

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

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

NOTE L– SEGMENT REPORTING:

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

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

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

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

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

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

Notes:

- (1) Company stores that were closed are included in discontinued operations in the accompanying Condensed Consolidated Statement of Operations.
- (2) Portions of corporate administration and other have been allocated to segments.

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

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

EXHIBIT B
FRANCHISE AGREEMENT



**STANDARD FRANCHISE AGREEMENT
FOR
PIZZA INN RESTAURANT**

Franchisee: _____

Concept: _____

Location: _____

Unit Number: _____

Effective Date: _____

**STANDARD FRANCHISE AGREEMENT
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EXHIBIT A – Primary Area of Responsibility (if applicable)

EXHIBIT B – Franchisee-Specific Terms

PIZZA INN STANDARD FRANCHISE AGREEMENT

SUMMARY OF KEY ECONOMIC TERMS

As of the Effective Date, the following are the key economic terms under the Standard Franchise Agreement:

<u>FEE</u>	<u>AMOUNT</u>
Initial Franchise Fee	Buffet \$30,000
	Delco \$10,000
	Express \$5,000
Renewal Fee	25% of our then-current initial franchise fee for new Pizza Inn Restaurant of same concept
Royalty Fee	4%
Advertising Obligation	4%
Brand Fund	3%
Regional Advertising Fund	0%
Local Marketing	1%

PIZZA INN

STANDARD FRANCHISE AGREEMENT

THIS STANDARD FRANCHISE AGREEMENT is entered into by and between Pizza Inn, Inc., a Missouri corporation (“Company”), and _____ (“Franchisee”), effective as of _____ (the “Effective Date”) for a **PIZZA INN®** _____ restaurant located at _____, as more particularly designated pursuant to Section 4 (the “Restaurant”).

1. RECITALS.

Company has developed a distinctive format, appearance and set of specifications and operating procedures relating to the development, establishment and operation of Pizza Inn restaurants (each a “Restaurant”) featuring pizza and related foods and beverages (collectively, the “System”). The System is comprised of Restaurants which can vary in size. All Restaurants feature the same Proprietary Marks (defined below) and general operating platforms.

The System is identified by means of the “Pizza Inn” name and mark and certain other names, marks, logos, insignias, slogans, emblems, symbols and designs, and trade dress that Company has designated, or may in the future designate, for use with the System (collectively, the “Proprietary Marks”). Company has the exclusive right to use, and permit its franchisees to use, the Proprietary Marks. Company may modify the Proprietary Marks used to identify the System, including the principal Proprietary Marks. Company has also developed certain operating procedures and recipes and formulas that are Company’s proprietary trade secrets (collectively the “Trade Secrets”).

Company grants franchises to use the Proprietary Marks and Trade Secrets in connection with the operation of Restaurants, and Franchisee desires to obtain such a franchise. Franchisee acknowledges (i) the value of rights granted under this Agreement and generally described in this Section 1 and that Company has created substantial goodwill through the System, (ii) Company has a unique, easily recognizable restaurant design, (iii) all manuals and operations systems made available to the Franchisee contain copyrighted materials and Trade Secrets, (iv) no person, firm, corporation, or organization, including Franchisee, has any right whatsoever to reproduce, copy, or imitate Company’s business concepts and the System, and (v) Company intends to control the use of the System, Trade Secrets, and Proprietary Marks for the benefit and exclusive use of itself and its franchisees, in order to identify the System to the public as representing the highest standards of quality and service.

2. GRANT OF FRANCHISE AND RESERVATION OF RIGHTS

Subject to the terms and conditions of this Agreement, Company hereby grants to Franchisee a non-exclusive license and franchise to use the System, Proprietary Marks, and the Trade Secrets in connection with the operation of one restaurant at the location selected by Franchisee and accepted by Company pursuant to the terms of this Agreement and, with respect to delivery service, if offered, serving the area designated pursuant to Section 5, for the term specified in Section 8, but not elsewhere or otherwise. Franchisee acknowledges and agrees that Company and any affiliated entity have and retain the unrestricted right, subject to the express restrictions set forth in Section 4, at any time and place (i) to advertise and promote the System using the Proprietary Marks and to fill customer orders by catering, delivery, or other services, (ii) to produce and/or offer for sale by any method of distribution any food, beverage, or other product or service including prepackaged foods and memorabilia, using the Proprietary Marks or any other names and trademarks whether owned by Company or others, and (iii) to franchise or license others to perform any of the foregoing activities. Franchisee understands that Company is constantly working to improve the System. Company expressly reserves the right to change the System or any part of the System, including, without limitation, the Proprietary

Marks, at any time upon reasonable notice to Franchisee and, as changed, it shall remain the System referred to in this Agreement.

3. FEES.

A. Initial Franchise Fee. In consideration of the foregoing grant, Franchisee will pay Company an initial franchise fee in the amount set forth in the Summary of Key Economic Terms (Buffet \$30,000, Delco \$10,000 or Express \$5,000) ("Initial Franchise Fee"). The Initial Franchise Fee will be payable in full upon execution of this Agreement by Franchisee and will be fully earned by Company and non-refundable, unless Company declines to execute this Agreement as specified in Section 27.

B. Royalty Fee. In consideration of the rights granted to Franchisee under this Agreement, Franchisee agrees to pay Company a royalty fee of 4%. Royalty payments are currently payable on Friday of each week on sales for the week ending on the preceding Sunday, but Company reserves the right to change the frequency and timing of the payment on written notice to you. Royalty fees shall be payable without notice or demand at Company's corporate offices or such other place as Company may designate from time to time. Franchisee shall report to Company by telephone, facsimile, or in written form as specified in Section 7.B.(7), Gross Sales (as defined below) of the Restaurant and such additional information as Company may request. Company shall have the right to verify such royalty payments from time to time as it deems necessary. If Franchisee fails to make any royalty or other payment when due, Company may impose, in addition to such royalty or other payment, the administrative and late payment processing fee described in Section 3.C.

(1) "Gross Sales" means the aggregate revenues received from the sale of food, beverages, other merchandise and services at or from the Restaurant, whether consumed on or off the premises, and Franchisee's share of any revenues from vending or other coin-operated machines, video games, or other mechanical or electronic games or amusements located in the Restaurant, less applicable sales taxes collected by Franchisee. Gross Sales includes proceeds received from business interruption insurance.

C. Administrative Fee. Time is of the essence with respect to all payments to be made by Franchisee to Company. Franchisee shall not be entitled to withhold payments due Company under this Agreement on grounds of alleged nonperformance by Company hereunder. For any obligation due under this Agreement that is not paid in full on or before the date due, Company may assess an administrative and late payment processing fee of \$100 per invoice, which amount shall be due and payable by Franchisee immediately upon assessment.

D. Interest on Delinquent Accounts. All royalty fees, advertising contributions, amounts due for purchases of food, equipment and supplies, and other amounts owing from Franchisee to Company shall bear interest at the highest applicable legal rate for open account business credit, not to exceed 2.0% per month (the "Maximum Rate"). Franchisee acknowledges that this paragraph shall not constitute agreement by Company to accept such payments after same are due or a commitment by Company to extend credit to, or otherwise finance Franchisee's operation of, the Restaurant. Further, Franchisee acknowledges that failure to pay all amounts when due shall constitute grounds for termination of this Agreement, notwithstanding the provisions of this paragraph.

E. Electronic Funds Transfer. During the Term and any extension or renewal thereof, all royalty fees, advertising contributions, amounts due for purchases of food, equipment and supplies and other amounts owing from Franchisee to Company or its affiliates or their designated suppliers or distributors shall be paid through an Electronic Depository Transfer Account ("EDT Account"). Franchisee shall set up an EDT Account and Company, its affiliate or the applicable party shall have access to such account for the purpose of receiving such payments. Franchisee agrees to maintain a balance in the EDT Account sufficient to cover all required electronic funds drafts.

F. Advertising Obligation. You must spend and/or contribute for advertising up to 4% of your Fiscal Period Gross Sales (“Advertising Obligation”). The exact amount of the advertising fees to be spent and/or contributed by you, and the allocation of the advertising fees, as of the date of this Agreement, are set forth in Section 8 and in the Summary of Key Economic Terms that appears at the beginning of this Agreement (“Summary”).

4. LOCATION.

During the Term (as defined in Section 8) of this Agreement, Franchisee will have the right and obligation to use the Proprietary Marks and Trade Secrets in connection with the development and operation of the Restaurant. Upon completion of the site selection procedure outlined in Sections 6.A. and 7.A., Company and Franchisee will execute Company’s Location Acceptance Form identifying the exact location of the Restaurant. That Location Acceptance Form, as so executed, is incorporated herein by reference and made an integral part of this Agreement. Use of the Proprietary Marks and/or the Trade Secrets in connection with the operation of a business establishment at any location or in any other manner other than that specified herein or in such Location Acceptance Form constitutes an unauthorized use of the Proprietary Marks and Trade Secrets.

A. Area Restrictions. During the Term, provided that Franchisee is in full compliance with this Agreement, Company will not operate nor license any other individual or entity to operate a restaurant within the geographic area described in Exhibit B (“Protected Area”), except for various forms of licensing and distribution of Pizza Inn services and products to be offered pursuant to the Company’s Express license format or from other express-type or kiosk points of distribution at special use or non-public locations, such as at public and private schools, colleges and other institutions, within department stores, shopping malls, convenience stores, and at public auditoriums, sports arenas, concert halls, airports, and other similar venues.

B. Relocation. Under certain limited circumstances, Company may, in its sole discretion, approve a relocation of the Restaurant. Any such relocation shall be at Franchisee’s sole expense. Company may charge a \$500 relocation processing fee, and reserves the right to charge Franchisee for other costs it may incur in connection with such relocation, including travel and lodging expenses for its employees. Company may require that the relocated Restaurant be constructed and finished out pursuant to the then current System appearance, equipment, signage, and décor standards.

5. PRIMARY AREA OF RESPONSIBILITY.

If Company approves delivery service from the Restaurant, the geographic territory described in Exhibit B, attached hereto and incorporated herein by reference, shall be the Primary Area of Responsibility of the Restaurant. If a location for the Restaurant is to be selected hereafter pursuant to Section 4, at the time of execution of the Location Acceptance Form, an Exhibit A describing the Primary Area of Responsibility for the Restaurant as so located shall be prepared by Company and attached to and made an integral part of this Agreement. Once approved to offer delivery service, Franchisee will offer at all reasonable times during approved hours of operation delivery service to all customers located within Franchisee’s Primary Area of Responsibility. Franchisee may offer delivery service outside the Primary Area of Responsibility of the Restaurant only with the prior written approval of Company, which may be withdrawn or modified from time to time, and then only to the extent that such delivery service (i) does not encroach upon the Primary Area of Responsibility of any other restaurant as from time to time determined by Company, and (ii) is in compliance with the Manual (as defined in Section 6.A.(7)). Company reserves the right to redefine the Primary Area of Responsibility if the Company determines that there have been material changes in demographic or economic factors in the Primary Area of Responsibility, Franchisee has not adequately provided timely, accurate delivery service to the Primary Area of Responsibility, or the optimum development of the market area that includes the Primary Area of Responsibility requires that additional restaurants offer delivery service. Company may remove delivery rights temporarily or permanently if it determines that Franchisee cannot provide adequate

delivery service, or if Franchisee does not abide by the obligations and limitations imposed on delivery service by this Agreement.

6. COMPANY PERFORMANCE

A. DEVELOPMENT STAGE ASSISTANCE. Prior to the opening of Restaurant, Company agrees to render the following services and assistance to Franchisee:

(1) Furnish Franchisee with an approved equipment floor plan. The responsibility for and the expense of modifying Company's floor plan to satisfy lessors or to comply with federal, state and local laws, regulations, codes or ordinances, or to meet the soil and climatic conditions of the area in which the Restaurant is to be located or to customize to Franchisee's space is solely that of Franchisee. A local architect's certification of the final floor plan must also be obtained and paid for by Franchisee. All modifications of Company's floor plan will be subject to Company's prior approval as provided in Section 7.A.(4). Company is in no way responsible for the accuracy or viability of any modification of Company's floor plan as a result of having reviewed them. Company's approval only addresses the uniformity of design and conformity with Company's design and operating requirements. Under certain circumstances, Company may provide Franchisee with limited architectural and design services. Company may charge Franchisee for its costs and expenses in providing such services.

(2) Provide Franchisee information regarding the evaluation and selection of a location for the Restaurant so far as may be practicable;

(3) Review the locations for the Restaurant proposed by Franchisee and accept a location selected by Franchisee; provided that at least one such proposed location meets Company's current standards. **Franchisee acknowledges and agrees that Company's acceptance of a location selected by Franchisee and any information regarding the location communicated by Company to Franchisee, does not constitute a guarantee, assurance, representation, or warranty of any kind by Company, express or implied, as to the suitability of the location for the Restaurant or for any other purpose, or that the Restaurant operated at such location will be successful, profitable, or meet any financial projections.** Company's acceptance of the location for the Restaurant indicates only that Company has determined that the location falls within the acceptable criteria for locations that Company established, for its own internal purposes, as of the date of such approval, and Franchisee may not rely on Company's acceptance for any other purpose. The application of criteria that have appeared effective with respect to other locations may not accurately reflect the potential for the accepted location. Demographic and other factors can change, and the uncertainty and instability of such criteria are beyond Company's control. Company has no responsibility if the Restaurant fails to meet Franchisee's expectations of potential revenue or operational criteria. Franchisee's acceptance of the franchise granted pursuant to this Agreement is based in part upon its own independent investigation of the suitability of the location for the Restaurant;

(4) Within 30 days following receipt of the Location Acceptance Form and any other development materials required to be submitted, and completion of a visit by Company personnel, if Company deems such a visit necessary, Company shall accept or reject the proposed location for the Restaurant. Company's failure to accept the proposed location shall constitute a rejection of the proposed location;

(5) Furnish Franchisee lists and descriptions of the furniture, fixtures, equipment, paint colors, interior and exterior appearance and decorating specifications and signs Company requires to outfit and furnish a restaurant, together with the names of suppliers approved by Company;

(6) Provide Franchisee information upon written request regarding leasing and/or financing for Franchisee's building, equipment, and signs. **Company will neither negotiate lease terms on**

a Franchisee's behalf nor become directly or indirectly or contingently liable for any indebtedness or lease obligations incurred by Franchisee;

(7) Loan Franchisee, or provide Franchisee electronic access to, operations, training, standards, recipe, and procedures materials (hereinafter, whether in one or more manuals or in audio, audio/visual, software, or other form, as periodically revised and supplemented, called the "Manual") that contain Trade Secrets, a description of the System, and other operations and relevant information developed by Company. The Manual and its contents are and shall remain Company's exclusive property;

(8) Furnish Franchisee lists and specifications of the approved paper goods, promotional materials, foodstuffs, supplies and other inventory items recommended or required to stock and operate a restaurant, together with the names of approved suppliers. In no event shall Company have any liability for a supplier's performance or failure to perform;

(9) Provide a training program for Franchisee, Franchisee's restaurant manager, and other Franchisee associates at a Company approved training facility. Franchisee and at least 1 employee must attend and complete, to Company's satisfaction, the training program. The training program will be provided without cost to Franchisee, but Franchisee must pay the travel, lodging, and incidental expenses incurred by each attendee to attend the training program. Franchisee and Franchisee's manager(s) shall undertake and complete continuing training programs from time to time as may be directed by Company in order to implement current operational standards, to remedy existing operational deficiencies or for other purposes determined by Company. Such programs may be held in the Dallas, Texas area or at such other locations specified by Company, including, but not limited to, regional certified training restaurants. Company reserves the right to charge Franchisee for such continuing training programs, or for other supplemental training, or for training required as a result of Franchisee's default under this Agreement. Company may require that Franchisee and any employee of Franchisee, who will attend a training program or review the Manual, execute a confidentiality and non-competition agreement before training begins or the contents of the Manual are disclosed. Company reserves the right to delay opening of the Restaurant unless and until Franchisee and Franchisee's manager attend and satisfactorily complete Company's initial training program. Company may require that any Restaurant manager who has not successfully completed Company's training programs within 6 months of the date the Restaurant is opened undertake and successfully complete a Company approve training program at Franchisee's cost;

(10) Provide Franchisee information and instruction upon written request regarding the accounting system recommended by Company;

(11) Advise Franchisee in establishing a local program for advertising and promoting the opening of the Restaurant; and

(12) If the Restaurant is Franchisee's first restaurant, send a business consultant to advise and assist Franchisee in various aspects of operating the Restaurant during the opening period.

B. OPERATIONAL ASSISTANCE. Subsequent to the opening of the Restaurant, Company agrees to render the following services and assistance to Franchisee:

(1) Offer Franchisee the opportunity to purchase equipment and inventory items from or through a distribution network developed or approved by Company;

(2) Offer refresher and additional training courses as it deems appropriate;

(3) Send its representatives periodically to the Restaurant on an unsolicited and unannounced basis to inspect and make recommendations regarding Franchisee's operating methods and

Franchisee's use of the Proprietary Marks and Trade Secrets but Company may not provide regular field supervision;

(4) Establish a continuing advisory relationship with Franchisee, including consultation in the areas of marketing and business operations;

(5) Offer continuing training and assistance through inspections, publications, announcements, conferences, and other communications;

(6) Provide, or provide electronic access to, updates and additional Manuals as deemed appropriate to incorporate new developments regarding standards, specifications, procedures, and techniques;

(7) Review and approve all proposed advertising and promotional materials prepared by or for Franchisee; and

(8) Offer Franchisee the opportunity to purchase promotional and employee training materials developed by, or on behalf of, Company.

Franchisee understands and acknowledges that Company has not exercised and does not exercise any control over the day-to-day operations of the Restaurant, including, without limitation, the selection, scheduling and supervision of Franchisee's employees or contractors, the manner of operating, scheduling and supervision of food preparation, compliance with local alcoholic beverage control regulations, and all aspects of delivery operations. Franchisee is responsible for determining and complying with all laws, rules, regulations, and ordinances applicable to operating the Restaurant.

7. FRANCHISEE PERFORMANCE.

A. IMMEDIATE PERFORMANCE. Franchisee and Company recognize that it is in the best interests of each that Franchisee commence operation of the Restaurant as soon as practicable. Franchisee shall:

(1) locate, determine the availability of and submit for Company's inspection and review, in the form specified by Company, a location for the Restaurant that is acceptable to Company;

(2) complete selection of a location for the Restaurant and execute the Location Acceptance Form;

(3) obtain Company's consent to the proposed sublease, lease or purchase contract (collectively, "lease") for the accepted location for the Restaurant. Franchisee agrees that any lease must, in form and substance, be satisfactory to Company and contain provisions required by Company as Company may set forth in writing or otherwise. Those provisions include a required right of first refusal in favor of Company to enter into a one-year lease term with landlord upon expiration or termination of the lease. Additionally, Company shall additionally be granted a right of first refusal as to any proposed lease assignment at the location for the Restaurant. Company reserves the right to require that Franchisee and the landlord at the Restaurant location enter into an addendum to modify the terms of the lease to comply with those provisions. The lease may not contain any covenants or other obligations that would prevent Franchisee from performing its obligations under this Agreement. Company's consent to the lease does not constitute a warranty or representation of any kind, express or implied, as to its fairness or suitability or as to Franchisee's ability to comply with its terms, and Company does not assume any liability or responsibility to Franchisee or to any third parties due to such approval. Franchisee must deliver a copy to Company of the fully signed lease within 5 days after its execution. Franchisee may not begin construction of the Restaurant until it has delivered a copy of the fully signed lease to Company. Franchisee also agrees that any lease for the Restaurant location must: (a) be for an aggregate term of (at least) 20 years in a combination of initial term and renewals; and

(b) contain terms and conditions that are commercially reasonable in Company's sole opinion. **Neither Company's consent to nor assistance in selection and review of any lease or other agreement pursuant to which Franchisee may occupy and/or acquire the Restaurant site shall constitute Company's representation or warranty that a restaurant operated at such site or pursuant to such lease or other agreement will be successful, profitable, or meet any financial projections.**

(4) prepare and submit to Company for approval any proposed modifications to Company's basic plans and specifications, which may be modified only to the extent necessary to comply with applicable ordinances, building codes, permit requirements, and lease or deed requirements and restrictions. All such modifications are subject to prior notification to, and approval by, Company. Franchisee is solely responsible for obtaining and furnishing Company, if requested and if applicable, satisfactory evidence of any required architects', engineers' or contractors' services, stamps, or approvals, as well as all applicable landlord and/or municipal certifications, approvals, permits and authorizations, and utility, sign, health, sanitation, and business permits and licenses. Final building plans submitted to Company will not be approved unless plans are certified by a local architect and approved by all applicable authorities.

(5) contract for the fabrication and installation of Company's standard exterior and interior building signage, and use only such sign contractors as Company shall have approved in writing in advance. Company reserves the right to require that Franchisee use Company's designated sign contractor for some or all of the signage for the Restaurant if Franchisee's proposed sign contractor cannot meet Company's standards.

(6) complete foundation footings if a new building is to be constructed, commence renovation if an existing building is to be remodeled, or commence installation of leasehold improvements for leased space. Franchisee should not commence construction or alteration until Company has notified Franchisee in writing of its approval of building plans.

If, within 9 months after the Effective Date ("Opening Deadline"), Franchisee fails to perform any of the foregoing requirements in strict compliance with its terms and/or open the Restaurant for business, Company may, at its sole option and without liability or obligation to Franchisee, terminate this Agreement by giving Franchisee written notice of such termination at any time after the Opening Deadline. In the event of such termination, Company shall be entitled to retain the Initial Franchise Fee and all other fees paid by Franchisee to Company through the date of termination. Notwithstanding anything to the contrary in this Agreement, including, but not limited to, this Section 7.A., upon Franchisee's written request, Company may, in its sole discretion, extend the Opening Deadline, provided that Franchisee pays Company a \$1,500 Extension Fee.

B. CONSTRUCTION AND OPERATIONS. Franchisee and Company acknowledge that it is for their mutual benefit that the Restaurant premises, operations and products are of uniform high quality and consistent throughout the System. The Restaurant will be constructed, improved, decorated, and fixtured only in the manner authorized and the appearance of the Restaurant will not be altered except to the extent approved in writing by Company. In connection with the construction and operation of the Restaurant, Franchisee agrees to fulfill the following requirements and to perform the following obligations:

(1) Pursue the construction or remodeling of the Restaurant diligently and in any event open the Restaurant for business by no later than the Opening Deadline, unless extended in accordance with Section 7.A. or this Section 7.B.(1). If construction of the Restaurant is interrupted by events not within Franchisee's control, the period for Franchisee's performance hereunder shall be extended for such time as is reasonably necessary to remedy the effects of such occurrence. However, Franchisee's inability to obtain financing or a binding lease or alcoholic beverage and other licenses will not extend the time for Franchisee's performance or excuse Franchisee's failure of performance unless Franchisee receives from Company an

extension of time in writing. Franchisee shall notify Company of the scheduled opening date of the Restaurant at least 30 days prior to such date.

(2) Acquire the equipment necessary to maintain, display, and serve approved menu items in accordance with Company's standards. Franchisee acknowledges that quality control is essential to protect and promote the Proprietary Marks, quality standards, and uniform image and agrees to acquire all equipment and signs only in accordance with Company's specifications and standards (including but not limited to the purchase of new, and not used, equipment when required). The Company shall make the final determination as to whether any such used equipment can satisfy the Company's then current operating requirements.

(3) Comply with the training requirements for Franchisee and its employees set forth in Section 6.A.(9) to Company's satisfaction, and offer subsequently hired employees and managers an approved training program, which may be taught by Franchisee or Franchisee's employees who have successfully completed all training programs required by Company, or, if Franchisee or Franchisee's employees have not completed all required Company training programs, subsequently hired managers must attend and satisfactorily complete approved alternate training programs within 60 days after their hire date or, if later, the next such scheduled training program.

(4) Install and prominently display at the Restaurant a sign with the following statement: "Independently Owned and Operated by [Franchisee Name], a franchisee of Pizza Inn, Inc."

(5) Pay Company the royalties specified in Section 3 without offset or deduction, and pay for product deliveries in accordance with invoice terms.

(6) Maintain complete and accurate records relating to the operation of the Restaurant, including but not limited to cash register tapes, P.O.S. system reports, guest checks, invoices, delivery receipts, inventory records, bank statements, labor records and other business and financial records (collectively the "Records"). Records are to be kept in such format, location, and for such period of time as specified by Company from time to time. The Manual will prescribe from time to time current specifications and guidelines pertaining to acceptable accounting, record keeping, and cash management policies and practices, as well as procedures for recording and reporting sales figures.

(7) Obtain and install, at its expense, the hardware, software, P.O.S. system and network connections that Company specifies from time to time. Franchisee agrees to: (a) purchase such hardware, software, P.O.S. system, support and other related services from the vendor specified by Company (if any), which may include Company; (b) maintain on the computer system only the financial and operating data specified in the Manual; (c) transmit data to Company in the form and at the times required by the Manual; (d) give Company unrestricted access to Franchisee's computer system at all times (including user IDs and passwords, if necessary) to download and transfer data via current standard electronic data transfer method or other connection as Company determines; (e) maintain the computer system in good working order at its own expense; (f) replace or upgrade the computer system as Company requires (but not more than once a year); (g) install high speed Internet and/or communications connections; (h) ensure that its employees are adequately trained in the use of the computer system and Company's related policies and procedures; (i) engage any vendor that Company designates to ensure the security of Franchisee's data; and (j) use any proprietary software and other proprietary materials that Company provides to Franchisee in connection with the operation of the Restaurant and, if Company so requires, execute a license agreement and pay Company a reasonable license fee for the use of such proprietary software. Franchisee may not install any software other than authorized upgrades or make any hardware modifications to the computer system without Company's express written consent. Franchisee acknowledges that computer designs and functions change periodically and that Company may desire to make substantial modifications to its computer specifications or to require installation of entirely different systems during the term of this Agreement.

(8) Utilize Company's approved vendor for reporting sales for the Restaurant and submit to Company, to the attention of the Accounting Department: (i) copies of state sales tax reports within 15 days of submission; (ii) concurrently, any audited or unaudited financial statements relating to Restaurant operations, furnished by Franchisee to any lender, lessor, or governmental agency; (iii) such additional reports, tax returns, or statements as specified by Company from time to time; and (iv) if requested, a monthly report outlining Franchisee's local advertising expenditures. Without limiting the generality of Section 7.B.(8)(iii), at Company's request, Franchisee shall, at Franchisee's expense, submit to Company, in the form prescribed by Company, the following reports for the Restaurant: (a) a year to date quarterly profit and loss statement and balance sheet (both of which may be unaudited) within 30 days after the end of each fiscal quarter (as defined by Company) during each fiscal year (as defined by Company); and (b) a fiscal year profit and loss statement and balance sheet (both of which may be unaudited) within 60 days after the end of each fiscal year (as defined by Company). Company reserves the right, in its reasonable discretion, to require that Franchisee, at Franchisee's expense, submit audited financial statements prepared by a certified public accounting firm acceptable to Company for any fiscal years. Franchisee or its treasurer or chief financial officer must sign each statement and balance sheet, attesting that it is correct and complete and uses accounting principles applied on a consistent basis that accurately and completely reflect Franchisee's financial condition.

(9) Perform all advertising and marketing requirements strictly in accordance with Section 7E below.

(10) Contribute to all Brand Fund and Regional Advertising Fund requirements according to section 7E below.

(11) Ensure that that all food and non-food products, supplies, equipment and services that Franchisee purchases for use, sale or resale in the Restaurant meet Company's requirements. Company has the right to require that all food and non-food products, supplies, equipment and services that Franchisee purchases for use, sale or resale in the Restaurant: (a) meet specifications that Company establishes from time to time; (b) be purchased only from suppliers to which Company has consented (which may include Company or its affiliates); and/or (c) be purchased only from a single source or from a limited number of designated sources (which may include Company or its affiliates). To the extent that Company establishes specifications, requires its consent to suppliers or designates specific suppliers for particular items, Company will publish its requirements in the Manual or otherwise in writing. Company may create purchasing restrictions to control the quality and selection, and ensure the consistency, of menu items, ingredients and other merchandise; to consolidate System purchases to reduce costs or ensure availability of products; or for other valid business reasons. In particular, Company has developed and may continue to develop certain proprietary food products that will be prepared by or for Company according to its proprietary special recipes and formulas ("Specified Products"), and Franchisee agrees to purchase those Proprietary Products only from Company, its affiliates or a third party designated and licensed by Company to prepare and sell such products.

If Franchisee desires to purchase products (other than Proprietary Products or products that must be purchased from a single source or a limited number of sources) from a supplier to which Company has not consented, Franchisee must submit a written request for consent. Company has the right to inspect the proposed supplier's facilities and test samples of the proposed products. Franchisee agrees to pay Company a reasonable fee, not to exceed the actual cost of the inspection and testing the proposed product or evaluating the proposed supplier, including personnel and travel costs, whether or not the product or supplier is accepted. Company has the right to grant, deny or revoke consent to products, services and suppliers in its sole discretion. Company will notify Franchisee of its decision as soon as practicable following its evaluation. Company reserves the right to reinspect the facilities and products of any accepted supplier and revoke acceptance upon the supplier's failure to meet any of Company's then-current criteria.

(12) Offer for sale and sell in the Restaurant only the products, services and brands that Company has designated in the Manual or otherwise in writing. Franchisee must offer all items that Company

designates as mandatory. Company may also designate some items as optional. Company may change the mandatory and optional menu items, recipes, ingredients and other products and services in its sole discretion. Company may require that Franchisee sell certain brands and prohibit Franchisee from selling other brands. Franchisee may sell products only in the varieties, weights, sizes, forms and packages that Company has designated. Franchisee must use only authorized ingredients and follow Company's recipes in the preparation of menu items. Franchisee may not use the Restaurant premises for the sale or display of items not authorized by Company. Within 15 days after Company provides written notice to Franchisee, Franchisee must begin selling any newly authorized menu items (or using any newly authorized ingredients) and cease selling any menu item that is no longer authorized (or using any ingredient that is no longer authorized); however, if the discontinued menu item or ingredient could pose a hazard to the public or prove detrimental to the System, Franchisee must cease selling or using that item or ingredient immediately. All food, beverages and merchandise authorized for sale at the Restaurant must be offered for sale under the name that Company specifies. Company periodically will provide Franchisee suggested retail prices for the products and services offered at the Restaurant and, to the extent permitted by applicable law, Company may require that Franchisee adhere to Company's suggested prices, including maximum prices. If Franchisee has a suggestion for a new menu item or ingredient, or for a change to an authorized menu item or ingredient, or Franchisee wishes to participate in a test market program, Franchisee must notify Company before Franchisee implements any such change or commence any such program. Franchisee may not add or modify any menu item or participate in a test market program without obtaining Company's prior written approval.

(13) Provide appropriate training and supervision for all personnel employed in the Restaurant, maintain standards of prompt and efficient customer service, and take such corrective actions in respect thereto as Company may reasonably direct. To ensure that Company's operational and quality standards are met, Franchisee shall implement a training program for Restaurant employees in accordance with training standards and procedures prescribed by Company from time to time and shall staff the Restaurant at all times with a sufficient number of trained employees including at least one manager who has within 6 months after becoming manager successfully completed Company's required initial training requirements. Requests for exemptions from the manager training requirement may be considered on an individual basis, and will be granted only in those situations where the employee has prior operational management experience in a Pizza Inn restaurant and demonstrates to Company a thorough knowledge and understanding of the System.

(14) Require that all employees shall only wear uniforms of such design and color, and otherwise comply with such dress code, as may be from time to time specified or approved by Company.

(15) Instruct all employees in the proper use and display of the Proprietary Marks and the confidential handling of the Trade Secrets and the Manual in accordance with this Agreement.

(16) (i) Maintain the Restaurant at all times in good repair and condition, and in connection therewith make such additions, alterations, repairs, and replacements thereto as may be required for that purpose, including, without limitation, such periodic replacement of obsolete signs, furnishings, equipment, and décor as Company may reasonably direct. Franchisee shall make no alterations to the premises or appearance of the Restaurant, nor shall Franchisee make any unapproved replacements of or alterations to the fixtures, equipment, furniture, trade dress, décor, signs, or interior or exterior appearance of the Restaurant without prior written approval of Company. Company shall have the right, at Franchisee's expense, to remove or modify any replacements or alterations to the Restaurant not previously approved by Company.

(ii) Upon notice from Company, Franchisee shall conform Franchisee's building design, trade dress, color schemes, exterior and interior décor, and presentation of the Proprietary Marks to the then current public image and appearance standards for the System. Such a remodeling may include structural changes to the Restaurant and modification or replacement of fixtures, as well as such other changes as Company may direct, and Franchisee agrees to undertake at Franchisee's sole expense such a remodeling

program promptly upon notice from Company. The foregoing requirements are subject to the following limitations:

(a) If this Agreement is for a new Buffet Restaurant, Company will not impose any new or modified standard that requires structural changes, remodeling or renovation with a cost estimated by Company of over \$10,000 more often than once every 5 years.

(b) If this Agreement is for an existing Buffet Restaurant that is being relocated, renewed or acquired by transfer and, on the Effective Date, the Restaurant does not comply with then current public image and appearance standards for the System, Franchisee agrees to complete the image and appearance upgrade steps required by this Section 7.B.(16) within 24 months of the Effective Date (unless there is a specific date listed in the transfer/renewal/relocation agreement). Upon completion of all required image and appearance upgrade work, or if on the Effective Date the Restaurant is in compliance with then current public image and appearance standards, Company will not impose any new or modified standard that requires structural changes, remodeling or renovation with a cost estimated by Company of over \$10,000 more often than once every 5 years.

(17) Comply strictly with federal, state and local minimum wage, child labor, truth-in-advertising, health, sanitation, safety, motor vehicle, alcoholic beverage, and other laws and governmental rules and regulations applicable to the Restaurant, and promptly deliver to Company copies of any notices of violations served upon Franchisee, including but not limited to any health inspection that indicates an unsatisfactory rating or requires items to be corrected.

(18) Participate in Company's market research programs and, at Company's request, test market new food products and/or services in the Restaurant, and provide Company with timely reports and other relevant information as Company may reasonably require. In connection with any such test marketing, Franchisee shall purchase a reasonable quantity of the tested products and effectively promote and make a reasonable effort to sell such products.

(19) Any vehicle used by Franchisee or any party under contract to Franchisee to deliver Franchisee's products or services to customers or provide other services for Franchisee shall be clean and in good working order and equipped with signage and décor items as specified in the Manual. Franchisee shall require each vehicle operator to have a valid driver's license, be covered by insurance as required by the jurisdiction where the vehicle is operated and this Agreement and otherwise be legally able to operate the vehicle. Franchisee shall require each vehicle operator to comply with all laws, regulations, and rules of the road and to use due care and caution in the operation and maintenance of the vehicle. Except for the standards specified herein, Franchisee agrees that Company does not set forth any additional standards and does not exercise any control over any vehicle, vehicle operator, vehicle service, or vehicle operation utilized by Franchisee and that the safe operation of any motor vehicle is therefore, as between Company and Franchisee, Franchisee's sole responsibility.

(20) Not solicit or hire a present Company employee or present management-level employee of another franchisee of Company to work for Franchisee while so employed without the prior written consent of Company or such other franchisee, as the case may be. As compensation to Company or a franchisee of Company for breach of this covenant, Franchisee agrees to pay to Company or the franchisee, as the case may be, a sum equal to the past one year's salary of the employee. Company and Franchisee agree this payment is not a penalty, but a fair and reasonable estimate of the costs of hiring and training of a replacement, and decreased efficiency during at least the first year of employment of such replacement.

(21) Display at Company's request, in a prominent place at the Restaurant, promotional materials supplied by Company from time to time for the purpose of providing information about the System to prospective franchisees.

(22) Promptly (i) pay when due all taxes levied or assessed by any federal, state or local tax authority, (ii) pay, or reimburse Company, upon Company's demand, any sales, use, gross receipt, or other similar tax imposed on Company with respect to Franchisee's payments made to Company from time to time pursuant to this Agreement, and (iii) pay when due all other indebtedness or other obligations incurred by Franchisee in connection with the acquisition of the Restaurant premises and the conduct of the business including, without limitation, lease obligations, equipment purchase agreements, and loan agreements. In the event of any *bona fide* dispute, Franchisee may contest the validity or amount of any tax, indebtedness, or obligation in accordance with applicable procedures, but in no event shall Franchisee suffer or permit a tax sale, seizure by levy of execution, attachment, cancellation, or termination of a lease or repossession by a creditor against the Restaurant premises or any property used in the conduct of the business. Franchisee shall notify Company in writing within 5 days after receiving notice of the issuance of any order, writ, injunction, demand for payment, judgment, or notice of default under any indebtedness, lease, or other obligation that may adversely affect the operation or financial condition of the Restaurant or Franchisee and provide Company with a copy of such notice.

(23) Continue to actively and diligently operate the Restaurant and use the Proprietary Marks and the Trade Secrets as specified in writing by Company during the entire Term and any renewals or extensions, except for temporary closures due to damage, destruction, or an approved relocation. Franchisee shall keep the Restaurant open and in normal operation for such hours and days as Company may from time to time specify in the Manual or as Company may otherwise approve in writing.

(24) Commence immediately and diligently pursue to completion the repair of any damage to the Restaurant premises or trade equipment and, if the Restaurant ceases business as a result of such damage or destruction, reopen the Restaurant for business not later than 6 months after closing. Company may require that such reconstruction, repairs, and replacements be made pursuant to the then current System appearance, equipment, signage, and décor standards.

(25) Forward to Company upon request, copies of beer, wine and liquor inspections, public health and fire inspection reports and all other inspection reports, warnings, certificates and ratings issued by any governmental entity during the Term of this Agreement in connection with the operation of the Restaurant.

(26) Provide to Company upon request certified copies of Franchisee's articles of incorporation or organization, bylaws, partnership agreement, member's agreement and other governing documents, and as applicable, any amendments thereto, including board of directors, partners, or members resolutions authorizing entering into this Agreement.

(27) Not engage in any activity or practice that results, or may be anticipated to result, in litigation or public criticism of Company or the System and refrain from using the Pizza Inn name to petition any agency, department, branch, or subdivision of federal, state, or local government for any reason.

(28) Not conduct or advertise or allow to be conducted or advertised any business other than the Restaurant from the designated location without the prior written consent of Company and, if consent is granted, abide by the reasonable conditions imposed by Company designed to ensure that the public does not get the impression that the non-licensed business is in any way endorsed by, supervised by, or affiliated with Company.

(29) Authorize (i), and execute any other documents deemed necessary to obtain the authorization of any bank, financial institution, business supplier, manufacturer, contractor, vendor, and other person or entity with which Franchisee does business to disclose to Company any requested information in its possession relating to Franchisee or the licensed business, and (ii) Company to disclose data from Franchisee's reports if Company determines that disclosure is necessary or advisable, including disclosure to prospective or

existing franchisees or other third parties, provided that, except as required by law, Company shall keep Franchisee's information and identity anonymous and confidential.

(30) Franchisee, on behalf of itself and its parent, subsidiaries and affiliates (collectively, "Releasers"), freely and without any influence, forever releases and covenants not to sue Company, its parent, subsidiaries and affiliates and their respective past and present officers, directors, shareholders, agents and employees, in their corporate and individual capacities, with respect to any and all claims, demands, liabilities and causes of action of whatever kind or nature, whether known or unknown, vested or contingent, suspected or unsuspected (collectively, "claims"), that any Releaser now owns or holds or may in the future own or hold based on, arising out of or relating to, in whole or in part any fact, event, conduct or omission occurring on or before the date of this Agreement, including, without limitation, claims arising under federal, state and local laws, rules and ordinances and claims arising out of, or relating to this Agreement and all other agreements between any Releaser and Company or its parent, subsidiaries or affiliates, the sale of any franchise to any Releaser, the development and operation of the Restaurant and the development and operation of all other restaurants operated by any Releaser that are franchised by Company or its parent, subsidiaries or affiliates. Releasers expressly agree that fair consideration has been given by Company for this release, and they fully understand that this is a negotiated, complete and final release of all claims. Notwithstanding the foregoing, claims arising from representations in the Pizza Inn Franchise Disclosure Document, or its exhibits or amendments, are expressly excluded from this release.

C. COMPLIANCE WITH OPERATIONS AND TRAINING MATERIALS; RIGHT TO INSPECT.

(1) At all times, Franchisee shall strictly comply with procedures, standards, and other provisions contained in the Manual, and any other audio or audio/visual tapes, software, or other training or operations materials that may be developed by or for Company from time to time.

(2) (i) Company shall furnish Franchisee with, or provide Franchisee electronic access to, one or more Manuals that Company has prepared containing the recipes, procedures, quality standards, and such other confidential and Trade Secret information that Company has developed and determined in its sole discretion to be essential to the operation of a restaurant in compliance with the System. The Manual and all related audio or audio/visual or other written or electronic materials that Company provides to Franchisee from time to time during the Term must be maintained at all times in the Restaurant and must be returned to Company as provided in Section 13 upon termination or expiration of this Agreement. Franchisee acknowledges that full compliance and performance with the Manual by all franchisees is essential to preserving, maintaining, and enhancing the reputation and goodwill of the uniform and high quality services Company has provided. The Manual's content shall at all times be treated as confidential and Franchisee shall not, at any time, copy, duplicate, record, or otherwise make available to any unauthorized person, any portion of the Manual. Franchisee shall at all times ensure that its copy of the Manual is current and up-to-date. In the event of any conflict between versions of the Manual, the version of the Manual located at Company's corporate office shall control. Company reserves the right to impose a reasonable fee for any replacement Manual requested by Franchisee, if the replacement is necessitated by Franchisee's failure to maintain, secure, or update the Manual. Company may require that any employee of Franchisee to whom the contents of the Manual are disclosed sign a confidentiality and non-disclosure agreement.

(ii) Company reserves the right from time to time, by adoption or amendment of System standards to add, amend, modify, delete, or enhance any portion of the System (including any of the Proprietary Marks, Proprietary Products, Trade Secrets, and Manual) as may be necessary in Company's sole judgment to change, maintain, or enhance the System, Proprietary Marks, Proprietary Products, Trade Secrets, or Manual, or the reputation, efficiency, competitiveness, and/or quality of the System, or to adapt it to new conditions, materials or technology, or to better serve the public. Franchisee agrees to comply, at Franchisees'

expense, with all such additions or modifications reasonably designated by Company from time to time as applicable to the then existing System.

(3) Franchisee shall use the Proprietary Marks, the Trade Secrets, and the Manual in strict compliance with this Agreement and in a manner tending to promote the goodwill and public image of the System.

(4) Company's representatives have the right, at any time during normal business hours to: (a) conduct inspections of (and photograph and record) the Restaurant location and the Restaurant; (b) interview the Restaurant employees, suppliers and customers; and (c) review Franchisee's business records, including those maintained electronically or off-premises. Company can initiate these actions (collectively, "QA Audit") with or without prior notice to Franchisee. Franchisee must cooperate by giving Company's representatives unrestricted access and rendering such assistance as they may reasonably request. In the event that any Q&A Audit discloses any deficiency or unsatisfactory condition with respect to any matter on any written inspection report, Franchisee shall, unless a longer cure period is specified in this Agreement or required by applicable law, within 72 hours of Franchisee's receipt of notice and demand for cure (or such other longer time period as Company may provide), correct or repair such deficiency or unsatisfactory condition if it is correctable or repairable within such period of time, and if not, Franchisee shall within such period of time commence such correction or repair and thereafter diligently pursue all repairs or corrections to completion.

If Franchisee fails to correct the identified deficiencies as required by Company, Company shall have the right, but not the obligation, without being guilty of trespass or other tort, to: (i) make or cause to be made such correction or repairs, and the expenses thereof, including lodging, board, wages, and transportation of Company personnel, if utilized, shall be paid by Franchisee upon billing by Company or (ii) order Franchisee to immediately cease operation of the Restaurant until such correction or repair is completed. The foregoing shall be in addition to any other rights or remedies Company may have. Notwithstanding the foregoing, Company shall not be required to provide a 72-hour cure period where such deficiency or unsatisfactory condition, in the Company's reasonable opinion, directly relates to urgent matters of public health, safety, or sanitation, or to product quality, in which instance Company may exercise its rights under Section 11.

If Franchisee fails to obtain a passing score on any QA Audit, Franchisee will reimburse Company in the amount of \$1,500.00 in connection with the next QA Audit.

(5) Franchisee shall provide representatives of Company upon request Records and related federal and state income, sales, use tax or other returns, at all reasonable times. Franchisee agrees that Company and its representatives may, at any time and from time to time during the Term, as it may be renewed or extended, and within 2 years thereafter, conduct an audit of the Records. If any audit establishes that Franchisee has understated Gross Sales, Franchisee shall, upon demand, pay Company the cost of such audit including reasonable investigation, accounting, and legal fees; otherwise, Company shall bear the cost of such audit. In the event such understatement shall have resulted in the underpayment of royalties or other percentage fees or contributions as provided in this Agreement, Franchisee shall, upon demand, pay Company any such deficiency, together with interest as provided in this Agreement or allowed by applicable law.

(6) Franchisee shall operate the Restaurant in accordance with Company's standards of quality and customer service, and conduct and maintain the Restaurant so as not to detract from or interfere with the integrity and standards of the System. At all times Franchisee shall (i) comply with the terms of this Agreement, with the Manual and applicable laws, rules, ordinances, and regulations of governmental authorities pertaining to the operation of a restaurant and (ii) maintain the premises, equipment, and fixtures to Company's standards. After Franchisee has begun operation of the Restaurant, Franchisee may not discontinue operation without Company's prior written consent.

(7) Company reserves the right to require that Franchisee or Franchisee's manager(s) or employees attend and satisfactorily complete supplemental training programs if, during any consecutive 12-month period, any 2 comprehensive quality evaluations of the Restaurant shall reflect scores, grades, or ratings that are substandard based upon then current System operating standards and requirements.

(8) Because complete and detailed uniformity under many varying conditions may not be possible or practical, Company specifically reserves the right to vary standards for any franchisee based upon the peculiarities of a particular site or circumstance, density of population, business potential, trade area population, existing business practices, or any other condition that Company deems to be of importance to the successful operation of such franchisee's business. Franchisee shall have no recourse against Company on account of any variation from standard specifications and practices granted to any other franchisee and shall not be entitled to require Company to grant Franchisee a similar variation.

D. INSURANCE AND INDEMNIFICATION.

(1) Franchisee and, if Franchisee is a legal entity, its partners, officers, and/or members, shall, at all times, protect, defend, indemnify, and hold harmless to the fullest extent permitted by law Company, its affiliates, successors and assigns, their respective officers, directors, shareholders, partners, agents, insurers, representatives, independent contractors, servants, and employees (each an "Indemnitee" or collectively, the "Indemnitees"), from all "losses and expenses" (as defined in Section 7.D.(3)(ii) below) incurred in connection with any action, suit, proceeding, claim, demand, investigation or inquiry (formal or informal), or any settlement thereof (whether or not a proceeding has been instituted) that directly or indirectly arises out of or is based upon any of the following:

(i) The infringement, alleged infringement, or any other violation or alleged violation by Franchisee of any patent, mark or copyright or other proprietary right owned or controlled by third parties or the misuse of any Proprietary Mark or copyright of Company (except as such may occur with respect to the proper use of the Proprietary Marks, copyrights, or other proprietary information granted hereunder pursuant to Section 9);

(ii) The actual or asserted violation or breach by Franchisee of any federal, state or local law, regulation, or ruling, including, without limitation, any fines, claims for taxes, penalties or interest thereon;

(iii) Libel, slander or any other form of defamation, by Franchisee of Company, the System, or any area developer, operator, or franchisee operating within the System;

(iv) The violation or breach by Franchisee of any warranty, representation, agreement, or obligation in this Agreement or in any other agreement between Company and Franchisee or any of the Indemnitees; and

(v) Personal injury, illness, death, or damage to property arising from or as the result of any acts, errors, or omissions of Franchisee and its officers, directors, shareholders, partners, agents, representatives, independent contractors, and employees in connection with the development, construction, establishment, operation, or occupancy of the Restaurant, including, but not limited to the use of products or materials supplied, specified, or approved by Company and any acts, errors, or omissions of any of the foregoing in the operation of any motor vehicle.

(2) Franchisee agrees to give Company notice of any such action, suit, proceeding, claim, demand, inquiry, or investigation. At the sole expense and risk of Franchisee, Indemnitees may elect (but under no circumstance are obligated to undertake) to retain counsel of their own choosing with respect to such action, suit, proceeding, claim, demand, inquiry, or investigation. Such election by Indemnitees shall, in no

manner or form, diminish the indemnity obligations of Franchisee.

(3) (i) All losses and expenses, as defined in this Section 7.D.(3) shall be chargeable to and paid by Franchisee pursuant to its obligations of indemnity under this Section 7.D., regardless of any actions, activity, or defense undertaken by any Indemnitee or the success or failure of such actions, activity, or defense.

(ii) As used in this Section 7.D., the phrase “losses and expenses” shall include, without limitation, all losses, damages (including actual, compensatory, exemplary, or punitive damages), fines, charges, costs, expenses, lost profits, attorneys’ fees, court costs, reasonable costs of investigation, fees of arbitrators, expenses for alternative dispute resolution procedures, fees and expenses of expert and other witnesses, settlement amounts, judgments, awards, compensation for damages to any Indemnitee’s reputation and goodwill, costs of or resulting from delays, financing, costs of advertising material and media time and space, and costs of changing, substituting, or replacing the same, and any and all expenses of recall, refunds, compensation, public notices, and other such amounts incurred in connection with the matters described.

(4) The Indemnitees do not assume any liability whatsoever and shall not be liable for acts, errors, or omissions of any third party with whom Franchisee or any of the officers, directors, shareholders, partners, agents, representatives, independent contractors, and employees of Franchisee may contract, regardless of the purpose.

(5) Under no circumstances shall the Indemnitees be required or obligated to seek recovery from third parties or otherwise mitigate their losses in order to maintain a claim against Franchisee. Franchisee agrees that the failure to pursue such recovery or mitigate loss will in no way reduce the amounts recoverable from Franchisee by the Indemnitees.

(6) Franchisee expressly agrees that the terms of this Section 7.D.(1) through (5) shall survive the termination, expiration, non-renewal, or transfer of this Agreement or any interest herein;

(7) Franchisee must maintain in full force and effect that insurance that Franchisee determines to be necessary, which must include at least the types of insurance and the minimum policy limits specified in the Manual or otherwise in writing. Each insurance policy must be written by an insurance company that maintains an “A+” or better rating by the latest edition of Best’s Insurance Rating Service (or another rating service designated by Company). The insurance policy or policies must be in effect when Franchisee takes possession of the Restaurant location. The insurance policy or policies must protect Franchisee, Company, Indemnitees and their respective past, present and future officers, directors, owners, employees, servants, representatives, consultants, attorneys and agents. Franchisee, Indemnities and their respective affiliates must be named as additional insureds in the policy or policies (statutory policies excepted). Each policy must include a waiver of subrogation in Company’s favor. Company may require additional types of coverage or increase the required minimum amount of coverage upon reasonable notice. Franchisee’s obligation to obtain coverage is not limited in any way by insurance that Company maintains. Upon Company’s request or as specified in the Manual, Franchisee must provide Company with certificates of insurance evidencing the required coverage and proof of payment therefor. The evidence of insurance must include a statement by the insurer that the policy or policies will not be canceled or materially altered without at least 30 days’ prior written notice to Company. If Franchisee fails to obtain and maintain insurance coverage as required by this Agreement, Company has the right, but not the obligation, to obtain the required insurance on Franchisee’s behalf and to charge Franchisee for the cost of the insurance, plus a reasonable fee for Company’s services in procuring the insurance. Franchisee’s obligation to obtain and maintain the required insurance policies in the required amounts shall not be limited in any way by reason of any insurance that may be maintained by Company, nor shall Franchisee’s performance of that obligation relieve it of liability under the indemnity provisions set forth in this Section 7.D.

E. BRAND FUND AND MARKETING.

(1) **Contributions/Expenditures.** During the Term, you will have a Fiscal Period Advertising Obligation as set forth in Section 3.F and the Summary. Following written notice to you, we may modify the amount and allocation of the Advertising Obligation subject to the provisions of Section 7.E(5). If any portion of the Advertising Obligation is allocated to the Brand Fund or a Regional Advertising Fund, you will pay those amounts at the same time and in the same manner as the Royalty.

(2) Brand Fund.

(i) You must contribute to our National Advertising Fund (“Brand Fund”) the amount set forth in the Summary. We may use the Brand Fund Contributions and any earnings of the Brand Fund for any costs associated with advertising, marketing, public relations, promotional programs and materials (which may be national or regional in scope) and/or any other activities that we believe would benefit the System, including the following: advertising campaigns in various media; point-of-purchase materials; review of locally-produced ads; free standing inserts; brochures; purchasing and/or developing promotional materials; market research, including secret shoppers; sponsorships; design and maintenance of a web site; celebrity endorsements; trade shows; association dues; search engine optimization costs; establishment of a third party facility for customizing local advertising; accounting costs; and holding an annual franchise convention. We will not use the Brand Fund for any activity whose sole purpose is the marketing of franchises; however, you acknowledge that the Pizza Inn web site, public relations activities, community involvement activities and other activities that may be supported by the Brand Fund may contain information about franchising opportunities. We have the right to direct all programs supported by the Brand Fund, with final discretion over creative concepts, the materials and media used in the programs and their placement. You agree to participate in all advertising, marketing, promotions, research, public relations and other programs instituted by the Brand Fund. We do not guarantee that you will benefit from the Brand Fund in proportion to your contributions to the Brand Fund;

(ii) Pizza Inn Restaurants operated by us or our affiliates will contribute to the Brand Fund on the same basis as comparable franchisees. If we reduce the Brand Fund Contribution for franchisees, we will have the right to reduce the required contribution for applicable Pizza Inn Restaurants operated by us or our affiliates by the same amount;

(iii) We will not use any contributions to the Brand Fund to defray any of our general operating expenses, except for reasonable administrative costs and overhead that we incur in activities reasonably related to the administration of the Brand Fund or the management of Brand Fund-supported programs (including salaries of our personnel who devote time to Brand Fund activities). We will separately account for the Brand Fund, but we do not need to segregate Brand Fund monies from our other monies;

(iv) Any point-of-sale materials produced with Brand Fund monies will be made available to you at a reasonable cost, and the proceeds of such sales will be credited to the Brand Fund. We are not required to have an independent audit of the Brand Fund completed. We may spend in any fiscal year an amount greater or less than the aggregate contribution of all Pizza Inn Restaurants to the Brand Fund during that year or cause the Brand Fund to invest any surplus for its future use or distribute any surplus to then-current franchisees who contributed to the Brand Fund and restaurants operated by us or our affiliates.

(3) Regional Advertising Fund.

(i) We have the right, in our sole discretion, to establish one or more regional advertising funds for Pizza Inn Restaurants (“Regional Advertising Funds”). If a Regional Advertising Fund is established for a geographical area that includes the Franchised Location, you must contribute to that Regional Advertising Fund in the amount set forth in the Summary, as may be subsequently modified by us. Pizza Inn

Restaurants operated by us or our affiliates in an area covered by a Regional Advertising Fund will contribute to the Regional Advertising Fund on the same basis as comparable franchisees;

(ii) We or our designee will direct all advertising, marketing, and public relations programs and activities financed by the Regional Advertising Fund, with sole discretion over the creative concepts, materials and endorsements used in those programs and activities, and the geographic, market and media placement and allocation of advertising and marketing materials. You agree that the Regional Advertising Fund may be used to pay the costs of preparing and producing such associated materials and programs as we or our designee may determine, including video, audio and written advertising materials; employing advertising agencies; sponsorship of sporting, charitable or similar events; administering regional and multiregional advertising programs, including, without limitation, purchasing direct mail and other media advertising and employing advertising agencies to assist with these efforts; and supporting public relations, market research and other advertising, promotional and marketing activities. You agree to participate in all advertising, marketing, promotions, research and public relations programs instituted by your Regional Advertising Fund;

(iii) We will separately account for each Regional Advertising Fund, but we do not need to segregate any Regional Advertising Fund monies from our other monies. We are not required to have an independent audit of the Regional Advertising Fund completed. We may spend in any fiscal year an amount greater or less than the aggregate contribution of all applicable Pizza Inn Restaurants to a particular Regional Advertising Fund during that year or cause the Regional Advertising Fund to invest any surplus for its future use or distribute any surplus to then-current franchisees who contributed to the Regional Advertising Fund and restaurants operated by us or our affiliates. (A Regional Advertising Fund will reimburse us for any monies advanced by us.) We will make available an unaudited statement of contributions and expenditures for a Regional Advertising Fund no sooner than 90 days after the close of our fiscal year to franchisees who contribute to that Regional Advertising Fund and who make a written request for a copy.

(4) Local Marketing.

(i) You will spend, at a minimum, that portion of the Advertising Obligation not otherwise spent or contributed pursuant to this Section 7 for local marketing in authorized advertising media and for authorized advertising expenditures. We or our designee periodically will advise you of the authorized advertising media and authorized advertising expenditures;

(ii) You agree to conduct all marketing in a dignified manner and in accordance with the standards and requirements we specify periodically. We may provide to you a marketing manual, guidelines for creating a marketing plan, scripts and branding tools. You may be required to pay a reasonable fee for accessing and customizing local advertising and promotional materials. You agree that all advertising and promotional materials must bear the Proprietary Marks in the form, color, location and manner that we prescribe. We will have the final decision on all creative development of advertising and promotional messages. You also agree that we own all advertising and promotional materials developed by you and you will take all actions we specify to vest ownership in us;

(iii) You must submit to us in writing for our prior acceptance all sales promotion materials and advertising that have not been prepared, or previously accepted, by us and identify the proposed media in which you propose to place the advertising. If our written consent to the material and its proposed placement is not received within 10 days after the date that we received the material, the material may not be used. In no event will your advertising or marketing materials contain any statement or material that, in our sole discretion, may be considered: **(a)** in bad taste or offensive to the public or to any group of persons; **(b)** defamatory of any person or an attack on any competitor; **(c)** to infringe upon the use, without permission, of any other persons' trade name, trademark, service mark or identification; **(d)** inconsistent with the public image

of the System or the Proprietary Marks; or **(e)** not in accordance with any federal or state law. We reserve the right to require you to discontinue the use of any advertising or marketing materials.

(5) **Changes in the Advertising Obligation.** We have the right, following written notice to you, to reallocate the Advertising Obligation and to increase the Advertising Obligation; however, once we establish a Regional Advertising Fund that covers the Franchised Location, we will not increase the Advertising Obligation by more than ½% of Gross Sales in any 24 month period.

(6) **Social Media.** You agree that to the extent you offer or sell any products or services relating to the Franchised Restaurant through, or use any of the Proprietary Marks in, any form of electronic communications, including Internet web sites, social networking sites, applications or other future technological avenues that enable users to create and share content or to participate in social networking (collectively, "Social Media") we may revoke your usage at any time for any, or no, reason. Furthermore, you must, at all times, comply with our Social Media policy, as modified periodically. You expressly acknowledge and agree that your use of any Social Media relating to the Franchised Restaurant is subject to our prior written approval. You may not establish an independent site or page on any Social Media. If we authorize you to have and/or design a site or a page on any Social Media for the Franchised Restaurant, your site and page may only be accessed from our site or page, and we may prohibit links between your site or page and any other site. You acknowledge that any use of Social Media by you with respect to the Franchised Restaurant constitutes advertising and promotion subject to this Section 8, and you agree to comply with any additional policies and standards we issue from time to time with respect to Social Media. You acknowledge that any copyright in your sites or pages on any Social Media will be deemed to be owned by us, and you agree to sign any documents that we reasonably deem necessary to affirm our ownership of the copyright. If necessary, you must ensure cooperation with us by any web site service provider or web site hosting company with which you do business. You represent that you have or will have the lawful right to use any proprietary materials of others that appear on your sites or pages on Social Media. We periodically may provide to you content for your sites and pages on Social Media, including copy, news stories and photographs. We must consent to any changes to your sites and pages on Social Media.

(7) **Public and Media Relations.** You agree that you will not issue any press or other media releases or other communications without our prior consent. As a franchisee of the System, you agree to only participate in internal and external communications activities that create goodwill, enhance our public image and build the Pizza Inn brand.

8. TERM AND RENEWAL.

A. This Agreement shall be effective and binding from the Effective Date for an initial term equal to for Buffet 20 years; for Delco 10 years; and for Express 5 years, unless, sooner terminated pursuant to the terms hereof.

B. Franchisee shall have the right to renew this franchise before the expiration of the initial term of the franchise for one additional term equal to 50% of the length of its initial term, provided all of the following conditions have been fulfilled:

(1) Franchisee has, during the entire term of this Agreement, complied with all of its provisions;

(2) Franchisee shall pay a renewal fee equal to 25% of the then-current initial franchise fee (if we are not currently offering franchises, then the renewal fee is calculated using the initial franchise fee from our most recent FDD);

(3) At the time of giving notice to Company, Franchisee is not in default under any terms

of this Agreement nor has Franchisee at any time during the term of this Agreement been in default under any provision of this Agreement;

(4) Franchisee maintains possession of the Restaurant and before the expiration date of this Agreement has brought the Restaurant into full compliance with the specifications and standards then applicable to new or renewing Pizza Inn restaurants and presents evidence satisfactory to Company that Franchisee has the right to remain in possession of the Restaurant premises for the duration of the renewal term; or, in the event Franchisee is unable to maintain possession of the Restaurant premises, or if, in the Company's judgment, the Restaurant should be relocated, Franchisee secures substitute premises approved by Company, and has furnished, stocked, and equipped such premises to bring the Restaurant at the substitute premises into full compliance with the then-current specifications and standards before the expiration date of this Agreement;

(5) Franchisee has given notice of intent to renew to Company as provided in Section 8.C.;

(6) Franchisee has satisfied all monetary obligations owed by Franchisee to Company and its affiliates and has timely met these obligations throughout the term of this Agreement;

(7) Franchisee has executed upon renewal Company's then-current form of Standard Franchise Agreement, modified as necessary to reflect the fact that the agreement relates to the grant of a renewal franchise, which agreement shall supersede in all respects this Agreement, and the terms of which may differ from the terms of this Agreement, including, without limitation, a different percentage royalty fee and advertising contribution;

(8) Franchisee has complied with Company's then-current qualifications and training requirements; and

(9) Franchisee has executed a general release, in a form prescribed by Company, of any and all claims against Company and its officers, directors, agents, shareholders, and employees.

C. If Franchisee desires to renew this franchise before the expiration of this Agreement, Franchisee shall give Company written notice of intent to renew at least 6 months, but not more than 12 months, prior to the expiration of the initial term of this Agreement. Within 60 days after its receipt of such timely notice, Company shall furnish Franchisee with written notice of (i) reasons that could cause Company not to grant a renewal to Franchisee including, but not limited to, any deficiencies requiring correction and a schedule for Franchisee's correction thereof, and (ii) Company's then-current requirements relating to the image, appearance, decoration, furnishing, equipping, and stocking of a Pizza Inn restaurant, and a schedule for effecting required upgrades and modifications in order to bring the Restaurant into compliance therewith, as a condition of renewal. Renewal of this franchise shall be conditioned upon Franchisee's compliance with each such requirement and continued compliance with all of the terms and conditions of this Agreement up to the date of expiration of the initial term of this Agreement.

D. Time is of the essence in Franchisee's compliance with all of the requirements set forth in this Section 8.

9. PROPRIETARY MARKS, TRADE SECRETS, CONFIDENTIAL INFORMATION, AND OPERATIONS MANUAL.

Franchisee acknowledges that maintenance of the integrity and value of the System is of mutual benefit to Franchisee and Company and that Company is required to strictly protect the Proprietary Marks, Trade Secrets, and other confidential matters.

A. USE OF PROPRIETARY MARKS. Franchisee acknowledges Company's claims of the exclusive rights to use the Proprietary Marks and such other tradenames, trademarks, and service marks of Company as may from time to time be designated and that Company is required by federal law to prevent the unauthorized use of the Proprietary Marks and to control the quality of goods and services offered through use of its Proprietary Marks. To assist Company in its compliance with those requirements, Franchisee covenants and agrees to perform and abide by the following provisions:

(1) Franchisee shall not use the words PIZZA INN or any other stylistic or colorable variation thereof as part of the name of any corporation, partnership, proprietorship or other business entity in which Franchisee owns or holds an interest or as the trade name or assumed name of any such business entity; provided, that Franchisee may, if required by law, file any assumed name or similar certificate to the effect that Franchisee is operating the Restaurant under such name. Franchisee hereby appoints Company as Franchisee's attorney-in-fact to consent to similar filings of assumed name or similar certificates by Company or other franchisees and to withdraw such filings for Franchisee;

(2) Franchisee shall not use any of the Proprietary Marks in connection with the advertising, promotion, sale or distribution of (a) any food item or other product not listed in Company's approved menu or not listed as an authorized test product, (b) any service not customarily offered in restaurants, or (c) in connection with any Web page or site, or Internet home page or hyper-link, or as a part of any domain name or electronic mail identifier, without Company's prior written consent. Specifically, but not limited to the following, Franchisee shall not use menu boards, place mats, guest checks, carry-out containers, discount coupons, labels, or other materials bearing Company's registered logograph and/or the words PIZZA INN in connection with the advertising, promotion, sale, or distribution of any unapproved food items, product, or service;

(3) Franchisee shall not use or allow the use of Company's registered logograph or the words PIZZA INN or other Proprietary Marks in or on any promotional material, advertisement, display, business form, Web site, Internet home page or hyper-link, or other printed, electronic, computer generated, or graphic material without affixing the appropriate registration symbols thereto in the manner required by law. In any Web site, Internet home page, or any Internet posting, Franchisee shall clearly identify himself as a franchisee of Company, and Franchisee shall not create or use any Web site or Internet home page featuring the Proprietary Marks, the Restaurant, or the System without first having obtained Company's written approval of the proposed content and use of such Web page or Internet home page;

(4) Franchisee shall use the Proprietary Marks and the Trade Secrets in the precise form prescribed by Company and shall observe Company's directions regarding representation of the Proprietary Marks and the manner of their display and use. Franchisee shall install only such signs as meet Company's specifications and standards for design and appearance. Franchisee shall submit all paper goods, advertising, and promotional material not furnished by Company for its written approval prior to use and shall promptly cease use thereof upon denial or withdrawal of such approval;

(5) Franchisee shall not use the Proprietary Marks on any goods and/or for any services otherwise than in compliance with the Manual and specifications issued from time to time by Company and with such other quality control measures that Company may adopt to promote and defend the goodwill associated with the Proprietary Marks;

(6) At no time shall Franchisee make any written or oral admission that a Proprietary Mark is invalid or infringes the rights of any person or is open to any other form of attack, but shall promptly notify Company of any allegation of invalidity or infringement of which Franchisee becomes aware;

(7) Upon the expiration, termination, or revocation of the franchise hereby granted, Franchisee shall promptly discontinue use of the Proprietary Marks and shall take appropriate action to remove

the Proprietary Marks from the premises in which the Restaurant is located, including appropriate alteration of the building exterior, and to cancel (or assign to Company pursuant to Section 15.C.) any advertising relating to Franchisee's use of the Proprietary Marks including, without limitation, complete cessation of use of any domain name, Web site or Internet home page or hyper-link, or telephone numbers associated with the Proprietary Marks in any directory listing or advertising;

(8) Franchisee expressly covenants that during the Term and after the expiration or termination thereof, Franchisee shall not directly or indirectly, apply for, register, attempt to obtain, obtain control over, contest, or aid in contesting the validity or ownership of any Proprietary Mark or any other copyrighted materials, or any marks or indicia that resemble or are deceptively or confusing similar to the Proprietary Marks, or take any action whatsoever that might affect or prejudice Company's claimed rights therein.

B. INFRINGEMENT; LEGAL ACTION

(1) Franchisee shall neither permit nor suffer, and shall promptly report to Company, the unauthorized use of a Proprietary Mark by any person or the use by any person of a trade name, trademark, service mark, or symbol that might be construed as an infringement of any Proprietary Mark or as unfair competition or passing-off at common law. Company reserves the right to conduct all legal proceedings relating to the Proprietary Marks;

(2) Franchisee shall immediately provide Company with all available information concerning any infringement or challenge to the validity or ownership of the Proprietary Marks or any acts of unfair competition by third parties that interfere with the relationship of the parties or the relationship with and among other franchisees. Franchisee shall not communicate with any person other than Company and its counsel in connection with any infringement, challenge, or claim;

(3) Franchisee shall cooperate with Company in any legal action against third parties brought by Company relating to this Agreement or to its Proprietary Marks by providing Company with information or evidence available to Franchisee, as Company may reasonably request. Company shall reimburse Franchisee for any reasonable actual cost to Franchisee in providing the information or evidence specifically required by Company, unless such information or evidence is directly related to the protection of the rights of Franchisee; and

(4) Company shall have complete control over any legal or informal action to stop acts of unfair competition or infringement of any Proprietary Marks or trade names, and Company shall decide whether any legal action shall be taken. Franchisee shall not participate in such action or decision unless Company gives its written consent.

C. COMPANY'S EXCLUSIVE OWNERSHIP; RIGHT TO CHANGE PROPRIETARY MARKS.

(1) Franchisee acknowledges Company is the sole and exclusive owner of Proprietary Marks, trade names, and all other material elements of the restaurants and the System. Franchisee agrees that all use of the Proprietary Marks and trade names, and any and all goodwill associated with and identified by the Proprietary Marks, the System and copyrighted materials (including goodwill arising from Franchisee's use) inures directly and exclusively to the benefit of Company and is the property of Company, and that, upon the expiration or termination of this Agreement, no monetary amount shall be attributable to any goodwill associated with Franchisee's activities or the use of the Proprietary Marks or copyrighted materials. Neither during nor after the Term of this Agreement shall Franchisee contest the validity of Company's exclusive ownership and rights to the Proprietary Marks and trade names and shall not attempt to register or reserve rights in the same.

(2) At any time, and from time-to-time, upon reasonable written notice to Franchisee, Company may add to, delete from, and/or change the Proprietary Marks and trade names licensed to Franchisee pursuant to this Agreement. All such additions, deletions, and changes will be as effective as if originally incorporated in this Agreement and will be made in good faith and on a reasonable basis.

D. TRADE SECRETS, OPERATIONS AND TRAINING MATERIAL, AND OTHER CONFIDENTIAL INFORMATION. Franchisee acknowledges that Company owns an exclusive proprietary interest in the Trade Secrets and the Manual and that the unauthorized disclosure or use of any Trade Secrets or other information contained in the Manual or any other operations and training material adversely affects the business, competitive advantage, and goodwill of Company and its franchisees. In addition, Company may make available to Franchisee information regarding sales, cost of sales, menu mix, and marketing research prepared by or for Company, and other data, which, if so identified by Company, shall be deemed confidential information (“Confidential Information”) even though it may or may not be proprietary to Company. Accordingly, Franchisee covenants and agrees to perform and abide by the following provisions, each of which shall survive the expiration or termination of this Agreement and shall be perpetually binding upon Franchisee:

(1) Franchisee shall hold the Trade Secrets, the Confidential Information, and the contents of the Manual in strict confidence and shall not disclose any Trade Secret or operating procedure or the Confidential Information to any person or business entity other than *bona fide* employees of the Restaurant, and then only for the purpose of advancing the business of the Restaurant. Company reserves the right to require that any such employee who has not previously done so sign a confidentiality agreement prior to receipt of the Trade Secrets or the Confidential Information;

(2) Franchisee shall not use any of the Trade Secrets, the Confidential Information, or the operating procedures or other information contained in the Manual in connection with the operation of any establishment or enterprise other than the Restaurant, and shall promptly discontinue use of the Trade Secrets or operating procedures contained in the Manual and the Confidential Information upon the expiration or termination of this Agreement;

(3) Franchisee shall not, without Company’s prior written consent, copy or reproduce, nor permit any other person to copy or reproduce, any part of the Manual or the Confidential Information or otherwise permit its use or inspection by any person other than Franchisee, Controlling Principals (as defined below), *bona fide* employees of the Restaurant, and authorized Company representatives, and then only for the purpose of advancing the business of the Restaurant;

(4) If Company loans Franchisee a copy of the Manual, Franchisee shall keep the Manual in the Restaurant at all times and shall promptly return it, all copies of any portions of it, and any other written, printed or electronic material constituting Trade Secrets or Confidential Information or copies thereof to Company upon the expiration of or termination of this Agreement; and

(5) If Franchisee, any Controlling Principal, or any of Franchisee’s employees develops any new concept, process, or improvement in the System, or the operation or promotion of the Restaurant, Franchisee shall promptly notify Company and provide Company with all necessary related information without compensation. These concepts, processes, and improvements shall become the property of Company, and Company may use or disclose the information as it determines. Franchisee shall execute such documentation as shall be deemed necessary by Company to grant exclusive ownership to Company. Franchisee’s use of any such concept, process, or improvement in the operation or promotion of the Restaurant is contingent upon Franchisee obtaining Company’s prior written approval.

E. OWNERSHIP OF DATA. Franchisee agrees that all data that it collects from customers or others in connection with the Restaurant is deemed to be owned by Company and cannot be sold or otherwise

transferred to any third party. Franchisee has the right to use the customer data while this Agreement or a renewal license agreement is in effect, but only in accordance with any privacy policy that Company may establish from time to time. Upon expiration or earlier termination of this Agreement, Franchisee must deliver to Company all customer data that Franchisee has compiled, and Company will have no obligation to provide any consideration in exchange for the customer data.

F. OWNERSHIP OF INNOVATIONS. As between the parties, Franchisee acknowledges and agrees that Company is the sole owner of all right, title, and interest in and to the Trade Secrets, the Confidential Information, the contents of the Manual, and the System. All improvements, developments, derivative works, enhancements, or modifications to any of the foregoing (collectively, “Innovations”) made or created by Franchisee, its employees or its contractors, whether developed separately or in conjunction with Company, shall be owned solely by Company. Franchisee represents, warrants, and covenants that its employees and contractors are bound by written agreements assigning all rights in and to any Innovations developed or created by them to Franchisee. To the extent that Franchisee, its employees or its contractors are deemed to have any interest in such Innovations, Franchisee hereby agrees to assign, and does assign, all right, title and interest in and to such Innovations to Company. To that end, Franchisee shall execute, verify, and deliver such documents (including, without limitation, assignments) and perform such other acts (including appearances as a witness) as Company may reasonably request for use in applying for, obtaining, perfecting, evidencing, sustaining, and enforcing such ownership rights in and to the Innovations, and the assignment thereof. Franchisee’s obligation to assist Company with respect to such ownership rights shall continue beyond the expiration or termination of this Agreement. In the event Company is unable for any reason, after reasonable effort, to secure Franchisee’s signature on any document needed in connection with the actions specified in this Section 9.F, Franchisee hereby irrevocably designates and appoints Company and its duly authorized officers and agents as Franchisee’s agent and attorney in fact, which appointment is coupled with an interest and is irrevocable, to act for and on Franchisee’s behalf to execute, verify, and file any such documents and to do all other lawfully permitted acts to further the purposes of this Section 9.F with the same legal force and effect as if executed by Franchisee. The obligations of this Section 9.F shall survive any expiration or termination of the Agreement.

G. CONTROLLING PRINCIPALS. If Franchisee is a corporation, partnership, limited liability company, or other legal entity, certain provisions of this Agreement, including, without limitation, the provisions of this Section 9, shall be binding upon and enforceable against each of its shareholders, partners, members or owners, as applicable, who have executed the addendum agreement at the end of this Agreement, (herein collectively, “Controlling Principals”). No assignment, transfer, conveyance, encumbrance or gift of any interest in Franchisee, this Agreement or the franchise granted hereby shall relieve Franchisee or Controlling Principals participating in any such transfer from liability under the confidentiality, noncompetition, and nonsolicitation provisions of this Agreement.

10. SALE, ASSIGNMENT, OR TRANSFER.

A. BY COMPANY. This Agreement and the rights, privileges, duties, and obligations hereunder arising are fully assignable by Company and shall inure to the benefit of any assignee or other legal successor to the interest of Company.

B. BY FRANCHISEE. Company has entered into this Agreement in reliance upon the qualifications of Franchisee, its guarantors, and the Controlling Principals and their commitment to open and operate the Restaurant, and the rights herein granted are personal to Franchisee. Consequently, without first obtaining the express written consent of Company and in accordance with the procedures set forth in this Section 10, Franchisee or any Controlling Principal may not sell, assign, or otherwise transfer any rights under this Agreement, any interest in the license and franchise hereby granted, or in Franchisee, or, prior to opening the Restaurant, in the equipment and trade fixtures of the business used by Franchisee in the operation of the Restaurant.

Any attempt to transfer any right under this Agreement or a majority interest in any entity holding an interest in this Agreement, without complying with the provisions of this Agreement, shall be null and void and shall give Company the right to terminate this Agreement and Franchisee's rights hereunder, in addition to any remedies Company may have for breach of this covenant because of the attempted transfer.

The term "transfer" is defined as any act or circumstance or series of acts or circumstances including, without limitation, any sale, assignment, pledge, mortgage, encumbrance, merger, consolidation, combination, restructure, or lease of the business or the assets used in the business, or other action by which ownership or control is shifted in whole or in part from one entity or person to another, including, if Franchisee is a corporation, any changes in the present ownership of the stock of the corporation (as of the Effective Date) or the issuance of additional stock of the corporation, and if Franchisee is a partnership, any change in or addition of partners.

C. CONDITIONS FOR APPROVAL OF TRANSFERS. Company will not unreasonably withhold its consent to a transfer. In evaluating a request for transfer, Company will consider, among other things, the qualifications, apparent abilities, and financial status of the proposed transferee. In addition, as a condition precedent to giving its consent, Company may require that any or all of the following conditions are satisfied:

(1) Franchisee gives Company not less than 45 days prior written notice of its intention to effect any such transfer;

(2) The transferee meets the financial and other qualifications of a new franchisee in accordance with Company standards then in effect, including receipt by Company of any required guaranty of a transferee's obligations;

(3) In the case of a transfer of this Agreement, Franchisee and the proposed transferee must sign, at Company's election, an assignment agreement (and any amendments to this Agreement deemed necessary or desirable by Company to reflect the transfer) and/or Company's then-current standard form of Standard Franchise Agreement for an initial term ending on the expiration date of the initial term of this Agreement, which may provide for rights and obligations different than those provided in this Agreement. There is no limitation on the extent to which the terms of the new Standard Franchise Agreement may differ from the terms of this Agreement. In either event, those persons designated by Company must execute a guarantee in the form prescribed by Company of transferee's obligations under the applicable Standard Franchise Agreement. With respect to any transfer (as defined above), Franchisee, the proposed transferor and the proposed transferee shall sign all other documents and take such actions as Company may require to protect Company's rights under this Agreement;

(4) Franchisee pays Company a transfer fee in the amount of \$7,500 for Buffet and \$2,500 for Delco and Express to cover Company's expenses in connection with evaluating and approving the request for transfer;

(5) The transferee and a minimum of 2 of its managers or other employees attend and satisfactorily complete the training program as provided in Section 6.A.(9) and pay the expenses specified in that paragraph;

(6) Franchisee pays all royalties, contributions, and trade obligations due Company and its affiliates and designated suppliers and distributors, or their successors, and any local advertising cooperative as of the date of transfer, and Franchisee is otherwise in compliance with all requirements of this Agreement;

(7) Franchisee or the proposed transferee agrees to remodel the Restaurant premises to conform with the then current building design, trade dress, color scheme, and presentation of the Proprietary

Marks, and to otherwise replace, upgrade, or modify signage, fixtures, décor, and equipment as may reasonably be required by Company;

(8) Franchisee, Controlling Principals and the guarantors of Franchisee's obligations under this Agreement agree to enter into a general release of any and all claims against Company and the Indemnitees, in a form satisfactory to Company;

(9) Company shall have approved the material terms and conditions of such assignment;
and

(10) All of the Manuals, related training and operations materials, and other training and operational aids and equipment are accounted for and present within the Restaurant premises.

Company's consent to or approval of a transfer of this Agreement or the Restaurant, or any interest in either, shall not be a representation or guaranty of the success or the potential for success of the Restaurant.

D. SUBFRANCHISING. Franchisee shall have no right whatsoever to subfranchise the franchise or sublicense rights to the Proprietary Marks, the Trade Secrets, or other elements of the System, or any interest therein.

E. USE AS COLLATERAL. Franchisee shall not pledge, assign, hypothecate, or otherwise use this Agreement or the license or franchise hereby granted, and no Controlling Principal shall pledge, assign, hypothecate, or otherwise use its interest in Franchisee, as collateral security for any debt, lease, or other obligation without Company's prior written consent, which will be conditioned upon Company's reaching an acceptable agreement with the secured obligee regarding transfer upon foreclosure and such other terms deemed important by Company.

F. INVOLUNTARY TRANSFER. No involuntary transfer or partitioning of Franchisee's interest in the licenses or franchise under this Agreement or the Restaurant, whether in connection with bankruptcy, insolvency, divorce, or other proceeding, will be effective against Company unless and until the transferee (i) agrees in writing to be jointly and severally liable for the payment of Franchisee's monetary obligations under this Agreement, and any advertising co-ops, whether or not such obligations are then delinquent, (ii) agrees in writing to be personally bound by the terms, conditions, and provisions of this Agreement, and (iii) complies with the provisions of this Section 10. In any event, such transfer shall be, notwithstanding anything to the contrary in this Agreement, subject to Company's acquisition rights under Section 15.

G. TRANSFER FOR CONVENIENCE OF OWNERSHIP. If Franchisee is an individual or a partnership, Company will consent to the transfer of this Agreement to a business entity that Franchisee forms for the convenience of ownership, provided that: (1) the entity has and will have no business other than the operation of Pizza Inn Restaurants; (2) Franchisee complies with the requirements in Sections 7.B.(26), 10.C.(3), 10.C.(6) and 10.C.(8); (3) if Franchisee is a partnership, the owners of the new entity are identical to the owners of Franchisee and hold equity interests in the new entity in the same proportion as their partnership interest in Franchisee; and (4) the top-level management of the Restaurant does not change. Franchisee will not be required to pay a transfer fee for a transfer under this Section 10.G.

H. DEATH. Upon the death of Franchisee (if Franchisee is a natural person) or any Controlling Principal who has a majority interest in this Agreement, the Restaurant or Franchisee (the "Deceased"), the executor, administrator or other personal representative of the Deceased shall transfer such interest to a third party approved by Company and subject to the *intervivos* transfer provisions of this Section 10 and, notwithstanding anything to the contrary in this Agreement, the Company's acquisition rights under Section 15 within 12 months after death. If no personal representative is designated or appointed or no probate

proceedings are instituted with respect to the estate of the Deceased, then the distributee of such interest is subject to the approval of Company pursuant to this Section 10. If Company does not approve the distributee, then the distributee shall transfer such interest to a third party approved by Company within 12 months after the death of the Deceased.

I. DISABILITY. Upon the permanent disability of Franchisee (if Franchisee is a natural person) or any Controlling Principal who has a majority interest in this Agreement, the Restaurant or Franchisee, Company may require that such interest be transferred to a third party in accordance with the conditions for transfers described in Section 10.C, within 6 months after notice to Franchisee. “Permanent disability” shall mean any physical, emotional, or mental injury, illness, or incapacity that would prevent a person from performing the obligations set forth in this Agreement or in the guaranty of this Agreement for at least 180 consecutive days and recovery from which condition within 18 days from the date of determination of disability is unlikely. Permanent disability shall be finally determined by a licensed practicing physician selected by Company, upon examination of the person, or, if the person refuses to submit to an examination, then such person automatically shall be deemed permanently disabled as of the date of such refusal for the purpose of this Section 10.I. Company shall pay the costs of any examination required by this Section.

J. NOTICE OF DEATH, DISABILITY. Upon the death or occurrence of permanent disability of Franchisee or any Controlling Principal, Franchisee or a representative of Franchisee must promptly notify Company of such death or occurrence of permanent disability.

K. SECURITIES OFFERINGS. Securities or partnership interests in Franchisee may not be offered to the public under the Securities Act of 1933, as amended, nor may they be registered under the Securities Exchange Act of 1934, as amended, or any comparable federal, state, or foreign law, rule, or regulation. A private offering may be made only with Company’s prior approval. All materials required for any such private offering by federal or state law shall be submitted to Company for review prior to being filed with any governmental agency (if applicable) and prior to issuance and use. No Franchisee offering shall imply (by the use of the Proprietary Marks or otherwise) that Company is participating in an underwriting, issuance, or offering of securities of Franchisee or Company, and Company’s review of any offering materials shall be limited solely to the subject of the relationship among Company, Franchisee, and its affiliates. Company may require that Franchisee’s offering materials include a statement concerning the limitations set forth in this Section 10.K. Franchisee and the Controlling Principals must indemnify Company and its affiliates, officers, directors, employees, attorneys, and shareholders in connection with the offering. For each proposed offering, Franchisee shall pay to Company \$1,500 to reimburse Company for its reasonable costs and expenses in reviewing the proposed offering. In addition, Franchisee, at its expense, must deliver to Company an opinion of Franchisee’s legal counsel (addressed to Company and in a form acceptable to Company) that the offering documents properly use the Proprietary Marks and accurately describe Franchisee’s relationship with Company and/or its affiliates.

11. DEFAULT BY FRANCHISEE.

If any of the events or conditions listed below (each an “Event of Default”) occurs and is not remedied at the expiration of the applicable notice period, if any, Franchisee shall be in default under this Agreement and Company may pursue remedies provided in Section 12. Company’s failure to take prompt action with respect to a particular Event of Default shall not constitute a waiver thereof, nor shall its express waiver of a particular Event of Default constitute a waiver of any concurrent or subsequent Event of Default. Certain Events of Default described below are not capable of being cured, and upon the occurrence of such an Event of Default, the Company shall be entitled to immediately pursue one or more of the remedies described in Section 12.

It shall be an Event of Default if:

A. Franchisee fails to submit to Company any weekly or monthly sales reports, monthly statements of operations and annual income statements, or other reports or information when due or requested, and Franchisee does not remedy such failure within 10 days after Company makes written demand upon Franchisee to do so;

B. Franchisee or any Controlling Principal breaches any provision in Section 9, or otherwise makes any unauthorized use of a Proprietary Mark, Confidential Information, or a Trade Secret and fails to remedy such breach or cease such use within 10 days after Company makes written demand to do so;

C. Franchisee asserts a claim to any Proprietary Mark, Trade Secret, or Confidential Information adverse to Company's interests and does not withdraw such claim within 10 days after Company makes written demand upon Franchisee to do so;

D. Franchisee fails to complete the requirements of Section 7.A. and/or open the Restaurant for business by the Opening Deadline or, if Company extends the Opening Deadline in accordance with Section 7.A. or as otherwise provided under this Agreement, upon the expiration of any such extension period;

E. Franchisee fails to comply with any requirement or perform any obligation in Section 7.B., other than Subsections (1), (5), and (22) thereof (which are governed by Section 11.D. or 11.K., as applicable), and does not remedy such failure within 30 days after Company gives Franchisee written notice of such failure;

F. Franchisee fails to consistently and properly prepare and offer high quality food products, follow Company recipes and operating standards, or use the Proprietary Products, and fails to remedy such defaults within 3 days of written notice of such defaults;

G. Franchisee or any Controlling Principal breaches any covenant or fails to perform any obligation or agreement in this Agreement, or in any other written agreement with Franchisor (other than those specified in this Section 11) and does not remedy such breach or failure within 30 days after written notice of such breach or failure;

H. Franchisee or its principals or any Controlling Principal pleads guilty or no contest to a felony, or otherwise engages in any activity or business practice that Company in good faith determines to be detrimental to the good will and public image of the System, or any Controlling Principal pleads guilty or no contest or is convicted of a felony or crime involving moral turpitude or any other crime or offense, unless Franchisee or such Controlling Principal is immediately bought out or removed as an equity owner of Franchisee;

I. Franchisee or any Controlling Principal shall, on 3 or more separate occasions within any 12-month period during the Term of this Agreement, fail to comply with any of the provisions of this Agreement, whether or not such Events of Default were corrected after written notice;

J. Franchisee fails to continue operating the Restaurant as provided in Subsection 7.B.(23);

K. Franchisee fails to pay within 5 days of the date due any financial requirement or obligation to which it has committed in this Agreement or elsewhere in writing to Company or its affiliates, or any advertising co-op;

L. Franchisee or any Controlling Principal breaches any provision in Section 14;

M. Franchisee or Franchisee's heirs, executors, or representatives in the event of an individual Franchisee's death or disability or any Controlling Principal fail to observe or comply with the requirements of Section 10 in connection with any purported sale, assignment, or transfer of any rights under this Agreement

or if Franchisee or any Controlling Principal or any guarantors of Franchisee makes a material misrepresentation in any financial statement or other report delivered to Company or in any representation or warranty made to Company;

N. Franchisee becomes insolvent, admits in writing the inability to pay Franchisee's debts as they mature, is adjudicated a bankrupt, voluntarily files a bankruptcy petition or a petition for reorganization under any provision of the Federal Bankruptcy Act, makes an assignment for the benefit of creditors or takes any other action pursuant to any federal or state insolvency statute, or if a receiver or trustee is appointed by a court of competent jurisdiction for all or any part of Franchisee's assets, or a judgment is entered against Franchisee that remains unsatisfied or unstayed for 30 days after such judgment is entered;

O. Franchisee fails to operate the Restaurant in strict compliance with all applicable local public health, safety and sanitation codes, regulations, laws and ordinances, or otherwise fails to maintain a high standard of cleanliness and consistent product quality as required by this Agreement or Company's operating, cleanliness, and/or product quality standards generally. In such instances, Company shall have the right to require that Franchisee immediately close the Restaurant until such time as Company is completely satisfied that all such public health, safety, and sanitation concerns or violations are remedied and shall not reoccur, or Company may terminate the Agreement where such concerns or violations have not been remedied or are, in Company's reasonable determination, egregious or likely to reoccur;

P. Franchisee fails to attend and complete the initial training program, or any required supplemental or refresher training program(s);

Q. Franchisee, any of Franchisee's affiliates, any of Franchisee's Controlling Principals, any of Franchisee's guarantors under this Agreement and/or any other entity that is a Pizza Inn franchisee and in which Franchisee or any of Franchisee's Controlling Principals have an ownership interest remains in default beyond the applicable cure period (if any) under: (1) any other agreement with Company or its affiliates, including, but not limited to, any Development Agreement or Standard Franchise Agreement; (2) any real estate lease, equipment lease or financing instrument relating to the Restaurant; or (3) any agreement with any vendor or supplier to the Restaurant, provided that if the default is not by Franchisee, Franchisee is given written notice of the default and 30 days to cure said default; and

R. Franchisee knowingly maintains false books or records, or knowingly submits false reports to Company, or knowingly misrepresents any material fact in any documentation submitted to the Company, including its application for this franchise.

12. TERMINATION BY COMPANY AND OTHER REMEDIES.

Upon Franchisee's failure to cure an Event of Default as provided in Section 11, Company may, subject to compliance with applicable legal notice or other requirements, if any, pursue any and all remedies available to Company at law or in equity, which remedies Franchisee expressly agrees are cumulative and pursuit of one or the other of such remedies will not constitute an election of remedies. Remedies include without limitation the right to:

A. Terminate Franchisee's rights under this Agreement and in the licenses and franchise hereby granted, whereupon Franchisee's right and privilege to use the Proprietary Marks and the Trade Secrets shall immediately, absolutely, and unconditionally cease. Upon termination or expiration of this Agreement, Franchisee shall immediately comply with the requirements of Section 13. Company shall be entitled to injunctive or similar relief to enforce Franchisee's compliance with such obligations;

B. Recover all royalty fees and other obligations, together with late payment and interest charges as provided in this Agreement or any other applicable contract, invoice, or statement owing to Company or its

affiliates, a fund, or a co-op, from Franchisee or from Franchisee's guarantors, with or without terminating Franchisee's rights hereunder;

C. Obtain injunctive relief and/or recover damages against Franchisee and/or any Controlling Principal for the unauthorized or violative use of any Proprietary Mark, Trade Secret, or Confidential Information, with or without terminating Franchisee's rights under this Agreement;

D. Obtain injunctive relief and/or recover damages from Franchisee and/or any Controlling Principal for the breach of any of the provisions of Section 14 with or without terminating this Agreement;

E. Recover all reasonable attorneys' fees and costs incurred by Company in pursuit of its rights or enforcement of any of the obligations of or restrictions upon Franchisee, any guarantor of Franchisee, or any Controlling Principal hereunder; and

F. Franchisee and each Controlling Principal jointly and severally agree to pay all costs and expenses (including reasonable attorneys' fees and fees for other engaged professionals) incurred by Company in successfully enforcing or obtaining any remedy arising from breach of this Agreement. The existence of any claims, demands, or actions that Franchisee may have against Company arising from this Agreement or otherwise shall not constitute defense to Company's enforcement of Franchisee's or any Controlling Principal's representations and warranties, agreements, or obligations herein.

13. POST-TERMINATION.

A. Upon expiration and non-renewal or termination of this Agreement, all rights hereunder granted or licensed to Franchisee shall end, and Franchisee shall:

(1) immediately cease to operate the Restaurant and shall not thereafter, directly or indirectly, represent or hold itself out to the public as a present or former franchisee of Company;

(2) pay Company all amounts owed to Company and its affiliates and designated suppliers and distributors, or their successors or assigns, plus late-payment penalties and interest, if any;

(3) immediately discontinue all use of the Proprietary Marks, Trade Secrets, Confidential Information, Manual and other elements of the System in connection with the Restaurant and of any and all items bearing the Proprietary Marks; remove the Proprietary Marks from the Restaurant and from clothing, signs, materials, motor vehicles and other items owned or used by Franchisee in the operation of the Restaurant (unless Company directs Franchisee to temporarily refrain from doing so while Company determines if it will exercise its option under Section 15); cancel all advertising for the Restaurant that contains the Proprietary Marks (including telephone directory listings); and take such action as may be necessary to cancel any filings or registrations for the Restaurant that contain any Proprietary Marks;

(4) relinquish all claims to the telephone number or numbers used in connection with the Restaurant and franchise business, and, if required by Section 15, take such steps necessary to transfer Franchisee's franchise business listings in the telephone white and/or yellow pages or any other directories to Company in accordance with Section 15.C.;

(5) cease use of and surrender and return to Company the Manual and all policy directories, advertising materials, forms, and written or electronic instructions and other materials copyrighted by Company and all copies thereof. Franchisee also must deliver to Company all customer data that Franchisee has compiled and uninstall any software that Company has provided. Franchisee is prohibited from selling or otherwise transferring to any third party any of the materials identified in this Section 13.A.(5), and Company will have no obligation to provide any consideration in exchange for any of those materials;

(6) maintain all books, records, and reports required by Company for a period of not less than 6 months from the date of termination or expiration to allow Company to make a final inspection of Franchisee's books and records for the purposes of verifying that all amounts owing have been paid and take all steps reasonably requested by Company in that regard;

(7) comply with the post-termination non-competition covenants set forth in Section 14; and

(8) pay to Company all damages, costs, and expenses, including reasonable attorneys' fees and court costs, incurred by Company in connection with successfully enforcing or obtaining any remedy available to Company and, subsequent to the termination or expiration of this Agreement, in obtaining injunctive or other relief for the enforcement of any provisions of this Section 13 or Section 14 or Section 15 of this Agreement.

(9) Unless Company directs Franchisee to maintain the existing appearance of the Restaurant location while Company determines if Company will exercise its option under Section 15, Franchisee must make modifications or alterations to the Restaurant location and the Restaurant immediately upon termination or expiration of this Agreement as necessary to prevent the operation of any business in violation of this Section and any specific additional changes that Company reasonably requests for that purpose and otherwise comply with Section 9.A.(7). Upon Company's request, Franchisee must return to Company, at Company's cost, any signage that Company specifies. If Franchisee fails to comply with this Section within 30 days following termination or expiration of this Agreement, Company has the right to enter the premises, without being guilty of trespass or any other tort, for the purpose of removing signs and any other articles that display the Proprietary Marks or Trade Dress. Franchisee agrees to reimburse Company on demand for Company's expenses in making such changes.

B. Except as otherwise provided in Section 13.B., if Company terminates this Agreement because of Franchisee's breach or if Franchisee terminates this Agreement without cause, Company and Franchisee agree that it would be difficult, if not impossible, to determine the amount of damages that Company would suffer due to the loss or interruption of the revenue stream that Company otherwise would have derived from Franchisee's continued payment of royalty fees, and the Brand Fund and any advertising cooperative (if any) would have otherwise derived from Franchisee's continued contributions thereto, through the remainder of the term of this Agreement. Therefore, Company and Franchisee agree that a reasonable estimate of such damages, less any cost savings that Company might have experienced ("Lost Revenue Damages"), is an amount equal to the net present value of the royalty fees, contributions to the Brand Fund and any advertising cooperative (if any) that would have become due had this Agreement not been terminated, from the date of termination to the scheduled expiration of the term of this Agreement ("Measurement Period"). For the purposes of this Section, Lost Revenue Damages will be calculated as follows: (a) the number of calendar months in the Measurement Period; multiplied by (b) the aggregate of the royalty fee, the Brand Fund and any advertising cooperative (if any) percentages; multiplied by (c) the average monthly Gross Sales of the Restaurant during the 12 full calendar months immediately preceding the termination date (or, if as of the effective date of termination, the Restaurant has not been operating for at least 12 full calendar months, Company will use the average monthly Gross Sales of all Pizza Inn Buffet Restaurants operating during that 12-month period).

Franchisee agrees to pay Company Lost Revenue Damages, as damages and not as a penalty, as calculated in accordance with this Section, within 15 days after the effective date of termination, or on any later date that Company determines. Company and Franchisee agree that the calculation described in this Section is a calculation only of the Lost Revenue Damages and that nothing will preclude or limit Company from proving and recovering any other damages caused by Franchisee's breach of this Agreement.

14. COMPETITION.

A. The terms contained in this Section 14 are the essence of this Agreement, and Company would not license Franchisee in the absence of such terms. In consideration of the terms of this Section 14 made by Franchisee and each Controlling Principal, Company agrees to train Franchisee in the use of the methods that it has developed at much expense for operating a franchise and to license to Franchisee the Proprietary Marks, Trade Secrets, and Confidential Information. Franchisee expressly agrees that use of such training and such information by Franchisee and any Controlling Principal in competition against Company or its franchisees during the Term of this Agreement and for a reasonable period thereafter would be unfair to Company and to the System and would result in irreparable damage to Company and the System. As an inducement to Company to make this Agreement, Franchisee and each of the Controlling Principals agrees they will not:

(1) while this Agreement is in effect, franchise, license, own or operate, or hold an interest in any capacity whatsoever, directly or indirectly, in any restaurant or food service outlet (other than additional Pizza Inn restaurants) serving primarily pizza or other Pizza Inn main menu items; and

(2) for a period of 2 years after the transfer, expiration or termination of this Agreement regardless of reason, franchise, license, own or operate, or hold an interest in any capacity whatsoever, directly or indirectly, in any restaurant or food service outlet (other than additional Pizza Inn Restaurants) serving primarily pizza or other Pizza Inn main menu items that is operated at the former Restaurant premises or other premises located within 3 miles of the former Restaurant premises, within the Protected Area, within 3 miles of the border of the Protected Area or within 3 miles of any other Pizza Inn Restaurant.

B. If the noncompetition covenants in this Section 14 are held by any court or other constituted legal authority to exceed enforceable duration, scope, or area, then Franchisee, each Controlling Principal, and Company agree to consider such noncompetition covenants as amended and modified with respect to that particular area or jurisdiction so as to comply with the order of any court or other constituted legal authority. As to all other areas or jurisdictions, the noncompetition covenants shall remain in effect as originally written.

C. Franchisee and each Controlling Principal acknowledge and agree that breach of the terms of this Section 14 would cause serious and irreparable injury to Company including the compromise of Trade Secrets and loss of competitive advantage, and that damages or other legal remedies for such breach are not fully adequate to compensate Company. Franchisee and each Controlling Principal understand that if Franchisee or any Controlling Principal breaches the provisions of this Section, Company may apply to a court of competent jurisdiction to seek an injunction ordering the immediate cessation of all activities that violate this Section 14, in addition to any other rights or remedies available to Company, including, but not limited to, recovery of lost profits and other damages as permitted by law.

15. COMPANY'S ACQUISITION RIGHTS UPON EXPIRATION, TERMINATION OR TRANSFER.

Upon expiration or termination of this Agreement, Company shall have the right, but not the obligation, to purchase from Franchisee, some or all of the Assets (as defined in Section 15.B.) and, upon Franchisee's notice of intent to transfer this Agreement, to acquire Franchisee's rights to this Agreement and the Restaurant on the following terms:

A. In the event Franchisee shall request an assignment and transfer of this Agreement and the Restaurant to a third party, Company or its designated nominee shall have the right of first refusal to acquire Franchisee's interest in this Agreement and the Restaurant. The price to be paid and terms of payment will be the same as would have been paid by the proposed transferee evidenced by a *bona fide* written offer from such proposed transferee. Provided however that Company shall have the option of substituting the cash equivalent of any *bona fide* third party offer, some or all of which may contemplate non-cash payments or consideration. Company shall designate an independent appraiser to calculate and conclusively establish such equivalence. If

within 10 days of the receipt of all information reasonably requested by Company, Company has not given written notice to Franchisee of its acceptance of such offer, Franchisee will be free to assign its rights hereunder, after obtaining Company's consent as required by this Agreement, provided such transfer is fully completed in accordance with the terms provided in the notice of proposed transfer, as soon as commercially practical thereafter. Modification, substitution or withdrawal by Franchisee of any term or condition of any offer communicated to Company shall, at Company's option, be considered a new offer, which may be accepted or rejected by Company according to the procedure described in this paragraph.

B. Upon the expiration or termination of this Agreement for any reason, Company will have the option to purchase from Franchisee some or all of the Assets. Company may exercise its option by giving written notice to Franchisee at any time following expiration or termination up until 30 days after the later of: (a) the effective date of expiration or termination; or (b) the date Franchisee cease operating the Restaurant. As used in this Section 15, "Assets" means, without limitation, equipment, vehicles, furnishings, fixtures, signs and inventory (non-perishable products, materials and supplies) used in the Restaurant, and the real estate fee simple or the lease or sublease for the Restaurant. Company will be entitled to the entry of interlocutory and permanent orders of specific performance by a court of competent jurisdiction if Franchisee fails or refuses to timely meet Franchisee's obligations under this Section 15. Company will have the unrestricted right to assign this option to purchase the Assets. Company or its assignee will be entitled to all customary representations and warranties that the Assets are free and clear (or, if not, accurate and complete disclosure) as to: (1) ownership, condition and title; (2) liens and encumbrances; (3) environmental and hazardous substances; and (4) validity of contracts and liabilities inuring to us or affecting the Assets, whether contingent or otherwise.

The purchase price for the Assets ("Purchase Price") will be their fair market value, (or, for leased assets, the fair market value of Franchisee's lease) determined as of the effective date of purchase in a manner that accounts for reasonable depreciation and condition of the Assets; provided, however, that the Purchase Price will take into account the termination of this Agreement. Further, the Purchase Price for the Assets will not contain any factor or increment for any trademark, service mark or other commercial symbol used in connection with the operation of the Restaurant nor any goodwill or "going concern" value for the Restaurant. Company may exclude from the Assets purchased in accordance with this Section any equipment, vehicles, furnishings, fixtures, signs, and inventory that are not accepted as meeting then-current standards for a Pizza Inn Restaurant or for which Franchisee cannot deliver a Bill of Sale in a form satisfactory to us.

If Company and Franchisee are unable to agree on the fair market value of the Assets within 30 days after the date Franchisee receive Company's notice expressing its intent to exercise its option to purchase the Assets, the fair market value will be determined by 2 professionally certified appraisers, one selected by Franchisee and one selected by Company. If the higher appraisal is more than 10% greater than the other appraisal, the 2 appraisers will select a third professionally certified appraiser who also will appraise the fair market value of the Assets. The average value set by the appraisers (whether 2 or 3 appraisers as the case may be) will be conclusive and will be the Purchase Price.

C. If Company exercises any of the options described in this Section 15, Franchisee shall deliver to Company, in form satisfactory to Company, such warranties, deeds, releases of lien, bills of sale, assignments, and other documents and instruments that Company deems necessary in order to perfect Company's title and possession in and to the properties being purchased or assigned and to meet the requirements of all tax and government authorities. If, at the time of closing, Franchisee has not obtained all of these certificates and other documents, Company may elect to pay the purchase price into escrow pending Company's receipt of any required certificates, documents, or instruments.

D. If Company acquires Franchisee's interest in the Restaurant pursuant to the process outlined in this Section 15, at Company's option, Franchisee shall assign to Company or its designee all rights to the telephone numbers for the Restaurant and any related telephone directory listings, as well as all rights to any

Internet web site, listing, service, search engines, or systems and any other business listings related to the Restaurant. Franchisee shall execute all forms and documents required by Company, the telephone company, the Internet service provider, or other third party to transfer such services and listings to Company or its designee. In addition to any power of attorney signed or granted by Franchisee to Company under this Agreement, Franchisee hereby appoints Company as its true and lawful agent and attorney-in-fact with full power and authority, for the sole purpose of taking all action necessary to complete such assignments.

16. NOTICES TO FRANCHISEE.

Any and all notices and other communications that may be required or permitted hereunder shall be in writing and, unless otherwise expressly provided herein to the contrary, either (i) delivered in person, (ii) sent by registered or certified mail, return receipt requested, postage prepaid, (iii) sent by reputable overnight courier, or (iv) sent by e-mail or telecopy transmission (with hard copy promptly sent by registered or certified mail, return receipt requested, postage prepaid, or by reputable overnight courier) to the parties at their respective addresses or telecopy numbers set forth below, or to such other addresses or telecopy numbers as may be specified by written notice delivered to the other party in accordance herewith. Notices and other communications given as provided herein shall be deemed received (i) if personally delivered, then on the date of delivery; (ii) if mailed, then on the date of delivery indicated on the return receipt; (iii) if sent by overnight courier, then on the date of delivery as indicated on the signed airbill; and (iv) if sent by e-mail and telecopy (and followed with a hard copy), then on the date such notice or communication is sent electronically or telecopied. Notices to Franchisee shall be delivered to:

If to Franchisee:

To the Restaurant OR

17. NOTICES TO COMPANY.

Any and all notices and other communications that may be required or permitted hereunder shall be in writing and, unless otherwise expressly provided herein to the contrary, either (i) delivered in person, (ii) sent by registered or certified mail, return receipt requested, postage prepaid, (iii) sent by reputable overnight courier, or (iv) sent by e-mail or telecopy transmission (with hard copy promptly sent by registered or certified mail, return receipt requested, postage prepaid, or by reputable overnight courier) to the parties at their respective addresses or telecopy numbers set forth below, or to such other addresses or telecopy numbers as may be specified by written notice delivered to the other party in accordance herewith. Notices and other communications given as provided herein shall be deemed received (i) if personally delivered, then on the date of delivery; (ii) if mailed, then on the date of delivery indicated on the return receipt; (iii) if sent by overnight courier, then on the date of delivery as indicated on the signed airbill; and (iv) if sent by e-mail and telecopy (and followed with a hard copy), then on the date such notice or communication is sent electronically or telecopied. Notices to Company shall be delivered to:

If to Company:

Pizza Inn, Inc.
3551 Plano Parkway
The Colony, TX 75056
Fax: 469.384.5055
Attn: Legal Department

18. PARTIAL INVALIDITY.

The provisions of this Agreement are severable. If any provision hereof is held illegal, invalid, or unenforceable, such holding will not affect the legality, validity, or enforceability of any other provision. If such a provision is not modified or revised, any such illegal, invalid, or enforceable provision shall be deemed stricken as if never contained herein, but all other provisions shall continue in full force and effect.

19. STATUS OF PARTIES.

It is understood between the parties that Franchisee shall be an independent contractor and is in no way authorized to make any contract, agreement, warranty, or representation on behalf of Company or to create any obligation, expressed or implied, on behalf of Company. No agency, employment, or partnership is created or implied by the terms of this Agreement, and Franchisee is not and shall not hold itself out as agent, legal representative, partner, subsidiary, joint venturer or employee of Company or its affiliates or a joint employer with Company or its affiliates. Franchisee shall have no right or power to, and shall not, bind or obligate Company or its affiliates in any way or manner, nor represent that Franchisee has any right to do so. In all public records and in Franchisee's relationship with other persons, on stationery, checks, and other business forms Franchisee shall indicate independent ownership of the Restaurant and that it is operated under a franchise granted by Company. Company shall have no control over the terms and conditions of employment of Franchisee's employees.

20. BINDING EFFECT.

This Agreement shall be binding upon and inure to the benefit of Company and its successors and assigns. This Agreement shall be binding upon Franchisee, each Controlling Principal, and their respective successors, assigns, heirs, executors, and other personal representatives; however, nothing in this Agreement is intended nor shall be deemed to confer upon any person or legal entity other than Franchisee any rights, benefits, or remedies hereunder, except to any permitted transferee or assignee approved by Company in accordance with the requirements of Section 10 hereof.

21. GOVERNING LAW AND VENUE.

THIS AGREEMENT SHALL FOR ALL PURPOSES BE GOVERNED BY, INTERPRETED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS (WITHOUT REGARD TO TEXAS CHOICE OF LAW RULES). THE PARTIES AGREE THAT, TO THE EXTENT ANY DISPUTES CANNOT BE RESOLVED DIRECTLY BETWEEN THEM, FRANCHISEE MUST FILE ANY SUIT AGAINST COMPANY ONLY IN THE FEDERAL OR STATE COURT HAVING JURISDICTION IN COLLIN COUNTY, TEXAS OR IN THE COUNTY IN WHICH COMPANY'S CORPORATE OFFICES ARE LOCATED. COMPANY MAY FILE SUIT IN THE FEDERAL OR STATE COURT LOCATED IN COLLIN COUNTY, TEXAS, IN THE JURISDICTION WHERE COMPANY'S PRINCIPAL OFFICES ARE LOCATED AT THE TIME SUIT IS FILED, IN THE JURISDICTION WHERE FRANCHISEE RESIDES OR DOES BUSINESS, WHERE THE RESTAURANT IS OR WAS LOCATED, OR WHERE THE CLAIM AROSE. FRANCHISEE CONSENTS TO THE PERSONAL JURISDICTION OF THOSE COURTS OVER FRANCHISEE AND TO VENUE IN THOSE COURTS.

22. VARIOUS FORMS OF AGREEMENTS.

Franchisee acknowledges that present franchisees of Company and area developers operate under a number of different forms of Standard Franchise Agreement, and consequently Company's obligations and rights with respect to its franchisees may differ materially in certain instances.

23. NO WAIVER.

No failure of Company to exercise any power given to it hereunder, or to insist on strict compliance by Franchisee with any obligation or condition hereunder, and no custom or practice of the parties at variance with the terms of this Agreement shall constitute a waiver of Company's right to demand exact compliance with the terms of this Agreement. Waiver by Company of any particular Event of Default by Franchisee shall not affect or impair Company's rights with respect to any subsequent default of the same or a different nature, nor shall any delay or omission of Company to exercise any rights arising from a default affect or impair Company's rights as to said default or any subsequent default.

24. REPRESENTATIONS AND WARRANTIES.

The following representations and warranties are hereby made to Company:

A. By Franchisee, if Franchisee is a legal entity:

(1) Franchisee is duly formed, validly existing, and in good standing under the laws of its state of organization and is duly authorized and shall maintain such authorization to conduct business in the state in which the Restaurant is located; and

(2) The execution and delivery of, and the observance, performance, and fulfillment of the covenants, terms, agreements, provisions, and conditions of this Agreement are within its powers under its organizational documents and have been duly authorized by all necessary legal action, and do not and will not during the Term of this Agreement contravene its governing documents or any contractual restriction binding on Franchisee.

(3) The financial statements delivered to Company at any time and from time to time accurately reflect the financial condition of Franchisee and/or each Controlling Principal as of the date thereof; and

B. By Franchisee and each Controlling Principal if Franchisee, and/or any Controlling Principal is a corporation or a partnership:

(1) No action, suit, or proceeding is pending or threatened against Franchisee or such Controlling Principal before any court, board of arbitration, or administrative agency that could result in any material adverse change in Franchisee or its business or condition (financial or otherwise), except as previously disclosed to Company;

(2) No other person or entity holds any right, title, or interest in Franchisee, its stock or its assets except as previously disclosed in writing to Company.

(3) Franchisee is obtaining the Restaurant for the purposes of the operation of a franchise business and there is no present intent to sell or transfer its business.

C. By each individual who is a Franchisee, a guarantor, or any Controlling Principal:

(1) The personal financial statements delivered to Company accurately reflect the financial condition of Franchisee, guarantor, and each Controlling Principal, as of the date thereof;

(2) No event has occurred that could or might result in any material adverse change in such person's financial condition except as previously disclosed to Company; and

(3) No other person or entity holds any right, title, or interest in or to the franchise granted, this Agreement, or to the assets to be used in connection with the Restaurant except as previously disclosed in writing to Company.

25. AREA DEVELOPER.

Upon notice from Company that area development rights have been sold by Company to an area developer for the territory in which the Restaurant is located, Franchisee shall consider such area developer as entitled to the same rights and performance as due from Franchisee to Company hereunder. Upon notice from Company to Franchisee that the rights of such area developer have been terminated, Franchisee shall deal directly with Company regarding all matters under this Agreement. In the event of any conflicting directions or instructions given by Company and any area developer (or anyone claiming under or through such area developer), Franchisee must promptly comply with directions of Company and not those of the area developer.

26. MISCELLANEOUS.

A. As used herein, the terms "Franchisee" and "Controlling Principal" shall include the plural as well as the singular, the masculine and feminine genders and corporations, partnerships, and other business entities as well as individuals.

B. This Agreement contains the entire agreement between the parties with respect to the subject matter hereof and supersedes any prior or contemporaneous agreements, discussions or understandings between the parties, written or oral, with respect to such subject matter; provided that nothing in this Agreement or any other related agreement is intended to disclaim the representations that Company made in the Disclosure Document (defined below) furnished to Franchisee.

C. The Franchise Disclosure Document ("Disclosure Document") that was presented to Franchisee by Company before execution of this Agreement is neither part of this Agreement nor part of any prior negotiations. Rather, it is an explanatory document that is (or may be) required by law. In case of conflict between this Agreement and the Disclosure Document, this Agreement will control.

D. This Agreement may not be amended, modified, or rescinded, or any performance requirement waived, except by a written agreement executed by Company and Franchisee.

E. All payments by Franchisee hereunder shall be made by, at Company's election, check, EDT Account, or wire transfer, payable solely to Company's order.

F. If any party's performance of any obligation under this Agreement is prevented, hindered, or delayed because of *force majeure* and not through any act or omission of such party that cannot be overcome by use of normal commercial measures, the parties shall be relieved of their respective obligations to the extent the parties are respectively necessarily prevented, hindered, or delayed in performance during the period of *force majeure*; however, Franchisee shall continue to be obligated to perform all of its monetary obligations under this Agreement. As used in this Agreement, the term "*force majeure*" shall mean any act of God, strike, lock-out or other industrial disturbance, war (declared or undeclared), riot, epidemic, fire or other catastrophe, extraterrestrial invasion, act of any government (including rejection of any license application) and any other similar cause not within the control of the affected party. The party whose performance is affected by an event of *force majeure* shall give prompt notice of the *force majeure* event to the other party in the manner provided

in Section 18, setting forth the nature of the event an estimate as to its duration and a plan for resuming compliance with this Agreement, which the party shall promptly undertake and maintain with due diligence.

Each section, part, term, and provision of this Agreement shall be considered severable. If for any reason, any section, part, term, or provision herein is determined to be invalid and contrary to, or in conflict with, any existing or future law or regulation of a court or agency having valid jurisdiction, such shall not impair the operation or affect the remaining portions, sections, parts, terms, or provisions of this Agreement, and the latter will continue to be given full force and effect and bind the parties hereto. Invalid sections, parts, terms, or provisions shall be deemed not to be a part of this Agreement.

G. Company shall be entitled to use reasonable business judgment in the exercise of its rights, obligations, and discretion under this Agreement except where otherwise indicated herein. "Reasonable business judgment" means that Company's determination shall prevail even in cases where other alternatives are also reasonable so long as Company intends to benefit or is acting in a way that could benefit the System by enhancing the value of the Proprietary Marks, increasing customer satisfaction, or minimizing possible customer brand or location confusion. Company shall not be required to consider Franchisee's particular circumstances when exercising its reasonable business judgment. At no time is Franchisee or any third party (including, but not limited to, any third party acting as a trier of fact) entitled to substitute Franchisee's or its judgment for a judgment that has been made by or on behalf of Company and that meets the definition of reasonable business judgment in recognition of the fact that the long-term goals of a franchise system, and the long-term interests of Company, the System, and all franchise owners, taken together, require that Company have the latitude to exercise reasonable business judgment.

H. FRANCHISEE ACKNOWLEDGES THAT NO REPRESENTATION, WARRANTY, GUARANTY, OR PROMISE, OR SALES OR INCOME PROJECTION OTHER THAN THOSE EXPRESSLY SET FORTH IN THIS AGREEMENT OR THE DISCLOSURE DOCUMENT WAS MADE BY COMPANY OR ANY OTHER PERSON TO INDUCE FRANCHISEE'S EXECUTION OF THIS AGREEMENT. FRANCHISEE RECOGNIZES THAT NEITHER COMPANY NOR ANY OTHER PARTY CAN GUARANTEE FRANCHISEE'S BUSINESS SUCCESS OR STATE THE EXACT COSTS OF OPENING AND OPERATING A RESTAURANT, AND THAT SUCH SUCCESS AND COSTS WILL DEPEND PRIMARILY UPON FRANCHISEE'S OWN EFFORTS AND BUSINESS ABILITY. FRANCHISEE ALSO RECOGNIZES THAT THE RESULTS OF OPERATIONS OF RESTAURANTS OTHER THAN ITS OWN MAY NOT BE COMPARABLE TO THE OPERATING RESULTS OF THE RESTAURANT AND THAT ANY NEW BUSINESS VENTURE IS SPECULATIVE.

I. FRANCHISEE FURTHER ACKNOWLEDGES THAT IT RECEIVED THE DISCLOSURE DOCUMENT NOT LESS THAN 14 CALENDAR DAYS PRIOR TO THE DATE OF EXECUTION OF THIS AGREEMENT BY FRANCHISEE.

J. FRANCHISEE ACKNOWLEDGES THAT HE HAS READ THIS AGREEMENT CAREFULLY AND HAS BEEN ADVISED BY A COMPANY REPRESENTATIVE TO DISCUSS ITS PROVISIONS WITH AN ATTORNEY OF FRANCHISEE'S CHOICE PRIOR TO ITS EXECUTION BY FRANCHISEE.

K. FRANCHISEE IS ADVISED NOT TO COMMIT TO OR INCUR ANY EXPENSE OR OBLIGATION WITH RESPECT TO THE PROPOSED RESTAURANT OR RELATED BUSINESS THAT IS THE SUBJECT OF THIS AGREEMENT UNTIL FRANCHISEE HAS RECEIVED A FULLY EXECUTED COPY OF THIS AGREEMENT FROM COMPANY.

L. This Agreement may be executed in any number of counterparts, each of which, when executed and delivered, is an original, but all counterparts together constitute one and the same instrument.

27. COMPANY'S ACCEPTANCE; CLOSING PROCEDURE.

Franchisee shall deliver to Company 2 counterparts of this Agreement, executed by Franchisee and all Controlling Principals, together with the Initial Franchise Fee, within 30 days after delivery from Company. Such transmittal to Company by Franchisee of this Agreement, together with the Initial Franchise Fee, shall be deemed to constitute Franchisee's offer to contract with Company as specified herein. This Agreement and the franchise provided for herein shall not be effective and binding on Company and shall not confer any rights upon Franchisee unless and until Company accepts this Agreement, by signature of its President or other authorized representative. In the event of acceptance by Company, Company shall insert the Effective Date on the first page of this Agreement. If Company decides not to accept this Agreement, Company shall so notify Franchisee and shall return the Initial Franchise Fee (less any applicable credit from the Development Fee (if applicable) to Franchisee.

EXECUTED BY FRANCHISEE THIS __DAY OF _____, 202__.

[If legal entity:]

[If individual(s):]

(COMPANY NAME)

By: _____

Name

Name Printed: _____

Name

Title: _____

Name

AGREEMENT BY CONTROLLING PRINCIPALS OF FRANCHISEE

Each of the undersigned acknowledges and agrees as follows:

1. Each is included in the term “Controlling Principals” as defined in Section 9.F. of this Agreement; and
2. Each represents that as a Controlling Principal, she, he, or it exercises, or has the capacity to exercise, influence and control over the business decisions of Franchisee relative to operation of the Restaurant, and that in such capacity has access, directly or indirectly, to the Trade Secrets, Confidential Information, contents of the Manual, and other information used in the operation of the Restaurant; and
3. Each has read and understands the terms and conditions of this Agreement, acknowledges that she, he, or it will benefit directly or indirectly from the execution thereof and acknowledges and understands that the undertakings of the Controlling Person in this Agreement are in partial consideration for and a condition of Company approving Franchisee as a franchisee of the Company and entering into this Agreement, and that Company would not have granted the franchise without such undertakings by each of the undersigned; and
4. Each of the undersigned understands and agrees that, by her, his, or its signature below, the undersigned intends to comply with and to be bound by the confidentiality, non-disclosure, and non-competition covenants in Sections 9, 13, and 14 during the Term of this Agreement and thereafter for as long as such provisions shall apply and be enforceable by Company; and
5. Each of the undersigned understands and agrees that this Agreement by Controlling Principals of Franchisee is not a guarantee of financial or other performance by the Franchisee other than as may be specifically set forth to the contrary in the Agreement; and
6. Each, intending to be legally bound hereby, is executing this Agreement for the purpose of binding and obligating herself, himself, or itself to the undertakings, representations, and warranties stated in this Agreement as being made by each Controlling Person.

Name:_____

Address:_____

Name:_____

Address:_____

Name:_____

Address:_____

Name:_____

Address:_____

EXECUTED BY COMPANY AT THE COLONY, TEXAS THIS ____ DAY OF _____,
202____.

PIZZA INN, INC.

By: _____

Name: _____

Title: _____

LOCATION ACCEPTANCE FORM

NOTICE: UNTIL THE COMPANY HAS SIGNED THIS LOCATION ACCEPTANCE FORM, YOU SHOULD NOT SIGN ANY LEASE, REAL ESTATE CONTRACT, CONSTRUCTION CONTRACT, OR NOTE UNLESS THE CONTRACT CONTAINS A CLAUSE PERMITTING YOU TO WITHDRAW FROM THE CONTRACT IF THE COMPANY DOES NOT ACCEPT THE LOCATION. YOU SHOULD NOT START CONSTRUCTION UNTIL THE COMPANY HAS ACCEPTED YOUR FINAL DRAWINGS IN WRITING. ANY ACTION TAKEN BY YOU PRIOR TO THE COMPANY'S ACCEPTANCE OF A SUBMITTED LOCATION SHALL BE AT YOUR OWN RISK AND EXPENSE.

Franchisee requests that the Company accept the following location ("Location") to be developed and operated by Franchisee as a Pizza Inn (Buffet, Delco or Express) restaurant, pursuant to the Franchise Agreement to which this Location Acceptance Form is attached and made a part of ("Agreement").

Location (full address and description):

Service Concept:

Buffet (FS or SSB) _____

DELCO _____

Express _____

Free Standing

In Line _____

C-Store _____

Other (specify) _____

Franchisee certifies that Franchisee is in full compliance with all terms of the Franchise Agreement and that no representation, promise, guarantee or warranty was made with respect to the Location, except as expressly stated in the Franchise Agreement.

Acceptance of the Location by the Company is only valid for 180 days from date of this Location Acceptance Form. If the accepted Location has not been leased or purchased by the end of such 180-day period, a new Location Acceptance Form must be submitted for approval.

FRANCHISEE HEREBY ACKNOWLEDGES AND AGREES THAT THE COMPANY'S ACCEPTANCE OF A PROPOSED LOCATION AND ANY INFORMATION IMPARTED TO FRANCHISEE REGARDING THE PROPOSED LOCATION SHALL NOT CONSTITUTE A WARRANTY OR REPRESENTATION OF ANY KIND, EXPRESS OR IMPLIED, AS TO THE POTENTIAL FOR SUCCESS OF A PIZZA INN RESTAURANT AT THE PROPOSED LOCATION. FRANCHISEE ACKNOWLEDGES THAT RESTAURANTS AT SITES ACCEPTED BY THE COMPANY MAY NOT BE SUCCESSFUL - WHETHER DUE TO THE LOCATION OR FOR OTHER REASONS.

The undersigned Franchisee understands and agrees that if this proposed location is not accepted by the Company as provided in the Franchise Agreement, or if the undersigned Franchisee otherwise fails to develop and open the Restaurant as required by the Franchise Agreement, the Company may terminate the Franchise Agreement and any fees paid will thereupon be forfeited.

Acceptance of the Location by the Company is contingent upon satisfaction of the following

conditions:

1. Written acceptance by the Company of the remodel or building plans, both interior and exterior.
2. Written acceptance by the Company of the site plan, including building location and parking.

EXECUTED BY FRANCHISEE THIS _____ DAY OF _____, 20__.

If corporation or partnership:

If individual(s):

By: _____

Name

Name Printed: _____

Name

Title: _____

LOCATION ACCEPTED AND THIS FORM EXECUTED BY COMPANY AT THE COLONY,
TEXAS THIS _____ DAY OF _____, 20__.

PIZZA INN, INC.

By: _____

Name:

Title:

EXHIBIT A

PRIMARY AREA OF RESPONSIBILITY

Buffet; Delco; Express

EXHIBIT B

FRANCHISEE-SPECIFIC TERMS

Protected Area

The Protected Area is: _____

The Protected Area also may be depicted on a map and, if so, the map will be attached to the Standard Franchise Agreement. Whether or not a map is attached, the preceding description of the Protected Area will be controlling.

Franchisee's rights in the Protected Area are subject to the limitations described in Section 4.A. of the Standard Franchise Agreement. Any political boundaries contained in the description of the Protected Area will be considered fixed as of the Effective Date and will not change notwithstanding a change in those boundaries. Unless otherwise specified, all street boundaries are deemed to include only the inside portion of the stated boundary.

EXHIBIT C
DEVELOPMENT AGREEMENT



PIZZA INN RESTAURANT DEVELOPMENT AGREEMENT

Name: _____

Type of Restaurant:

_____ BUFFET

Effective Date: _____

PIZZA INN, INC. (BUFFET)
DEVELOPMENT AGREEMENT
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EXHIBIT A – Development Information

PIZZA INN RESTAURANT DEVELOPMENT AGREEMENT

THIS DEVELOPMENT AGREEMENT is entered into by and between Pizza Inn, Inc. ("Company") and _____ ("Developer") effective as of _____, 202____ (the "Effective Date") for the development and operation of PIZZA INN restaurants ("Restaurants") pursuant to franchise or license (as applicable) agreements on the terms set forth herein.

1. RECITALS

Company has developed a distinctive format, appearance and set of specifications and operating procedures relating to the development, establishment and operation of Pizza Inn Buffet restaurant (each a "Restaurant") featuring pizza and related foods and beverages (collectively, the "System").

The System identified by means of certain names, marks, logos, insignias, slogans, emblems, symbols and designs that Company has designated, or may in the future designate, for use with the System. Company may modify from time to time the Proprietary Marks used to identify the System, including the principal Proprietary Marks. Company has also developed certain operating procedures and recipes and formulas that are Company's proprietary trade secrets (collectively the "Trade Secrets"). Company grants franchises to use the Proprietary Marks and Trade Secrets in connection with the operation of restaurants, and Developer desires to obtain such a franchise. Developer acknowledges that (i) the value of rights granted under this Agreement and generally described in this Section 1 and that Company has created substantial goodwill through the System, (ii) Company has a unique, easily recognizable restaurant design, (iii) all manuals and operations systems made available to the Developer contain copyrighted materials and trade secrets, (iv) no person, firm, corporation, or organization, including Developer, has any right whatsoever to reproduce, copy, or imitate Company's business concepts, and (v) Company intends to control the use of the System, Trade Secrets, and Proprietary Marks for the benefit and exclusive use of itself and its Developers, in order to identify the System to the public as representing the highest standards of quality and service.

2. GRANT OF DEVELOPMENT RIGHTS AND RESERVATION OF RIGHTS

A. Subject to the terms and conditions of this Agreement, Company hereby grants to Developer and Developer hereby accepts the right and obligation to develop Restaurants at the locations or within the geographic area described in Exhibit A, subject to rights reserved by Company as herein set forth. The development rights shall be exercised following satisfaction of the conditions set forth in Section 4.C, and in the manner and according to the development schedule ("Development Schedule") set forth in Section 4.D.

B. Developer acknowledges and agrees that the rights granted herein pertain only to the development of Restaurants and that this Agreement does not confer upon Developer a right, license, or franchise to establish or operate any Restaurant. This Agreement is intended by the parties to set forth the terms and conditions that, if fully satisfied by Developer, shall entitle Developer to obtain franchise license agreements for the establishment of Restaurants at the locations or within the territory defined herein. This Agreement is not a franchise license agreement and does not grant to Developer any right or license to operate a Restaurant, distribute goods or services, or any rights to or interests in the Proprietary Marks. Developer further acknowledges and agrees that the rights and license conveyed by this Agreement are personal to Developer and that Company has granted such rights and license in reliance on the representations and warranties of Developer and its Controlling Principals (as defined in Section 8). Developer and each Controlling Principal have represented to Company that they have entered into this Agreement for the purpose and with the intention to fully comply with the Restaurant development obligations herein.

C. Developer further acknowledges and agrees that this Agreement does not grant or license to Developer any protected or exclusive location or development territory unless identified locations or territory are specifically set forth in the development schedule in Section 4.D. Notwithstanding the grant or license of

the rights described herein, Company retains the right:

(1) to develop and operate, and to license to others the rights to develop and operate, Restaurants and other points of sale under the Proprietary Marks or other trademarks, trade names, or service marks at any location outside of any exclusive geographical territory that may be granted to Developer herein; and

(2) to offer and sell, and to license others to offer and sell, within and without any exclusive geographical territory that may be granted to Developer herein, any similar and dissimilar products and services, whether identified by the Proprietary Marks or by other trademarks, trade names, or service marks, through any channel or by any means or method of distribution other than a Pizza Inn Restaurant (including, without limitation, through the Internet or other electronic means), on such terms as Company may deem appropriate; and

(3) to offer and sell, and to license others to offer and sell, within and without any exclusive geographical territory that may be granted to Developer herein, similar or dissimilar products and services through non-traditional points of sale. The term “non-traditional point of sale” includes, without limitation, a food court, mall, cafeteria, office building, school (including universities and colleges), hotel, stadium or other athletic venue, military facility, or fair grounds.

3. FEE

Initial Franchise Fee

The initial franchise or license fee (as applicable) (“Initial Franchise Fee”) is (i) \$30,000 for a Buffet Restaurant; less any applicable credit from the Development Fee (as described in the following paragraph). The Initial Franchise Fee for the first Restaurant to be developed pursuant to this Agreement must be paid at the time this Agreement is executed. The Initial Franchise Fee for the second and each subsequent Restaurant developed hereunder must be paid as provided in Section 4.A. Company will refund the entire Initial Franchise Fee if it does not accept the applicable Franchise Agreement that you have signed. The Initial Franchise Fee is not refundable under any other circumstances.

Development Fee

With respect to each Restaurant that Developer agrees to develop in the Development Territory during the term of this Agreement, in addition to the Initial Franchise Fee, Developer must pay Company, at the time that this Agreement is executed, a development fee equal to (i) \$15,000 for a Buffet Restaurant; Company will apply the Development Fee as a credit against the Initial Franchise Fee due under each Franchise Agreement executed pursuant to this Agreement (subsequent to the first Franchise Agreement), subject to a maximum credit under the Franchise Agreement of (i) \$15,000 for a Buffet Restaurant;. The total amount of the Development Fee paid by Developer is set forth in Exhibit A. Developer acknowledges and agrees that the Development Fee is fully earned by Company when paid, it is not refundable (except as provided in Section 15), and, except as provided in this Section, is not credited against any other fees to be paid to Company.

4. EXERCISE OF DEVELOPMENT RIGHTS

A. Developer shall exercise the development rights granted herein by entering into a separate Franchise Agreement for each Restaurant. With respect to each Restaurant, Developer must execute the Franchise Agreement and, with respect to the second and each subsequent Restaurant developed hereunder, pay the Initial License Fee by the first to occur of Company’s acceptance of the applicable location or 90 days prior to the expiration of the applicable Development Period. With respect to each Restaurant, the form of Franchise Agreement will be the then-current standard form in general use at the time of site acceptance, except that the initial franchise fee shall be determined as provided in Section 3.

B. Prior to developing a Restaurant, Developer shall apply to Company for the license and franchise to operate a Restaurant. If Company determines that Developer has complied with each of the requirements set forth in Section 4.C. (collectively the “Conditions”) then Company will grant Developer a license for a Restaurant.

C. The Conditions are as follows:

(1) Developer is in compliance with the Development Schedule in Section 4.D., below, and all other terms of this Agreement. Developer and its affiliates are in compliance with any other development agreement or franchise agreement with Company and its affiliates. Developer is operating its existing Restaurants, if any, and is capable of operating the proposed Restaurant in compliance with (i) the terms of this Agreement, (ii) the terms of the respective franchise agreements, and (iii) System standards, specifications, and procedures set forth in the Manual, as amended from time to time.

(2) (i) Developer and the Controlling Principals satisfy Company’s then current financial criteria for developers and controlling principals of Restaurants with respect to Developer’s then operating Restaurants, if any, and the proposed Restaurant, (ii) Developer and the Controlling Principals have been diligently performing all terms and conditions under each of the existing franchise agreements, if any, and (iii) Developer is not in default, and has not been in default during the 12 months immediately preceding Developer’s request for financial approval to develop a Restaurant, of any monetary obligations owed to Company and its affiliates under any franchise agreement or other agreement between Developer and its affiliates and Company and its affiliates. Developer acknowledges and agrees that it is vital to Company’s interest that each of its franchisees be financially capable and sound to avoid failure of a Restaurant and such failure would adversely affect the reputation and good will of Company and the System.

(3) Developer has submitted to Company in a timely manner all information and documents requested by Company prior to and as a basis for the issuance of a franchise agreement or pursuant to any right granted to Company by this Agreement or by any franchise agreement between Developer and Company, and has taken such additional actions in connection therewith as may be requested by Company from time to time.

D. Acknowledging that time is of the essence, Developer agrees to exercise its development rights according to Section 4.A. and 4.C., and the Development Schedule below. The Development Schedule designates the number of Restaurants to be established and in operation by Developer upon expiration of each of the designated development periods (“Development Periods”).

Development Period	Expiration Date of Development Period	Cumulative number of Restaurants to be open and operating
1		
2		
3		

During any of the Development Periods, Developer may, subject to the terms and conditions of this Agreement and with Company’s written approval, develop more than the total minimum number of Restaurants that Developer is required to develop during that Development Period. Any Restaurants developed during a Development Period in excess of the minimum required to be developed shall be applied to satisfy Developer’s development obligation during the next Development Period, if any. However, Developer shall not open more than the cumulative total number of Restaurants required to be opened pursuant to the Development Schedule.

E. If during the term of this Agreement, Developer ceases to operate any Restaurant developed under this Agreement for any reason, Developer shall develop a replacement Restaurant to maintain compliance with Developer's development obligations under this Agreement. The replacement Restaurant shall be developed and open within 90 days after the original Restaurant ceases to operate if the Restaurant is an Express Restaurant and 180 days if the Restaurant is a Buffet Restaurant. If during the term of this Agreement, Developer shall transfer its interest in a Restaurant developed under this Agreement pursuant to the requirements of the Franchise Agreement for such Restaurant, the transferred Restaurant shall continue to be counted in determining Developer's compliance with this Agreement if the transferred Restaurant continues to be operated as a Pizza Inn Restaurant; however, if it does not, then Developer shall be required to develop a replacement Restaurant under the terms specified for a closed Restaurant described above.

F. Failure by Developer to adhere to the Development Schedule (including any extensions thereof approved by Company in writing) or to any time period for the development of replacement Restaurants as set forth in Section 4.E. shall constitute a material breach of this Agreement.

5. TERM

A. The term of this Agreement will begin on the Effective Date and, unless sooner terminated, will expire on the earlier of (i) the date Developer has completed its development obligations under this Agreement, or (ii) 12:00 midnight on the last day of the last Development Period specified in the Development Schedule.

B. Provided Developer has been in compliance with the Development Schedule and its other obligations under this Agreement throughout the term hereof (regardless of whether Company exercised its right to issue a notice of default or termination), Developer may, at its option and subject to its compliance with the provisions of this Section 5.B., extend the term of this Agreement as follows:

(1) If Developer wishes to exercise its option to extend the term of this Agreement, Developer must provide Company with written notice by the earlier of (a) 30 days following the opening of the Restaurant that causes Developer to achieve 80% of the openings required under the Development Schedule or (b) 30 days following the opening of the second-to-last Restaurant required by the Development Schedule.

(2) Within 15 days after Company's receipt of Developer's notice, Company will advise whether and on what basis, if any, Company believes that Developer has failed to qualify for an extension.

(3) By no later than the last day of the term of this Agreement: (a) Developer and Company must agree on a new development schedule for the extended term; (b) Developer, Controlling Principals and Developer's guarantors under this Agreement must have executed a general release, in a form designated by Company, of any and all claims against Company and its affiliates, and their respective members, managers, officers, directors, employees and agents; and (c) Developer must have paid a new development fee for the extended term, based on the development fee calculation then commonly used with Pizza Inn developers.

(4) The form of Franchise Agreement (including the fees to be paid) to be signed during the extended term will be the standard form in general use at the time that Company accepts a site for a Restaurant.

(5) The length of the extension term will depend on the number of Restaurants that Developer and Company agree will be opened during the extension term.

If Developer is not entitled to an extension of the term of this Agreement or if Developer and Company do not timely complete the requirements described in Section 5.B.(3), the term of this Agreement will expire as provided in Section 5.A.

6. COMPANY PERFORMANCE

A. Company agrees to render the following services and assistance to Developer:

(1) Provide Developer information regarding the evaluation and selection of locations for the Restaurant so far as may be practicable;

(2) Review the locations proposed by Developer and accept a location to be selected by Developer and meeting Company's current standards. **Developer acknowledges and agrees that Company's acceptance of a location selected by Developer and any information regarding the location communicated by Company to Developer, does not constitute a guarantee, assurance, representation, or warranty of any kind by Company, express or implied, as to the suitability of the location for a Restaurant or for any other purpose, or that a Restaurant operated at such site will be successful, profitable, or meet any financial projections.** Company's acceptance of the Location indicates only that Company has determined that the location falls within the acceptable criteria for locations that Company established as of the date of such approval. Developer acknowledges that (i) the application of criteria that have appeared effective with respect to other locations may not accurately reflect the potential for the location, (ii) demographic and other factors can change, and the uncertainty and instability of such criteria are beyond Company's control, (iii) Company has no responsibility if the location fails to meet Developer's expectations of potential revenue or operational criteria, and (iv) Developer's acceptance of the franchise granted pursuant to this Agreement is based upon its own independent investigation of the suitability of the location;

(3) Offer such training and assistance Company deems necessary or appropriate; and

(4) Review and approve all proposed advertising and promotional materials prepared by or on behalf of Developer.

7. DEVELOPER PERFORMANCE

Developer and its Controlling Principals, as applicable, make the following representations, warranties, and covenants and accept the following obligations:

A. Site Selection

(1) locate, determine the availability of and submit for Company's inspection and review, in the form specified by Company, a location for each Restaurant that is acceptable to Company according to Company's then current site selection and acceptance guidelines and requirements;

(2) complete selection of a location and execute the Location Acceptance Form required by the franchise agreement for each Restaurant developed; and

(3) obtain Company's consent to the proposed sublease, lease or purchase contract (collectively, "lease") for the accepted location within 90 days following Company's acceptance thereof. Developer agrees that any lease must, in form and substance, be satisfactory to Company and contain provisions required by Company as Company may set forth in writing or otherwise. Company reserves the right to require that Developer and the landlord at the accepted location enter into an addendum to modify the terms of the lease to comply with those provisions. The lease may not contain any covenants or other obligations that would prevent Developer from performing its obligations under this Agreement. Company's consent to the lease does not constitute a warranty or representation of any kind, express or implied, as to its fairness or suitability or as to Developer's ability to comply with its terms, and Company does not assume any liability or responsibility to Developer, Controlling Principals or any third parties due to such approval. Developer must deliver a copy to Company of the fully signed lease within 5 days after its execution. Developer also agrees that any lease for the accepted site: (a) be for an aggregate term of (at least) 20 years

(for a Buffet Restaurant) or 5 years (for an Express Restaurant) in a combination of initial term and renewals; and (b) contain terms and conditions that are commercially reasonable in our sole opinion.

B. Legal Compliance. Developer shall comply with all requirements of federal, state and local laws, rules, regulations, and ordinances. Developer shall comply with all other requirements of this Agreement and perform such other obligations as provided herein.

C. Organization and Ownership Information

(1) If Developer or a Controlling Principal is a legal entity Developer represents, warrants, and covenants that:

(a) Developer is duly formed, validly existing, and in good standing under the laws of its state of organization and is duly authorized and shall maintain such authorization to conduct business where the Restaurant is located; and

(b) The execution and delivery of, and the observance, performance, and fulfillment of the covenants, terms, agreements, provisions, and conditions of this Agreement are within its powers under its organizational documents and have been duly authorized by all necessary legal action, and do not and will not during the Term of this Agreement contravene its governing documents or any contractual restriction binding on Developer.

(c) The financial statements delivered to Company accurately reflect the financial condition of Developer and/or each Controlling Principal as of the date thereof; and

(2) By Developer and each Controlling Principal if Developer, and/or any Controlling Principal is a corporation or a partnership:

(a) No action, suit, or proceeding is pending or threatened against Developer or such Controlling Principal before any court, board of arbitration, or administrative agency that could result in any material adverse change in Developer or its business or condition (financial or otherwise), except as previously disclosed to Company;

(b) No other person or entity holds any right, title, or interest in Developer, its stock or its assets except as previously disclosed in writing to Company.

(c) Developer is obtaining the Restaurant for the purposes of the operation of a franchised Pizza Inn Restaurant and there is no present intent to sell or transfer the Restaurant or any underlying franchise agreement.

(3) By each individual who is a Developer, a guarantor, or any Controlling Principal:

(a) The personal financial statements delivered to Company accurately reflect the financial condition of Developer, guarantor, and each Controlling Principal, as of the date thereof;

(b) No event has occurred that could or might result in any material adverse change in such person's financial condition except as previously disclosed to Company; and

(c) No other person or entity holds any right, title, or interest in or to the franchise license granted, this Agreement, or to the assets to be used in connection with the operation of any Restaurant except as previously disclosed in writing to Company.

D. Indemnification and Insurance

(1) Developer and, if Developer is a legal entity, its Controlling Principals, partners, officers, and/or members, shall, at all times, protect, defend, indemnify, and hold harmless to the fullest extent permitted by law Company, its affiliates, successors and assigns, their respective officers, directors, shareholders, partners, agents, insurers, representatives, independent contractors, servants, and employees (each an “Indemnitee” or collectively, the “Indemnites”), from all “losses and expenses” (as defined below) incurred in connection with any action, suit, proceeding, claim, demand, investigation or inquiry (formal or informal), or any settlement thereof (whether or not a proceeding has been instituted) that directly or indirectly arises out of or is based upon any of the following:

(a) The infringement, alleged infringement, or any other violation or alleged violation by Developer of any patent, mark or copyright or other proprietary right owned or controlled by third parties or the misuse of any proprietary trademark or copyright of Company (except as such may occur with respect to the proper use of the trademarks, copyrights, or other proprietary information granted hereunder or under any franchise agreement for a Restaurant);

(b) The actual or asserted violation or breach by Developer of any federal, state or local law, regulation, or ruling, including, without limitation, any fines, claims for taxes, penalties or interest thereon;

(c) Libel, slander or any other form of defamation, by Developer of Company, the System, or any area developer, operator, or developer operating within the System;

(d) The violation or breach by Developer of any warranty, representation, agreement, or obligation in this Agreement or in any other agreement between Developer and Company or any of the Indemnites; and

(e) Personal injury, illness, death, or damage to property arising from or as the result of any acts, errors, or omissions of Developer and its officers, directors, shareholders, partners, agents, representatives, independent contractors, and employees in connection with the development, construction, establishment, operation, or occupancy of the Restaurant, including, but not limited to the use of products or materials supplied, specified, or approved by Company and any acts, errors, or omissions of any of the foregoing in the operation of any motor vehicle.

(2) Developer agrees to give Company notice of any such action, suit, proceeding, claim, demand, inquiry, or investigation. At the sole expense and risk of Developer, Indemnites may elect (but under no circumstance are obligated to undertake) to retain or associate counsel of their own choosing with respect to such action, suit, proceeding, claim, demand, inquiry, or investigation. Such election by Indemnites shall, in no manner or form, diminish the indemnity obligations of Developer.

(3) All losses and expenses incurred under this Section 7.D. shall be chargeable to and paid by Developer pursuant to its obligations of indemnity under this Section, regardless of any actions, activity, or defense undertaken by any Indemnitee or the success or failure of such actions, activity, or defense.

(4) As used in this Section 7.D. the phrase “losses and expenses” shall include, without limitation, all losses, damages (including actual, compensatory, exemplary, or punitive damages), fines, charges, costs, expenses, lost profits, attorneys’ fees, court costs, reasonable costs of investigation, fees of arbitrators, expenses for alternative dispute resolution procedures, fees and expenses of expert and other witnesses, settlement amounts, judgments, awards, compensation for damages to any Indemnitee’s reputation and goodwill, costs of or resulting from delays, financing, costs of advertising material and media time and space, and costs of changing, substituting, or replacing the same, and any and all expenses of recall, refunds, compensation, public notices, and other such amounts incurred in connection with the matters described.

(5) The Indemnitees do not assume any liability whatsoever and shall not be liable for acts, errors, or omissions of any third party with whom Developer or any of the officers, directors, shareholders, partners, agents, representatives, independent contractors, and employees of Developer may contract, regardless of the purpose.

(6) Under no circumstances shall the Indemnitees be required or obligated to seek recovery from third parties or otherwise mitigate their losses in order to maintain a claim against Developer. Developer agrees that the failure to pursue such recovery or mitigate loss will in no way reduce the amounts recoverable from Developer by the Indemnitees.

(7) Developer expressly agrees that the terms of this Section 7.D. shall survive the termination, expiration, non-renewal, or transfer of this Agreement or any interest herein;

(8) At the time that Developer takes possession of each Restaurant location, Developer must have in place the insurance required by the applicable Franchise Agreement. Developer's obligation to obtain and maintain the required insurance policies in the required amounts shall not be limited in any way by reason of any insurance that may be maintained by Company, nor shall Developer's performance of that obligation relieve it of liability under the indemnity provisions set forth in this Section 7.D.

E. General Release. Developer, on behalf of itself and its parent, subsidiaries and affiliates (collectively, "Releasors"), freely and without any influence, forever releases and covenants not to sue Company, its parent, subsidiaries and affiliates and their respective past and present officers, directors, shareholders, agents and employees, in their corporate and individual capacities, with respect to any and all claims, demands, liabilities and causes of action of whatever kind or nature, whether known or unknown, vested or contingent, suspected or unsuspected (collectively, "claims"), that any Releasor now owns or holds or may in the future own or hold based on, arising out of or relating to, in whole or in part any fact, event, conduct or omission occurring on or before the date of this Agreement, including, without limitation, claims arising under federal, state and local laws, rules and ordinances and claims arising out of, or relating to this Agreement and all other agreements between any Releasor and Company or its parent, subsidiaries or affiliates, the sale of any franchise to any Releasor, the development and operation of the Restaurant and the development and operation of all other restaurants operated by any Releasor that are franchised by Company or its parent, subsidiaries or affiliates. Releasors expressly agree that fair consideration has been given by Company for this release, and they fully understand that this is a negotiated, complete and final release of all claims. Notwithstanding the foregoing, claims arising from representations in the Pizza Inn Franchise Disclosure Document, or its exhibits or amendments, are expressly excluded from this release.

8. CONTROLLING PRINCIPALS.

If Developer is a corporation, partnership, limited liability company, or other legal entity certain provisions of this Agreement, including, without limitation, the provisions of this Section 8. shall be binding upon and enforceable against each of its shareholders, partners, members or owners, as applicable, who have executed the addendum agreement at the end of this Agreement, (herein collectively, "Controlling Principals"). No assignment, transfer, conveyance, encumbrance or gift of any interest in Developer, this Agreement or the rights granted hereby shall relieve Developer or Controlling Principals participating in any such transfer from liability under the confidentiality, non-competition, and non-solicitation provisions of this Agreement.

9. PROPRIETARY MARKS

A. Use. Developer acknowledges Company's claims of the exclusive rights to use the Proprietary Marks and such other tradenames, trademarks, and service marks of Company as may from time to time be designated and that Company is required by federal law to prevent the unauthorized use of the Proprietary Marks. To assist Company in its compliance with those requirements, Developer covenants and agrees to perform and abide by the following provisions:

(1) Developer shall use the Proprietary Marks and the Trade Secrets in the precise form prescribed by Company and shall observe Company's directions regarding representation of the Proprietary Marks and the manner of their display and use;

(2) Developer shall not use the words PIZZA INN or any other stylistic or colorable variation thereof as part of the name of any corporation, partnership, proprietorship or other business entity in which Developer owns or holds an interest or as the trade name or assumed name of any such business entity; provided, that Developer may, if required by law, file any assumed name or similar certificate necessary or required in connection with Developer's obligations under this Agreement. Developer hereby appoints Company as Developer's attorney-in-fact to consent to similar filings of assumed name or similar certificates by Company and to withdraw such filings on behalf of Developer;

(3) Developer shall not use any of the Proprietary Marks in connection with any advertising, promotion, marketing, or solicitation activities or Web page or site, or Internet home page or hyper-link, or as a part of any domain name or electronic mail identifier, without Company's prior written consent;

(4) Developer shall not use or allow the use of Company's registered logograph or the words PIZZA INN or other Proprietary Marks in or on any promotional material, advertisement, display, business form, Web site, Internet home page or hyper-link, or other printed, electronic, computer generated, or graphic material without affixing the appropriate registration symbols thereto in the manner required by law. In any Web site, Internet home page, or any Internet posting, Developer shall clearly identify himself as a developer or franchisee of Company, and Developer shall not create or use any Web site or Internet home page featuring the Proprietary Marks, any Restaurant, or the System without first having obtained Company's written approval of the proposed content and use of such Web page or Internet home page;

(5) At no time shall Developer make any written or oral admission that a Proprietary Mark is invalid or infringes the rights of any person or is open to any other form of attack, but shall promptly notify Company of any allegation of invalidity or infringement of which Developer becomes aware; and

(6) Developer expressly covenants that during the term of this Agreement and after the expiration or termination thereof, Developer shall not directly or indirectly, apply for, register, attempt to obtain, obtain control over, contest, or aid in contesting the validity or ownership of any Proprietary Mark or any other copyrighted materials, or any marks or indicia that resemble or are deceptively or confusing similar to the Proprietary Marks, or take any action whatsoever that might affect or prejudice Company's claimed rights therein.

10. SALE, ASSIGNMENT, OR TRANSFER

A. By Company. This Agreement and the rights, privileges, and obligations hereunder arising are fully assignable by Company and shall inure to the benefit of any assignee or other legal successor to the interest of Company.

B. By Developer. Company has entered into this Agreement in reliance upon the qualifications of Developer, its guarantors, and the Controlling Principals and their commitments, covenants, and obligations under this Agreement, and the rights herein granted to Developer are personal to Developer. Consequently, without first obtaining the express written consent of Company and in accordance with the procedures set forth in Section 10.C., Developer or any Controlling Principal may not sell, assign, or otherwise transfer any rights under this Agreement, any interest in the license and franchise hereby granted, or in Developer.

Any attempt to transfer any right or obligation under this Agreement or a majority interest in any entity holding an interest in this Agreement, without complying with the provisions of this Agreement, shall be null and void and shall give Company the right to terminate this Agreement and Developer's rights hereunder, in

addition to any remedies Company may have for breach of this covenant because of the attempted transfer.

The term “transfer” is defined as any act or circumstance or series of acts or circumstances including, without limitation, any sale, assignment, pledge, mortgage, encumbrance, merger, consolidation, combination, restructure, or lease of the business or the assets used in the business, or other action by which ownership or control is shifted in whole or in part from one entity or person to another, including, if Developer is a corporation, any changes in the present ownership of the stock of the corporation (as of the Effective Date) or the issuance of additional stock of the corporation, and if Developer is a partnership, any change in or addition of partners.

C. Conditions for Approval of Transfers. Company will not unreasonably withhold its consent to a transfer. In considering a request for transfer, Company will consider, among other things, the qualifications, apparent abilities, and financial status of the proposed transferee as if such transferee were a prospective direct Developer of Company. In addition, as a condition precedent to giving its consent, Company may require that any or all of the following conditions are satisfied:

(1) Developer gives Company not less than 45 days’ prior written notice of its intention to effect any such transfer;

(2) The transferee meets the financial and other qualifications of a new Developer in accordance with Company standards then in effect, including receipt by Company of any required guaranty of a transferee’s obligations;

(3) In the case of a transfer of this Agreement, Developer and the proposed transferee must sign, at Company’s election, an assignment agreement (and any amendments to this Agreement deemed necessary or desirable by Company to reflect the transfer) and/or Company’s then-current standard form of development agreement for an initial term ending on the expiration date of this Agreement, which may provide for rights and obligations different than those provided in this Agreement. There is no limitation on the extent to which the terms of the new development agreement may differ from the terms of this Agreement. In either event, those persons designated by Company must execute a guarantee in the form prescribed by Company of transferee’s obligations under the applicable development agreement. With respect to any transfer (as defined above), Developer, the proposed transferor and the proposed transferee also shall sign all other documents and take such actions as Company may require to protect Company’s rights under this Agreement;

(4) Company receives the sum of \$2,000 to cover Company’s expenses in connection with evaluating and approving the request for transfer;

(5) Developer pays all amounts due Company and its affiliates and designated suppliers and distributors under this Agreement, any franchise agreement, or invoice, bill or statement, including, without limitation, royalty fees, advertising contributions, and trade obligations and the Brand Fund and any advertising cooperative as of the date of transfer;

(6) Developer and the Controlling Principals agree to enter into a general release of any and all claims against Company and the Indemnitees, in a form satisfactory to Company;

(7) Company shall have approved the material terms and conditions of such assignment;
and

(8) Developer is otherwise in compliance with all requirements of this Agreement.

D. Sublicensing. Developer shall have no right whatsoever to subfranchise or sublicense rights granted under this Agreement, including, without limitation, the Proprietary Marks, the System, any

Restaurant, or any interest therein.

E. Use as Collateral. Developer shall not pledge, assign, hypothecate, or otherwise use this Agreement or the rights hereby granted, and no Controlling Principal shall pledge, assign, hypothecate, or otherwise use its interest in Developer, as collateral security for any debt, lease, or other obligation without Company's prior written consent, which will be conditioned upon Company's reaching an acceptable agreement with the secured obligee regarding transfer upon foreclosure and such other terms deemed important by Company.

F. Right of First Refusal. Notwithstanding the provisions of this Section 10, and not in any way in lieu thereof, Developer shall not sell or otherwise transfer all or any part of its rights under this Agreement, its interest in the development rights hereby granted and no Controlling Principal shall sell or otherwise transfer his interest in Developer without first offering, in writing, to sell the same to Company on the same terms and conditions offered by the third party. If the sale fails to close within 60 days from the date of Company's waiver, or if the terms and conditions of the offer and sale materially change prior to closing, such offer or changed terms shall be considered a new offer and must be resubmitted to Company before such sale is closed.

G. Involuntary Transfer. No involuntary transfer or partitioning of Developer's interest in the rights under this Agreement, whether in connection with bankruptcy, insolvency, divorce, or other proceeding, will be effective against Company unless and until the transferee (i) agrees in writing to be jointly and severally liable for the payment of Developer's monetary obligations under this Agreement, the Brand Fund and any advertising co-op, whether or not such obligations are then delinquent, (ii) agrees in writing to be personally bound by the terms, conditions, and provisions of this Agreement, and (iii) the transferee complies with the provisions of Section 10. In any event, such transfer shall be subject to Company's right of first refusal as defined in Section 10.F.

H. Transfer of Convenience of Ownership. If Developer is an individual or a partnership, Company will consent to the transfer of this Agreement to a business entity that Developer forms for the convenience of ownership, provided that: (1) the entity has and will have no business other than the operation of Pizza Inn Restaurants; (b) Developer complies with the requirements in Sections 7.C., 10.C.(3), 10.C.(5), 10.C.(6) and 10.C.(8); and (c) if Developer is a partnership, the owners of the new entity are identical to the owners of Developer and hold equity interests in the new entity in the same proportion as their partnership interest in Developer. Developer will not be required to pay a transfer fee for a transfer under this Section 10.H.

I. Death. Upon the death of Developer (if Developer is a natural person) or any Controlling Person who has a majority interest in Developer (the "Deceased"), the executor, administrator or other personal representative of the Deceased shall transfer such interest to a third party approved by Company and subject to the *intervivos* transfer provisions of Section 10. If no personal representative is designated or appointed or no probate proceedings are instituted with respect to the estate of the Deceased, then the distributee of such interest is subject to the approval of Company pursuant to Section 10.C. If Company does not approve the distributee, then the distributee shall transfer such interest to a third party approved by Company within 12 months after the death of the Deceased.

J. Disability. Upon the permanent disability of Developer (if Developer is a natural person) or any Controlling Principal who has a majority interest in this Agreement or Developer, Company may require that such interest be transferred to a third party in accordance with the conditions for transfers described in Section 10.C within 6 months after notice to Developer. "Permanent disability" shall mean any physical, emotional, or mental injury, illness, or incapacity that would prevent a person from performing the obligations set forth in this Agreement or in the guaranty of this Agreement for at least 180 consecutive days and recovery from which condition within 180 days from the date of determination of disability is unlikely. Permanent disability shall be finally determined by a licensed practicing physician selected by Company, upon

examination of the person, or, if the person refuses to submit to an examination, then such person automatically shall be deemed permanently disabled as of the date of such refusal for the purpose of this Section 10.J. Company shall pay the costs of any examination required by this Section.

K. Notice. Upon the death or occurrence of permanent disability of Developer or any Controlling Principal, Developer or a representative of Developer must promptly notify Company of such death or occurrence of permanent disability.

L. Securities Offerings. Securities or partnership interests in Developer may not be offered to the public under the Securities Act of 1933, as amended, nor may they be registered under the Securities Exchange Act of 1934, as amended, or any comparable federal, state, or foreign law, rule, or regulation. A private offering may be made only with Company's prior approval. All materials required for any such private offering by federal or state law shall be submitted to Company for review prior to being filed with any governmental agency (if applicable) and prior to issuance and use. No Developer offering shall imply (by the use of the Proprietary Marks or otherwise) that Company is participating in an underwriting, issuance, or offering of securities of Developer or Company, and Company's review of any offering materials shall be limited solely to the subject of the relationship among Company, Developer, and its affiliates. Company may require that Developer's offering materials include a statement concerning the limitations set forth in this Section 10.L. Developer and the Controlling Principals must indemnify Company and its affiliates, officers, directors, employees, attorneys, and shareholders in connection with the offering. For each proposed offering, Developer shall pay to Company \$1,500 to reimburse Company for its reasonable costs and expenses in reviewing the proposed offering. In addition, Developer, at its expense, must deliver to Company an opinion of Developer's legal counsel (addressed to Company and in a form acceptable to Company) that the offering documents properly use the Proprietary Marks and accurately describe Developer's relationship with Company and/or its affiliates.

11. DEFAULT AND TERMINATION

A. Termination on Notice. Upon the occurrence of any of the following (each an "Event of Default"), Developer shall be deemed to be materially in default and Company may, at its option, terminate this Agreement and all rights granted hereunder, without affording Developer any opportunity to cure the default except as provided below, effective immediately upon written notice to Developer:

(1) If Developer becomes insolvent or makes a general assignment for the benefit of creditors or files a voluntary petition under any section or chapter of federal bankruptcy laws or under any similar laws or statutes of the United States or any state or admits in writing its inability to pay its debts when due;

(2) If Developer is adjudicated bankrupt or insolvent in proceedings filed against Developer under any section or chapter of federal bankruptcy law or any similar law or statute of the United States or any state;

(3) If a receiver or other custodian is appointed for Developer's business or assets;

(4) If a final judgment against Developer remains unsatisfied or of record for 30 days or longer (unless a supersedeas bond is filed);

(5) If Developer is dissolved;

(6) If execution is levied against Developer's business or property or if suit to foreclose any lien or mortgage against the premises or equipment of any business operated hereunder or under any franchise agreement is instituted and not dismissed within 30 days or if the real or personal property of any business operated hereunder or under any franchise agreement shall be sold after levy by any sheriff, marshal, or constable;

(7) If Developer fails to qualify for the grant of franchise agreements under Section 4 or otherwise fails to comply with the Development Schedule, or if Developer fails to develop a replacement Restaurant within the time period required in Section 4.E.;

(8) If Developer fails to execute each franchise agreement in accordance with Section 4.A.;

(9) If Developer or any Controlling Principal is convicted of, or shall have entered a plea of *nolo contendere* to, a felony, crime involving moral turpitude, or any other crime or offense that Company believes is reasonably likely to have an adverse effect on the System, the Proprietary Marks, the goodwill associated therewith, or Company's interests therein;

(10) If a threat or danger to public health or safety results from the construction, maintenance, or operation of any Restaurant developed under this Agreement;

(11) If Developer or any Controlling Principal breaches any of the representations, warranties, or covenants in Section 7.C.; or

(12) If Developer or any Controlling Person transfers or attempts to transfer any rights or obligations under this Agreement or any interest in Developer contrary to Section 10.

(13) If Developer, any of its affiliates, any of its Controlling Principals and/or any of its guarantors under this Agreement remains in default beyond the applicable cure period (if any) under: (a) any other agreement with Company or its affiliates, including, but not limited to, any Development Agreement or Franchise Agreement; (b) any real estate lease, equipment lease or financing instrument relating to a Restaurant; or (c) any agreement with any vendor or supplier to a Restaurant, provided that if the default is not by Developer, Developer is given written notice of the default and 30 days to cure said default.

(14) Developer or any Controlling Principal on 3 or more separate occasions within any 12-month period commits a breach of this Agreement, whether or not such breaches are of the same or different nature and whether or not such breaches have been cured by Developer after notice from Company.

B. Termination with Notice and Cure. In addition, it shall be an Event of Default if:

(1) Developer misuses or makes any unauthorized use of the Proprietary Marks or otherwise materially impairs the goodwill associated therewith or with the System or Company's rights therein and does not cure such default within 24 hours following notice from Company.

(2) Developer or any of its affiliates fails, refuses, or neglects promptly to pay when due any monetary obligation owing to Company or any of its affiliates or supplier or distributor under this Agreement, any franchise agreement, invoice, statement or bill, or any other agreement and does not cure such default within 5 days following notice from Company (or the applicable cure period in such other agreement, unless no cure period is stated, in which case the cure period stated above shall apply).

(3) Except as provided above, if Developer fails to comply with any other term or condition imposed by this Agreement, Company may terminate this Agreement by giving written notice of termination stating the nature of such default at least 30 days prior to the effective date of termination; provided, however,

that Developer may avoid termination by immediately initiating a remedy to cure such default and curing it to Company's satisfaction during such 30 day period and promptly providing proof thereof to Company. If any such default is not cured within the specified time, or such longer period as applicable law may require, subject to Company's rights and remedies in Section 11.C., Developer's rights under this Agreement shall terminate without further notice effective immediately upon the expiration of the 30 day period or such longer period as applicable law may require.

C. Additional Remedies. Upon default by Developer, Company has the option, in addition to, or in lieu of, exercising its option to terminate this Agreement as provided in Sections 11.A. and 11.B. to do any one or more of the following:

- (1) terminate any territorial rights granted to Developer;
- (2) reduce or otherwise modify the area of such territorial rights;
- (3) reduce the number of restaurants that Developer is authorized to develop; or
- (4) pursue any other remedy Company may have at law or in equity.

D. Costs and Fees. Company shall be entitled to recover all reasonable attorneys' fees and costs incurred by Company in pursuit of its rights or enforcement of any of the obligations of or restrictions upon Developer, any guarantor of Developer, or any Controlling Principal hereunder. Developer and each Controlling Principal jointly and severally agree to pay all costs and expenses (including reasonable attorneys' fees and fees for other engaged professionals) incurred by Company in successfully enforcing or obtaining any remedy arising from breach of this Agreement. The existence of any claims, demands, or actions that Developer may have against Company arising from this Agreement or otherwise shall not constitute defenses to Company's enforcement of Developer's or any Controlling Principal's representations and warranties, agreements, or obligations herein.

E. Default by Company. If Developer is in substantial compliance with the material provisions of this Agreement and Company materially breaches this Agreement, Developer may terminate this Agreement if Company fails (a) to cure such default within 30 days after Developer delivers written notice of such default to Company if such default can be reasonably cured in 30 days, or (b) to diligently pursue to completion such cure if such default cannot be reasonably cured in 30 days. Such termination shall be effective 10 days after Developer delivers written notice to Company that the default has not been cured within the above period and Developer has elected to terminate this Agreement. Upon termination of this Agreement in accordance with the provisions of this Section 11 Developer shall immediately comply with all of the post-termination provisions in this Agreement.

12. POST-TERMINATION

Upon expiration and non-renewal or termination of this Agreement, all rights hereunder granted or licensed to Developer shall end, and Developer shall:

A. have no right to establish or operate any Restaurant for which a franchise agreement has not been executed by Company and delivered to Developer at the time of termination or expiration of this Agreement (but Developer may complete development of and/or operate restaurants under then existing franchise agreements);

B. immediately cease using the Proprietary Marks and other elements of the System;

C. pay Company all amounts owed to Company and its affiliates and third-party suppliers and distributors, plus late-payment penalties and interest, if any;

D. maintain all books, records, and reports required by Company for a period of not less than 6 months from the date of termination or expiration to allow Company to make a final inspection of Developer's books and records for the purposes of verifying that all amounts owing have been paid and take all steps reasonably requested by Company in that regard;

E. comply with the post-termination non-competition covenants set forth in Section 13; and

F. pay to Company all damages, costs, and expenses, including reasonable attorneys' fees and court costs, incurred by Company in connection with successfully enforcing or obtaining any remedy available to Company and, subsequent to the termination or expiration of this Agreement, in obtaining injunctive or other relief for the enforcement of any provisions of this Agreement.

13. COVENANTS

A. Best Efforts. Developer and the Controlling Principals covenant that during the term of this Agreement, except as otherwise approved in writing by Company, Developer and the Controlling Principals shall devote full time, energy, and best efforts to the management and operation of the development activities contemplated under this Agreement.

B. Non-Competition. The terms contained in this Section 13.B. are the essence of this Agreement, and Company would not license Developer in the absence of such terms. In consideration of the terms of this Section 13.B. made by Developer and each Controlling Principal, Company agrees to train Developer in the use of the methods that it has developed at much expense for operating a franchise and to license to Developer the Proprietary Marks, Trade Secrets, and Confidential Information. Developer expressly agrees that use of such training and such information by Developer and any Controlling Principal in competition against Company or its Developers during the Term of this Agreement and for a reasonable period thereafter would be unfair to Company and to the System and would result in irreparable damage to Company and the System. As an inducement to Company to make this Agreement, Developer and each of the Controlling Principals agrees it and they will not while this Agreement is in effect, franchise, license, own or operate, or hold an interest in any capacity whatsoever, directly or indirectly, in any restaurant or food service outlet (other than additional Restaurants) serving primarily pizza or other Pizza Inn main menu items.

(1) With respect to Developer, during the term of this Agreement (or with respect to each of the Controlling Principals, during the term of this Agreement for so long as such individual or entity satisfies the definition of "Controlling Principal") except as otherwise approved in writing by Company, neither Developer nor any of the Controlling Principals shall, either directly or indirectly, for themselves, or through, on behalf of or in conjunction with any person, persons, partnership, limited liability company, corporation, or other entity or association:

(a) Divert, or attempt to divert, any business or customer of the business described hereunder to any competitor, by direct or indirect inducement or otherwise, or do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Proprietary Marks or the System;

(b) Except with respect to Restaurants operated under valid franchise agreements with Company, own, maintain, operate, engage in, be employed by, or have any financial or beneficial interest in (including any interest in corporations, partnerships, trusts, unincorporated associations, or joint ventures), advise, assist or make loans to, any business located within the United States, its territories or commonwealths, or any other country, province, state or geographic area in which Company has used, sought registration of, or registered the Proprietary Marks or the same of similar trademarks or operates or licenses others to operate a business under the Proprietary Marks or the same or similar trademarks, which business is of a character and concept similar to the Restaurant, including a business that offers as a primary menu item or mix of menu items pizza (including, but not limited to, fresh, frozen, or unbaked pizza), or any business that functions as a

commissary to sell, lease, or supply such business.

(2) With respect to Developer, and for a continuous uninterrupted period commencing upon the expiration, termination, or transfer of all of Developer's interest in, this Agreement (or with respect to each of the Controlling Principals, commencing upon the earlier of (i) the expiration, termination, or transfer of all of Developer's interest in this Agreement, or (ii) the time such individual or entity ceases to satisfy the definition of "Controlling Principal"), and continuing for 2 years thereafter, except as otherwise approved in writing by Company, neither Developer nor any Controlling Principal shall, directly or indirectly, for themselves or through, on behalf or, or in conjunction with any person, persons, partnership, limited liability company, corporation or other entity or association:

(a) Divert, or attempt to divert, any business or customer of the business described hereunder to any competitor, by direct or indirect inducement or otherwise, to do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associate with the Proprietary Marks or the System;

(b) Employ, or seek to employ, any person who is at that time or was within the preceding 60 days employed by Company or by any other developer or franchisee of Company, or otherwise directly or indirectly induce such person to leave that person's employment; and

(c) Except with respect to Restaurants operated under valid franchise agreements with Company, own, maintain, operate, engage in, be employed by, or have any financial or beneficial interest in (including any interest in corporations, partnerships, trusts, unincorporated associations, or joint ventures), advise, assist or make loans to, any business located within the United States, its territories or commonwealths, or any other country, province, state or geographic area in which Company has used, sought registration of, or registered the Proprietary Marks or the same or similar trademarks or operates or licenses others to operate a business under the Proprietary Marks or the same or similar trademarks, which business is of a character and concept similar to the Restaurant, including a business that offers as a primary menu item or mix of menu items pizza (including, but not limited to, fresh, frozen, or unbaked pizza), or any business that functions as a commissary to sell, lease, or supply such business, which business is, or is intended to be, located within Developer's exclusive territory, if any, or within a 10 mile radius of any Pizza Inn restaurant or food service facility in existence or under construction as of the earlier of: (i) the expiration or termination of, or the transfer of all of Developer's interest in this Agreement, or (ii) the time a Controlling Principal ceases to satisfy the definition of "Controlling Principal", as applicable.

C. Confidentiality. Neither Developer nor any Controlling Principal shall, during the term of this Agreement and thereafter, communicate, divulge, or use for the benefit of any other person, persons, partnership, limited liability company, association or corporation and, following the termination or expiration of this Agreement, they shall not use for their own benefit, any confidential information, knowledge or know-how that may be communicated to them or of which they may be apprised concerning the methods of conducting the business contemplated by this Agreement, including, without limitation, the methods of development and operation of the Restaurants and other information contained in the Manual or otherwise disclosed. Developer and each of the Controlling Principals shall disclose such confidential information only to those employees of Developer who must have access to it in connection with their employment. Any and all information, knowledge, know-how, techniques, and any materials used in or related to the System that Company provides to Developer in connection with this Agreement shall be deemed confidential for the purposes of this Agreement. Neither Developer nor the Controlling Principals shall at any time, without Company's prior written consent, copy, duplicate, record, or otherwise reproduce such confidential information, in whole or in part, nor otherwise make the same available to any unauthorized person. The covenants in this Section 13 shall survive the expiration, termination, or transfer of this Agreement or any interest herein and, unless otherwise limited by their express terms, shall be perpetually binding upon Developer and each of the Controlling Principals.

D. Reasonable Restrictions. The parties acknowledge and agree that each of the covenants contained herein contain reasonable limitations as to time, geographic area, and scope of activity to be restrained and do not impose a greater restraint than is necessary to protect the goodwill or other business interests of Company. The parties agree that each of the covenants herein shall be construed as independent of any other covenant or provision of this Agreement. If all or any portion of a covenant in this Section 13 is held unreasonable or unenforceable by a court or agency having valid jurisdiction in an unappealed final decision to which Company is a party, Developer and the Controlling Principals expressly agree to be bound by any lesser covenant subsumed within the terms of such covenant that imposes the maximum duty permitted by law, as if the resulting covenant were separately stated in and made a part of this Section.

E. Execution of Covenants. At Company's request, Developer shall require and obtain execution of covenants similar to those set forth in this Section 13 (including covenants applicable upon the termination of a person's employment with Developer) from all personnel of Developer who have received or will have access to confidential information or training from Developer. All of Developer's principals not required to sign this Agreement as a Controlling Principal also must execute such covenants, provided, that Company reserves the right to decrease the period of time or geographic scope of the non-competition covenant or eliminate such non-competition covenant altogether for any party required to execute such agreement pursuant to this Section.

F. Injunctive Relief. Developer and each Controlling Principal acknowledge and agree that breach of the terms of this Section 13 would cause serious and irreparable injury to Company including the compromise of the Proprietary Marks, Trade Secrets and loss of competitive advantage, and that damages or other legal remedies for such breach would not be fully adequate to compensate Company. Developer and each Controlling Principal understand that if Developer or any Controlling Principal breaches the provisions of this Section, Company may apply to a court of competent jurisdiction to seek an injunction ordering the immediate cessation of all activities that violate this Section 13, in addition to any other rights or remedies available to Company, including, but not limited to, recovery of lost profits and other damages as permitted by law.

14. MISCELLANEOUS

A. Partial Invalidity. The provisions of this Agreement are severable. If any provision hereof is held illegal, invalid, or unenforceable, such holding will not affect the legality, validity, or enforceability of any other provision. If such a provision is not modified or revised, any such illegal, invalid, or enforceable provision shall be deemed stricken herefrom as if never contained herein, but all other provisions shall continue in full force and effect.

B. Notices. Any and all notices and other communications that may be required or permitted hereunder shall be in writing and, unless otherwise expressly provided herein to the contrary, either (i) delivered in person, (ii) sent by registered or certified mail, return receipt requested, postage prepaid, (iii) sent by reputable overnight courier, or (iv) sent by e-mail or telecopy transmission (with hard copy promptly sent by registered or certified mail, return receipt requested, postage prepaid, or by reputable overnight courier) to the parties at their respective addresses or telecopy numbers set forth below, or to such other addresses or telecopy numbers as may be specified by written notice delivered to the other party in accordance herewith. Notices and other communications given as provided herein shall be deemed received (i) if personally delivered, then on the date of delivery; (ii) if mailed, then on the date of delivery indicated on the return receipt; (iii) if sent by overnight courier, then on the date of delivery as indicated on the signed airbill; and (iv) if sent by e-mail and telecopy (and followed with a hard copy), then on the date such notice or communication is sent electronically or telecopied.

If to Developer:

If to Company:

Pizza Inn, Inc.
3551 Plano Parkway
The Colony, TX 75056
Fax No: 469.384.5055
Attn: Legal Department

C. Status of Parties. It is understood between the parties that Developer shall be an independent contractor and is in no way authorized to make any contract, agreement, warranty, or representation on behalf of Company or to create any obligation, expressed or implied, on behalf of Company. No agency, employment, or partnership is created or implied by the terms of this Agreement, and Developer is not and shall not hold itself out as agent, legal representative, partner, subsidiary, joint venturer, joint employer or employee of Company or its affiliates or a joint employer with Company or its affiliates. Developer shall have no right or power to, and shall not, bind or obligate Company or its affiliates in any way or manner, nor represent that Developer has any right to do so. In all public records and in Developer's relationship with other persons, on stationery, checks, and other business forms Developer shall indicate independent ownership of the restaurants and that they are operated under franchise licenses granted by Company. Company shall have no control over the terms and conditions of employment of Developer's employees.

D. Binding Effect. This Agreement shall be binding upon and inure to the benefit of Company and its successors and assigns. This Agreement shall be binding upon Developer, each Controlling Principal, and their respective successors, assigns, heirs, executors, and other personal representatives; however, nothing in this Agreement is intended nor shall be deemed to confer upon any person or legal entity other than Developer any rights, benefits, or remedies hereunder, except to any permitted transferee or assignee approved by Company in accordance with the requirements of Section 10 hereof.

E. Governing Law and Venue. THIS AGREEMENT SHALL FOR ALL PURPOSES BE GOVERNED BY, INTERPRETED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS (WITHOUT REGARD TO TEXAS CHOICE OF LAW RULES). THE PARTIES AGREE THAT, TO THE EXTENT ANY DISPUTES CANNOT BE RESOLVED DIRECTLY BETWEEN THEM, DEVELOPER MUST FILE ANY SUIT AGAINST COMPANY ONLY IN THE FEDERAL OR STATE COURT HAVING JURISDICTION COLLIN COUNTY, TEXAS OR IN THE COUNTY IN WHICH COMPANY'S CORPORATE OFFICES ARE LOCATED. COMPANY MAY FILE SUIT IN THE FEDERAL OR STATE COURT LOCATED IN COLLIN COUNTY, TEXAS, IN THE JURISDICTION WHERE COMPANY'S PRINCIPAL OFFICES ARE LOCATED AT THE TIME SUIT IS FILED, IN THE JURISDICTION WHERE DEVELOPER RESIDES OR DOES BUSINESS, WHERE THE DEVELOPMENT TERRITORY OR ANY FRANCHISED RESTAURANT IS OR WAS LOCATED, OR WHERE THE CLAIM AROSE. DEVELOPER CONSENTS TO THE PERSONAL JURISDICTION OF THOSE COURTS OVER DEVELOPER AND TO VENUE IN THOSE COURTS.

F. Various Forms of Agreements. Developer acknowledges that present Developers of Company and area developers operate under a number of different forms of franchise agreement, and consequently Company's obligations and rights with respect to its Developers may differ materially in certain instances.

G. No Waiver. No failure of Company to exercise any power given to it hereunder, or to insist on strict compliance by Developer with any obligation or condition hereunder, and no custom or practice of the parties at variance with the terms of this Agreement shall constitute a waiver of Company's right to demand exact compliance with the terms of this Agreement. Waiver by Company of any particular Event of Default by Developer shall not affect or impair Company's rights with respect to any subsequent default of the same or a different nature, nor shall any delay or omission of Company to exercise any rights arising from a default affect or impair Company's rights as to said default or any subsequent default.

H. Entire Agreement. This Agreement contains the entire agreement between the parties with respect to the subject matter hereof and supersedes any prior agreements between the parties, written or oral, with respect to such subject matter provided that nothing in this Agreement or any other related agreement is intended to disclaim the representations that Company made in the Disclosure Document (defined below) furnished to Developer.

I. FTC Rule Compliance. The Disclosure Document (“Disclosure Document”) that was presented to Developer by Company before execution of this Agreement is neither part of this Agreement nor part of any prior negotiations. Rather, it is an explanatory document that is (or may be) required by law. In case of conflict between this Agreement and the Disclosure Document, this Agreement will control; however, if there is uncertainty about the intention of provisions contained in this Agreement, the parties may refer to the Disclosure Document for evidence of the parties understanding of this Agreement.

J. No Modification. This Agreement may not be amended, modified, or rescinded, or any performance requirement waived, except by a written agreement executed by Company and Developer.

K. Acknowledgments

(1) Developer acknowledges that no representation, warranty, guaranty, or promise, or sales or income projection other than those expressly set forth in this Agreement was made by Company or any other person to induce Developer’s execution of this Agreement. Developer recognizes that neither Company nor any other party can guarantee Developer’s business success or state the exact costs of opening and operating a restaurant, and that such success and costs will depend primarily upon Developer’s own efforts and business ability. Developer also recognizes that the results of operations of restaurants other than its own may not be comparable to the operating results of the Restaurant and that any new business venture is speculative.

(2) Developer acknowledges that it received a Disclosure Document not less than 14 calendar days prior to the date of execution of this Agreement by Developer or payment of any fees to Company or its affiliate in connection with the proposed franchise sale.

(3) **DEVELOPER ACKNOWLEDGES RECEIPT OF THIS AGREEMENT AND THE APPLICABLE EXHIBITS IN THE FORM TO BE EXECUTED BY DEVELOPER AT LEAST 14 CALENDAR DAYS PRIOR TO THE EXECUTION DATE DESIGNATED BELOW BY DEVELOPER. DEVELOPER ACKNOWLEDGES THAT HE HAS READ THIS AGREEMENT CAREFULLY AND HAS BEEN ADVISED BY A COMPANY REPRESENTATIVE TO DISCUSS ITS PROVISIONS WITH AN ATTORNEY OF DEVELOPER’S CHOICE PRIOR TO ITS EXECUTION BY DEVELOPER.**

L. Force Majeure. If any party’s performance of any obligation under this Agreement is prevented, hindered, or delayed because of *force majeure* and not through any act or omission of such party that cannot be overcome by use of normal commercial measures, the parties shall be relieved of their respective obligations to the extent the parties are respectively necessarily prevented, hindered, or delayed in performance during the period of *force majeure*; however, Developer shall continue to be obligated to perform all of its monetary obligations under this Agreement. As used in this Agreement, the term “*force majeure*” shall mean any act of God, strike, lock-out or other industrial disturbance, war (declared or undeclared), riot, epidemic, fire or other catastrophe, extraterrestrial invasion, act of any government (including rejection of any license application) and any other similar cause not within the control of the affected party. The party whose performance is affected by an event of *force majeure* shall give prompt notice of the *force majeure* event to the other party in the manner provided in Section 14.B., setting forth the nature of the event an estimate as to its duration and a plan for resuming compliance with this Agreement, which the party shall promptly undertake and maintain with due diligence.

M. Severability. Each section, part, term, and provision of this Agreement shall be considered severable. If for any reason, any section, part, term, or provision herein is determined to be invalid and contrary to, or in conflict with, any existing or future law or regulation of a court or agency having valid jurisdiction, such shall not impair the operation or affect the remaining portions, sections, parts, terms, or provisions of this Agreement, and the latter will continue to be given full force and effect and bind the parties hereto. Invalid sections, parts, terms, or provisions shall be deemed not to be a part of this Agreement.

N. Business Judgment. Company shall be entitled to use reasonable business judgment in the exercise of its rights, obligations, and discretion under this Agreement except where otherwise indicated herein. "Reasonable business judgment" means that Company's determination shall prevail even in cases where other alternatives are also reasonable so long as Company intends to benefit or is acting in a way that could benefit the System by enhancing the value of the Proprietary Marks, increasing customer satisfaction, or minimizing possible customer brand or location confusion. Company shall not be required to consider Developer's particular circumstances when exercising its reasonable business judgment. At no time is Developer or any third party (including, but not limited to, any third party acting as a trier of fact) entitled to substitute Developer's or its judgment for a judgment that has been made by or on behalf of Company and that meets the definition of reasonable business judgment in recognition of the fact that the long-term goals of a franchise system, and the long-term interests of Company, the System, and all franchise owners, taken together, require that Company have the latitude to exercise reasonable business judgment.

O. No Commitments. **DEVELOPER IS ADVISED NOT TO COMMIT TO OR INCUR ANY EXPENSE OR OBLIGATION WITH RESPECT TO THE PROPOSED RESTAURANT OR RELATED BUSINESS THAT IS THE SUBJECT OF THIS AGREEMENT UNTIL DEVELOPER HAS RECEIVED A FULLY EXECUTED COPY OF THIS AGREEMENT FROM COMPANY.**

P. Counterparts. This Agreement may be executed in any number of counterparts, each of which, when executed and delivered, is an original, but all counterparts together constitute one and the same instrument.

15. COMPANY'S ACCEPTANCE; CLOSING PROCEDURE

Developer shall deliver to Company 2 counterparts of this Agreement, executed by Developer and all Controlling Principals, together with the total Development Fee and the Initial Franchise Fee for the first Restaurant to be developed under this Agreement, within 30 days after delivery from Company. Such transmittal to Company by Developer of this Agreement, together with the Development Fee and the Initial Franchise Fee for the first Restaurant to be developed under this Agreement, shall be deemed to constitute Developer's offer to contract with Company as specified herein. This Agreement and the rights granted herein shall not be effective and binding on Company and shall not confer any rights upon Developer unless and until Company accepts this Agreement, by signature of its President or other authorized representative, within 30 calendar days after Company's receipt of this Agreement and any other required documents, executed by Developer and Controlling Principals. In the event of acceptance by Company, Company shall insert the Effective Date on the first page of this Agreement. If Company decides not to accept this Agreement, Company shall so notify Developer and shall return to Developer the Development Fee and the Initial Franchise Fee for the first Restaurant (less any applicable credit from the Development Fee) to be developed under this Agreement.

EXECUTED BY DEVELOPER THIS __DAY OF _____, 202__.

[If legal entity:]

[If individual(s):]

(COMPANY NAME)

By:_____

Name

Name Printed: _____

Name

Title:_____

Name

AGREEMENT BY CONTROLLING PRINCIPALS OF DEVELOPER

Each of the undersigned acknowledges and agrees as follows:

1. Each is included in the term “Controlling Principals” as defined in Section 8 of this Agreement;
and
2. Each represents that as a Controlling Principal, she, he, or it exercises, or has the capacity to exercise, influence and control over the business decisions of Developer relative to operation of the Restaurant, and that in such capacity has access, directly or indirectly, to the Trade Secrets, Confidential Information, contents of the Manual, and other information used in the operation of the Restaurant; and
3. Each has read and understands the terms and conditions of this Agreement, acknowledges that she, he, or it will benefit directly or indirectly from the execution thereof and acknowledges and understands that the undertakings of the Controlling Person in this Agreement are in partial consideration for and a condition of Company approving Developer as a Developer of the Company and entering into this Agreement, and that Company would not have granted the franchise without such undertakings by each of the undersigned; and
4. Each of the undersigned understands and agrees that, by her, his, or its signature below, the undersigned intends to comply with and to be bound by the confidentiality, non-disclosure, and non-competition covenants in this Agreement during the term of this Agreement and thereafter for as long as such provisions shall apply and be enforceable by Company; and
5. Each of the undersigned understands and agrees that this Agreement by Controlling Principals of Developer is not a guarantee of financial or other performance by the Developer other than as may be specifically set forth to the contrary in the Agreement; and
6. Each, intending to be legally bound hereby, is executing this Agreement for the purpose of binding and obligating herself, himself, or itself to the undertakings, representations, and warranties stated in this Agreement as being made by each Controlling Person.

Name: _____

Address: _____

Name: _____

Address: _____

Name: _____

Address: _____

Name: _____

Address: _____

EXECUTED BY COMPANY AT THE COLONY, TEXAS THIS ____ DAY OF
_____, 20__.

PIZZA INN, INC.

By: _____

Name: _____

Title: _____

EXHIBIT A

Development Information

1. **Development Territory:** The Development Territory will be _____. Developer's rights in the Development Territory are subject to the limitations described in Section 2.C. Any political boundaries contained in the description of the Development Territory will be considered fixed as of the effective date of the Development Agreement and will not change notwithstanding a political reorganization or a change in those boundaries. Unless otherwise specified, all street boundaries are deemed to include only the inside portion of the stated boundary.
2. **Development Fee:** The total Development Fee is \$_____.

EXHIBIT D
LOCATION ACCEPTANCE FORM

LOCATION ACCEPTANCE FORM

NOTICE: UNTIL THE COMPANY HAS SIGNED THIS LOCATION ACCEPTANCE FORM, YOU SHOULD NOT SIGN ANY LEASE, REAL ESTATE CONTRACT, CONSTRUCTION CONTRACT, OR NOTE UNLESS THE CONTRACT CONTAINS A CLAUSE PERMITTING YOU TO WITHDRAW FROM THE CONTRACT IF THE COMPANY DOES NOT ACCEPT THE LOCATION. YOU SHOULD NOT START CONSTRUCTION UNTIL THE COMPANY HAS ACCEPTED YOUR FINAL DRAWINGS IN WRITING. ANY ACTION TAKEN BY YOU PRIOR TO THE COMPANY'S ACCEPTANCE OF A SUBMITTED LOCATION SHALL BE AT YOUR OWN RISK AND EXPENSE.

Franchisee requests that the Company accept the following location ("Location") to be developed and operated by Franchisee as a Pizza Inn (Buffet, Delco or Express) restaurant, pursuant to the Franchise Agreement to which this Location Acceptance Form is attached and made a part of ("Agreement").

Location (full address and description):

Service Concept:

Buffet (FS or SSB) _____

DELCO _____

Express _____

Free Standing

In Line _____

C-Store _____

Other (specify) _____

Franchisee certifies that Franchisee is in full compliance with all terms of the Franchise Agreement and that no representation, promise, guarantee or warranty was made with respect to the Location, except as expressly stated in the Franchise Agreement.

Acceptance of the Location by the Company is only valid for 180 days from date of this Location Acceptance Form. If the accepted Location has not been leased or purchased by the end of such 180-day period, a new Location Acceptance Form must be submitted for approval.

FRANCHISEE HEREBY ACKNOWLEDGES AND AGREES THAT THE COMPANY'S ACCEPTANCE OF A PROPOSED LOCATION AND ANY INFORMATION IMPARTED TO FRANCHISEE REGARDING THE PROPOSED LOCATION SHALL NOT CONSTITUTE A WARRANTY OR REPRESENTATION OF ANY KIND, EXPRESS OR IMPLIED, AS TO THE POTENTIAL FOR SUCCESS OF A PIZZA INN RESTAURANT AT THE PROPOSED LOCATION. FRANCHISEE ACKNOWLEDGES THAT RESTAURANTS AT SITES ACCEPTED BY THE COMPANY MAY NOT BE SUCCESSFUL - WHETHER DUE TO THE LOCATION OR FOR OTHER REASONS.

The undersigned Franchisee understands and agrees that if this proposed location is not accepted by the Company as provided in the Franchise Agreement, or if the undersigned Franchisee otherwise fails to develop and open the Restaurant as required by the Franchise Agreement, the Company may terminate the Franchise Agreement and any fees paid will thereupon be forfeited.

Acceptance of the Location by the Company is contingent upon satisfaction of the following

conditions:

1. Written acceptance by the Company of the remodel or building plans, both interior and exterior.
2. Written acceptance by the Company of the site plan, including building location and parking.

EXECUTED BY FRANCHISEE THIS _____ DAY OF _____, 20__.

If corporation or partnership:

If individual(s):

By: _____

Name Printed: _____

Name

Title: _____

LOCATION ACCEPTED AND THIS FORM EXECUTED BY COMPANY AT THE COLONY,
TEXAS THIS _____ DAY OF _____, 20__.

PIZZA INN, INC.

By: _____

Name:

Title:

EXHIBIT E
GUARANTY

GUARANTY

Franchisee: _____

Effective Date: _____, 202__

FOR GOOD AND VALUABLE CONSIDERATION, the undersigned, _____, _____ **(address)** (whether singular or plural, hereinafter called “Guarantor”) hereby absolutely and unconditionally jointly and severally guarantee(s) to Company the performance in full, when due, of all the Obligations, as such terms are defined herein. In connection with the Obligations, including without limitation, those pursuant to the Leases, any Notes and the Franchise or License Agreements, Guarantor unconditionally guarantees to the Company, and any legal representative, successors and assigns of the Company, the full and punctual performance and observance by Franchisee of all the terms, covenants and conditions in any instrument or document evidencing any of the Obligations, including but not limited to the Leases, any Note, or Franchise or License Agreement on Franchisee’s part to be kept, performed or observed.

As used herein, the following terms shall have the meanings as defined below:

- (i) “Affiliated Companies” means any unincorporated division or entity of Company, any direct or indirect subsidiary or parent of Company or any entity under common ownership control with Company;
- (ii) “Company” means, collectively Pizza Inn, Inc., a Missouri corporation, with its principal office located at 3551 Plano Parkway, The Colony, Texas, and all Affiliated Companies and their legal representatives, successors and assigns;
- (iii) “Franchisee” means, _____ **(address)**, [a _____ corporation], [any and all divisions and subsidiaries thereof], and [its, his, their] legal representatives, successors and assigns;
- (iv) “Franchise Agreement” means any Franchise or License Agreement, now existing or hereafter entered into by and between Company and Franchisee, for the operation by Franchisee of a food operation location franchised by Company; and any extensions, modifications or renewals thereof;
- (v) “Lease” means any real property, personal property or equipment leases or financing agreements by and between Franchisee and Company, and under any such agreements for which Company remains liable that have been assigned to, and assumed by, Franchisee;
- (vi) “Notes” means any promissory notes or other instruments executed and delivered by Franchisee evidencing any obligation for the payment of money payable to Company now existing or hereafter entered into by Franchisee, and each and every extension, renewal or novation thereof, any security instruments held by Company to secure any Note or other Obligation; and any such obligations for which Company remains liable that have been assigned to, and assumed by Franchisee; and
- (vii) “Obligations” means all obligations of Franchisee to Company including, without limitation, those pursuant to or arising out of (a) purchases of goods and services from Company, including, without limitation, purchases of products from the Norco division of the Company; (b) obligations under the Franchise or License Agreement, including without

limitation, franchise fees, accrued franchise royalties and the full, punctual performance and observance of all the terms, covenants and conditions thereof; (c) obligations under the Leases; (d) obligations under the Notes and (e) obligations pursuant to the Pizza Inn Advertising Plan or any advertising or marketing co-operative of which Franchisee is a participant.

Guarantor expressly waives demand and diligence on the part of the Company in the collection or enforcement of any and all of the Obligations and agrees to all extensions or other accommodations that may be granted to Franchisee by the Company. The Company shall be under no obligation to notify Guarantor of (i) its acceptance hereof, (ii) of any sales or other accommodations made to Franchisee in reliance hereon, (iii) of the extension of funds evidenced by Notes or otherwise, (iv) of the failure of Franchisee to pay or perform any of the Obligations or in bringing suit or in taking other action to enforce collection or performance of the Obligations, (v) the entering into or any modification, renewal or extension of any of the provisions of Leases, Notes or Franchise or License Agreements. The Company agrees to use all reasonable efforts to notify Guarantor of a breach of or default in the performance of any Obligation by sending to Guarantor a photocopy of any notice sent to Franchisee, however, the failure to send such notice to Guarantor shall not in any way impair, waive or release the obligations of Guarantor hereunder. Guarantor agrees to pay the Company's reasonable attorneys' fees and related out of pocket expenses if this Guaranty is placed in the hands of any attorney for collection through court proceedings or otherwise.

If Franchisee's legal or entity status should change through merger, consolidation or otherwise, this Guaranty shall cover all the Obligations of Franchisee under its new status, in accordance with the terms hereof. This is a continuing Guaranty and shall apply to and cover the original Obligations and any renewals or extensions thereof. This Guaranty shall inure to the benefit of the Company and its legal representatives, successors and assigns. Guarantor hereby subordinates any obligations of Franchisee to Guarantor, either now existing or incurred after the date hereof, to the Obligations of Franchisee to the Company.

The Company shall not be required to pursue or exhaust any remedies against Franchisee, foreclose its interest in any collateral now or hereafter held by the Company as security for the payment or performance of the Obligations or to take any other action before requiring payment or performance under this Guaranty. Without in any manner impairing or diminishing the undertakings of Guarantor hereunder, the Company may elect to pursue any available remedy against Franchisee or against any collateral held by the Company, even though the exercise by the Company of such remedy may result in loss to Guarantor of any right of subrogation or of rights to proceed against Franchisee for reimbursement.

If a court of competent jurisdiction shall determine that Franchisee is not liable on the Obligations because the act of creating any of the Obligations is *ultra vires*, or if the officers or persons incurring the same acted in excess of their authority, and therefore the Obligations cannot be enforced against Franchisee, Guarantor nevertheless shall be liable hereunder.

If any payment by Franchisee to the Company is held to be a preference under any state or federal law or regulation relating to the relief of debtors, including with limitation, the Federal Bankruptcy Act, as amended, or if for any other reason the Company is required to refund such payment or pay the amount thereof to any other person, the fact of such payment by Franchisee to the Company shall not constitute a discharge of Guarantor from any liability hereunder, and Guarantor agrees to pay such amount to the Company upon demand.

Upon the death of an individual Guarantor, the estate of such Guarantor shall be bound by this Guaranty but only for defaults occurring and Obligations hereunder existing at the time of death; however, the Obligations of the other Guarantors hereunder shall continue in full force and effect.

Guarantor represents that he or it owns a substantial equity interest in Franchisee and is receiving consideration from the Obligations incurred by Franchisee to Company that constitutes a material, direct benefit to Guarantor. Guarantor acknowledges that Company is relying on this Guaranty as a primary, material inducement to enter into all the agreements which evidence the Obligations of Franchisee and any other contractual relationships arising from the franchise relationship. This undertaking shall inure to the benefit of the Company, its legal representatives, successors and assigns.

Guarantor covenants to deliver to the Company not later than sixty (60) days after the end of each calendar year while this Guaranty is effective, financial statements of Guarantor prepared by an accounting professional in accordance with generally accepted accounting principles consistently applied and signed by Guarantor verifying that the financial statements fairly reflect the financial condition of Guarantor as of the date thereof.

All notices or demands required or permitted hereunder shall be in writing and shall be deemed delivered when deposited with the United States Postal Service, first class, postage prepaid, certified or registered mail, return receipt requested, addressed to the addresses of the parties as specified herein or to such other address as such party may from time to time designate by notice.

Guarantor acknowledges that this Guaranty is to be performed by Guarantor in The Colony, Texas and shall be deemed to be a contract made under the laws of the State of Texas. Guarantor agrees (i) that this Guaranty shall be interpreted and construed in accordance with the laws of the State of Texas, (ii) to submit to the jurisdiction of the courts of the State of Texas, and (iii) that service of process by certified mail, return receipt requested, addressed to the last known address of Guarantor shall be sufficient to confer *in personam* jurisdiction over Guarantor.

GUARANTOR(S)

[Guarantor Name]

[Guarantor Name]

Date: _____

Date: _____

EXHIBIT F
CONFIDENTIALITY AGREEMENTS

**CONFIDENTIALITY AND NONCOMPETITION AGREEMENT
FOR FRANCHISE APPLICANT**

THIS CONFIDENTIALITY AND NONCOMPETITION AGREEMENT is made between PIZZA INN, INC. ("Company") and _____ individually and on behalf of _____, a corporation (collectively the "Applicant") on _____, 202__.

WHEREAS, the Company possesses certain proprietary and confidential information, including, but not limited to, methods, techniques, formats, specifications, procedures, information, systems and knowledge of and experience in the operation and franchising of Pizza Inn restaurants, and other information that is identified or treated by the Company as confidential or proprietary (the "Confidential Information"). The Confidential Information may be contained in certain operations manuals ("Operating Manuals") or in other written, spoken, electronic, visual or audio/visual form;

WHEREAS, the Applicant has applied, or intends to apply, to become a franchisee of the Company, and in connection therewith, Applicant desires to have access to the Confidential Information; and

WHEREAS, the Company agrees to allow Applicant access to the Confidential Information only to the extent and upon the terms and conditions set forth herein below.

NOW, THEREFORE, in consideration of the foregoing and mutual covenants set forth in this Agreement, the parties agree as follows:

1. Applicant acknowledges and agrees that as a result of viewing and acquiring the Confidential Information, Applicant stands in a confidential and fiduciary relationship with Company. Company shall at all times fully retain all proprietary rights and interest in the Confidential Information, and Applicant shall acquire no rights in or license to the Confidential Information.

2. Applicant covenants and agrees that Applicant shall hold the Confidential Information in strict confidence and trust, and shall not communicate, divulge, disclose or disseminate any of the Confidential Information in any form or by any means or method, to any person, organization or entity without the Company's express prior written consent, except to the extent absolutely necessary for the proper and efficient performance of Applicant's obligations in connection with the ownership and/or operation of a franchised Pizza Inn restaurant.

3. Applicant covenants and agrees that if, for whatever reason, Applicant's relationship with Company terminates, Applicant shall immediately place all of the Confidential Information, in whatever form or condition, in the custody and control of the Company. None of the Confidential Information may be retained or reconstructed electronically, mechanically, by memory or otherwise used in any form or context not specifically permitted by this Agreement, either during the existence of Applicant's relationship with Company, or thereafter.

4. If Applicant ultimately enters into a franchise or license agreement ("Franchise Agreement") with Company, the terms and conditions of the Franchise Agreement shall supersede this Agreement, and Applicant shall thereupon be bound by the confidentiality and non-competition covenants contained in the Franchise Agreement.

5. If, following Company's disclosure of the Confidential Information to Applicant, Applicant does not enter into a Franchise Agreement with Company, Applicant for a period of six (6) months thereafter shall not, directly or indirectly, enter into any business relationship with, or the

employment of, any other person, partnership, association, corporation or other entity engaged in the same or a substantially similar business of Company (which is herein agreed to encompass the pizza restaurant business), nor shall Applicant engage in such business for Applicant's own account, provide consulting or advisory services, or come to own an interest in such a business directly or indirectly, or as an individual, partner, stockholder (except in the case of any publicly held corporation, the stock of which is traded on a major stock exchange), director, officer, principal, agent, trustee, receiver, or in any other relation, position or capacity.

6. Notwithstanding anything contained in this Agreement to the contrary and provided that Applicant shall have first obtained the Company's written consent, which consent shall not be unreasonably withheld, the restrictions on Applicants disclosure and use of the Confidential Information shall not apply to (i) information, processes or techniques which are or become generally known in the pizza restaurant industry, other than through disclosure (whether deliberate or inadvertent) by Applicant, or (ii) disclosure of Confidential Information in administrative or judicial proceedings to the extent Applicant is legally compelled to disclose such information.

7. Applicant understands and agrees that any Confidential Information in the form of sales, revenue, or profit figures or calculations that may be discussed with or provided to Applicant are discussed or provided for illustration or training purposes only and should not be construed as representations or estimates of potential sales, revenues, or profits to be realized by Applicant in the future operation of Applicant's restaurant.

8. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas. Applicant covenants and agrees that if Applicant fails or refuses to comply fully with the terms of this Agreement for whatever reason, Applicant shall pay all costs, fees (including reasonable attorney's fees) and expenses incurred by the Company in enforcing the terms of this Agreement. No failure to act hereunder shall be deemed a waiver by the Company of any rights or remedies herein stated.

PIZZA INN, INC.

APPLICANT

By: _____

(company name, if applicable)

Title: _____

By: _____

Title: _____

(individual signature)

**CONFIDENTIALITY AND NONCOMPETITION AGREEMENT
FOR EMPLOYEES OF FRANCHISE RESTAURANTS**

THIS CONFIDENTIALITY AND NONCOMPETITION AGREEMENT is made between PIZZA INN, INC. ("Company") and _____ ("Employee").

WHEREAS, the Company possesses certain proprietary and confidential information, including, but not limited to, methods, techniques, formats, specifications, procedures, information, systems and knowledge of and experience in the operation and franchising of Pizza Inn restaurants, and other information which is identified or treated by the Company as confidential or proprietary (the "Confidential Information"). The Confidential Information may be contained in certain operations manuals ("Operating Manuals") or in other written, spoken, electronic, visual or audio/visual form;

WHEREAS, the Employee is an employee of an existing or potential franchisee of the Company, and in connection with training to be provide to Employee by Company, Employee desires to have access to the Confidential Information; and

WHEREAS, the Company agrees to allow Employee access to the Confidential Information only to the extent and upon the terms and conditions set forth herein below.

NOW, THEREFORE, in consideration of the foregoing and mutual covenants set forth in this Agreement, the parties agree as follows:

1. Employee acknowledges and agrees that as a result of viewing and acquiring the Confidential Information, Employee stands in a confidential and fiduciary relationship with Company. Company shall at all times fully retain all proprietary rights and interest in the Confidential Information, and Employee shall acquire no rights in or license to the Confidential Information.

2. Employee covenants and agrees that Employee shall hold the Confidential Information in strict confidence and trust, and shall not communicate, divulge, disclose or disseminate any of the Confidential Information in any form or by any means or method, to any person, organization or entity without the Company's express prior written consent, except to the extent absolutely necessary for the proper and efficient performance of Employee's obligations in connection with Employee's duties as an employee of a Company franchisee ("Franchisee").

3. Employee covenants and agrees that if, for whatever reason, Employee's employment relationship with Franchisee terminates, Employee shall immediately place all of the physical Confidential Information, in whatever form, format, or condition, in the custody and control of Franchisee. None of the Confidential Information may be discussed, distributed, disclosed, or retained or reconstructed electronically, mechanically, by memory or otherwise used in any form or context not specifically permitted by this Agreement, either during the existence of Employee's relationship with Franchisee, or thereafter.

4. If, following Company's disclosure of the Confidential Information to Employee, Employee leaves the employ of Franchisee for whatever reason or cause, Employee for a period of six (6) months thereafter shall not, directly or indirectly, enter into the employment of any other person, partnership, association, corporation or other entity engaged in the same or a substantially similar business of Company (which is herein agreed to encompass the pizza restaurant business), nor shall Employee engage in such business for Employee's own account, provide consulting or advisory services, or come to own an interest in such a business directly or indirectly, or as an individual, partner, stockholder (except in the case of any publicly held corporation, the stock of which is traded on a major stock exchange), director, officer, principal, agent, trustee, receiver, or in any other relation, position or capacity.

5. Notwithstanding anything contained in this Agreement to the contrary and provided that Employee shall have first obtained the Company's written consent, which consent shall not be unreasonably withheld, the restrictions on Employees disclosure and use of the Confidential Information shall not apply to (i) information, processes or techniques which are or become generally known in the pizza restaurant industry, other than through disclosure (whether deliberate or inadvertent) by Employee, or (ii) disclosure of Confidential Information in administrative or judicial proceedings to the extent Employee is legally compelled to disclose such information.

6. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas. Employee covenants and agrees that if Employee fails or refuses to comply fully with the terms of this Agreement for whatever reason, Employee shall pay all costs, fees (including reasonable attorney's fees) and expenses incurred by the Company in enforcing the terms of this Agreement. No failure to act hereunder shall be deemed a waiver by the Company of any rights or remedies herein stated.

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound hereby, have executed this Agreement as of _____, 202__.

PIZZA INN, INC.,
a Missouri corporation

By: _____

Title: _____

EMPLOYEE

Signature

Name Printed

Employee is employed by: _____

Date of training class: _____

EXHIBIT G

TABLE OF CONTENTS OF OPERATING MANUAL

Pizza Inn Operations Manual

Table of Contents:

1. Food Handling – 11 pages
2. Menu Requirements – 12 pages
3. Buffet Requirements – 10 pages
4. Beverages – 5 pages
5. People – 3 pages
6. Financial – 6 pages
7. Equipment Maintenance – 7 pages
8. Uniforms – 2 pages

EXHIBIT H

LIST OF STATE ADMINISTRATORS/AGENTS FOR SERVICE OF PROCESS

LIST OF STATE AGENCIES/AGENTS FOR SERVICE OF PROCESS

Listed here are the names, addresses and telephone numbers of the state agencies having responsibility for franchising disclosure/registration laws. We may not be registered to sell franchises in any or all of these states.

STATE	STATE ADMINISTRATOR	AGENT FOR SERVICE OF PROCESS
CALIFORNIA	Department of Business Oversight (866) 275-2677 320 West 4th Street, Suite 750 Los Angeles, California 90013 (213) 576-7500 1515 K Street, Suite 200 Sacramento, California 95814-4052 (916) 445-7205 One Sansome Street, Suite 600 San Francisco, California 94104 (415) 972-8559	Commissioner of Business Oversight Department of Business Oversight 320 West 4th Street, Suite 750 Los Angeles, California 90013-2344
HAWAII	Business Registration Division Department of Commerce and Consumer Affairs Securities Compliance Branch P.O. Box 40 Honolulu, Hawaii 96810 (808) 586-2722	Commissioner of Securities of the State of Hawaii Department of Commerce & Consumer Affairs 335 Merchant Street Room 203 Honolulu, Hawaii 96813 (808) 548-2722
ILLINOIS	Franchise Bureau Office of the Attorney General 500 South Second Street Springfield, Illinois 62706 (217) 782-4465	Illinois Attorney General 500 South Second Street Springfield, Illinois 62706
INDIANA	Securities Commissioner Indiana Securities Division 302 West Washington St., Room E-111 Indianapolis, Indiana 46204 (317) 232-6681	Indiana Secretary of State 201 State House 200 West Washington Street Indianapolis, Indiana 46204 (317) 232-6531
MARYLAND	Office of the Attorney General Securities Division 200 St. Paul Place Baltimore, Maryland 21202-2021 (410) 576-6360	Maryland Securities Commissioner Office of the Attorney General Securities Division 200 St. Paul Place Baltimore, Maryland 21202-2021 (410) 576-6360
MICHIGAN	Michigan Department of Attorney General Consumer Protection Division Franchise Section 525 West Ottawa Street G. Mennen Williams Building, 1st Floor Lansing, Michigan 48933	Michigan Department of Commerce Corporations & Securities Bureau 6546 Mercantile Way Lansing, Michigan 48909

STATE	STATE ADMINISTRATOR	AGENT FOR SERVICE OF PROCESS
	(517) 373-7117	
MINNESOTA	Minnesota Department of Commerce 85 7 th Place East, Suite 280 St. Paul, Minnesota 55101-2198 (651) 539-1600	Commissioner of Commerce 85 7 th Place East, Suite 280 St. Paul, Minnesota 55101-2198
NEW YORK	NYS Department of Law Investor Protection Bureau 28 Liberty Street, 21 st Floor New York, New York 10005 (212) 416-8285	Secretary of State of the State of New York One Commerce Plaza 99 Washington Avenue, 6 th floor Albany, New York 12231-0001 (518) 473-2492
NORTH DAKOTA	North Dakota Securities Department 600 East Blvd. Ave., Fifth Floor Bismarck, North Dakota 58505 (701) 328-2910	North Dakota Securities Commissioner State of North Dakota 600 East Boulevard Avenue, Fifth Floor Bismarck, North Dakota 58505 (701) 328-4712
OREGON	Department of Insurance and Finance Corporate Securities Section Labor and Industries Building Salem, Oregon 97310 (503) 378-4387	
RHODE ISLAND	Department of Business Regulation Securities Division 1511 Pontiac Avenue, Bldg. 69-1 Cranston, Rhode Island 02920 (401) 462-9645	Director Department of Business Regulation John O. Pastore Complex 1511 Pontiac Avenue, Bldg. 69-1 Cranston, Rhode Island 02920
SOUTH DAKOTA	Division of Insurance Securities Regulation 124 S. Euclid, Suite 104 Pierre, South Dakota 57501-3185 (605) 773-3563	Director, Division of Insurance Securities Regulation 124 S. Euclid, Suite 104 Pierre, South Dakota 57501-3185
VIRGINIA	State Corporation Commission Division of Securities and Retail Franchising 1300 East Main Street, 9 th Floor Richmond, Virginia 23219 (804) 371-9051	Clerk, State Corporation Commission 1300 East Main Street, 1 st Floor Richmond, Virginia 23219 (804) 371-9733
WASHINGTON	Department of Financial Institutions Securities Division P.O. Box 9033 Olympia, Washington 98507-9033 (360) 902-8760	Director, Department of Financial Institutions Securities Division 150 Israel Road, S.W. Tumwater, Washington 98501
WISCONSIN	Securities and Franchise Registration Wisconsin Securities Commission 345 West Washington Street, 4 th Floor Madison, Wisconsin 53703 (608) 266-3431	Securities and Franchise Registration Wisconsin Securities Commission 345 West Washington Street, 4 th Floor Madison, Wisconsin 53703

EXHIBIT I
LIST OF CURRENT FRANCHISEES

LIST OF CURRENT BUFFET FRANCHISEES FY 2021

	FRANCHISEE	ADDRESS	CITY	ST	ZIP	PHONE #
10400600	Clairday, Bobby	1208 S. Caraway Blvd.	Jonesboro	AR	72401	(870) 932-1010
10400700	Clairday, Bobby	358 Southwest Dr	Jonesboro	AR	72401	(870) 932-1011
10404300	Clairday, Bobby	2406 W. Kings Hwy	Paragould	AR	72450	(870) 236-1300
10412400	Fleeman, Teresa & Danny	1035 E. Main St.	Blytheville	AR	72315	(870) 824-2660
10414700	Rao, Arvind	1127 Hwy 62 East	Mountain Home	AR	72654	(870) 701-5061
11100100	Middleton, Keith	3461 Cypress Mill Rd.	Brunswick	GA	31520	(912) 265-2899
11112700	Middleton, Keith	1003 Sunset Blvd	Jesup	GA	31545	(912) 385-2165
11802400	Mehrizi, Mahmoud	100 Brighton Park	Frankfort	KY	40601	(502) 695-4102
11802500	Rust, Larry	1001 Joe Clifton Dr.	Paducah	KY	42001	(270) 442-7105
11905200	Singh, Bob	1611 Washington St.	Franklinton	LA	70438	(985) 839-6305
12610000	Hicks, Jeffrey	1915 N. Westwood Blvd.	Poplar Bluff	MO	63901	(573) 686-1191
12616600	Hicks, Jeffrey	1108 S. Main Street	Salem	MO	65560	(573) 729-8585
12608700	Tetley, Danny	1905 E. Malone Ave.	Sikeston	MO	63801	(573) 471-8590
12609000	Westrich, Larry	196 Drury Lane	Jackson	MO	63755	(573) 243-2218
12508000	Cooley, James F.	902A Mississippi Dr.	Waynesboro	MS	39367	(601) 735-5600
12512700	Dees, Aaron	411 Summit St.	Winona	MS	38967	(662) 283-4801
12521500	Fountain, Martha & Ford	405 Main St.	Leakesville	MS	39451	(601) 394-2999
12506400	Mann, Baldev (Dave)	1503 Beulah Ave.	Tylertown	MS	39667	(601) 876-2003
12513400	Michel Thakur	4102 East Clay St.	Vicksburg	MS	39183	(601) 638-5061
12508100	Prout, Bill	530 Central Avenue West	Wiggins	MS	39577	(601) 928-9000
12505200	Singh, Bob	429 Broad Street	Monticello	MS	39654	(601) 587-4041
12507000	Singh, Bob	1463 Sunset Dr.	Grenada	MS	38901	(662) 226-3330
12504000	Singh, Jason	924 Hwy. 82 West	Greenwood	MS	38930	(662) 455-2734
13400800	Broome, Tom	1227 S. Main St.	Laurinburg	NC	28352	(910) 276-6565
13401200	Broome, Tom	1352 E. Broad Ave.	Rockingham	NC	28379	(910) 997-5696
13402900	Copeland Jr., Ed	101 Jersey St.	Ahoskie	NC	27910	(252) 332-5036
13404200	Copeland Sr., Ed	1250 Coble Blvd.	Henderson	NC	27536	(252) 492-2144
13402000	Copeland, Ed Sr,	2211 Saint Andrew St.	Tarboro	NC	27886	(252) 823-1018
13410200	Hale, Susan	1103 Sunset Ave.	Clinton	NC	28328	(910) 590-3100
13417800	Harrington, Troy	3906 N. Duke St.	Durham	NC	27704	(919) 294-6700
13404800	James, Leo	920 Tsalagi Road	Cherokee	NC	28719	(828) 497-9143
13418500	Johnson, Kenneth	1138 W. Broad St.	Dunn	NC	28334	(910) 892-7151
13418600	Johnson, Kenneth	60 Son Lan Pkwy	Garner	NC	27529	(919) 322-4290
13418700	Johnson, Kenneth	1441 S. Pollock St.	Selma	NC	27576	(919) 965-4400
13419100	Johnson, Kenneth	700 Ward Blvd.	Wilson	NC	27893	(252) 291-2105
13401500	Page, Bill	1509 Carolina Ave.	Washington	NC	27889	(252) 946-0149
13400500	Poythress, Jill	707 Norwood Ave.	Goldsboro	NC	27534	(919) 736-2185
13417600	Simmons, Bill	127 E. Dixon Blvd.	Shelby	NC	28152	(704) 482-2441
13408200	Stancil, Steve	1473 Hunter Hill Rd.	Rocky Mount	NC	27804	(252) 937-2323

13202800	Moore, Michael	1943 N. Grimes St.	Hobbs	NM	88240	(575) 397-0505
13203100	Moore, Michael	1210 W. Pierce St.	Carlsbad	NM	88220	(575) 887-7566
13203200	Moore, Michael	3005 National Parks Hwy.	Carlsbad	NM	88220	(575) 887-5049
13711000	Clark, Charlie	415 Westside Dr.	Durant	OK	74701	(580) 380-4268
13709400	Mosteller, Gabe	1107 N. York St.	Muskogee	OK	74403	(918) 682-3407
14110400	Acker, Daven	1517 E. Main St.	Duncan	SC	29334	(864) 433-8447
14110500	Acker, Daven	1108 Asheville Hwy	Spartanburg	SC	29303	(864) 585-4281
14110700	Acker, Daven	2225 E. Main St.	Spartanburg	SC	29307	(864) 579-1115
14111100	Acker, Daven	115 W. Wade Hampton	Greer	SC	29650	(864) 877-7779
14100600	Broome, Tom	1404 Church St.	Conway	SC	29526	(843) 248-9216
14101800	Broome, Tom	1107 N. Main St.	Lancaster	SC	29720	(803) 283-3357
14108700	Cartagine, Keith	515 Roe Center Court	Travelers Rest	SC	29690	(864) 834-1090
14108800	Cartagine, Keith	2001 Woodruff Rd.	Greenville	SC	29607	(864) 281-0929
14106500	Acker, Daven	502 Ann St., Ste. V	Pickens	SC	29671	(864) 878-7918
14311100	Brown, Jamey	5420 Clinton Hwy	Knoxville	TN	37912	(865) 357-7499
14311300	Coker, Scott	1501 Oak Ridge Turnpike	Oak Ridge	TN	37830	865-482-5656
14313000	Holt, Dan	2762 Huntsville Hwy	Fayetteville	TN	37344	(931) 433-3828
14312400	Moore, Harold	275 E. Andrew Johnson	Greeneville	TN	37745	(423) 638-2000
14303900	Overholt, Eddie	1586 N. Broad St.	Tazewell	TN	37879	(423) 626-7258
14403200	Baenisch, Jim	6900 Boulevard 26, Ste. D	Richland Hills	TX	76180	(817) 284-9359
14472100	Broussard, Donny	1501 Magnolia Ave.	Port Neches	TX	77651	(409) 722-4600
14474300	Crouch, Robert (Mike)	624 W. Broadway St.	Winnsboro	TX	75494	(903) 342-9192
14485800	El Chehimi, Mohamad	200 S. I-35 (Service Road)	Red Oak	TX	75154	(972) 617-7400
14460800	Foroudi, Hamid	1801 Mangum Rd.	Houston	TX	77092	(713) 861-2389
14471000	Hemani, Abdul	3003 N. Galloway Ave.	Mesquite	TX	75150	(972) 686-7861
14463400	Herrley, Keith	3907 College Ave.	Snyder	TX	79549	(325) 573-3542
14465100	Herrley, Keith	700 E. FM 700	Big Spring	TX	79720	(432) 263-1381
14478800	Hussain, Ijaz	4304 Live Oak St.	Dallas	TX	75204	(214) 826-8855
14489500	Koopman, Patrick	310 N. Hwy 67	Midlothian	TX	76065	(972) 775-5511
14473500	Strate, Travis	1320 Mockingbird Ln.	Sulphur Springs	TX	75482	(903) 885-1549
14707900	Arbuckle, Stuart	190 N. Franklin St.	Christiansburg	VA	24073	(540) 382-4989

LIST OF CURRENT EXPRESS FRANCHISEES FY 2021

	FRANCHISEE	ADDRESS	CITY	ST	ZIP	PHONE #
10207500	Patel, Ketan	12640 Highway 188	Grand Bay	AL	36541	(251) 865-0090
10207700	Patel, Dineshkumar	1261 Schillinger Rd. N.	Mobile	AL	36608	(251) 633-7164
10207900	Patel, Brijesh	9910 Tanner Williams Rd.	Mobile	AL	36608	(251) 645-2444
10412300	Flash Market - Woodward	3148 I-55	Marion	AR	72364	(870) 739-5646
10412900	Blackmon, David	104 1st Street	Glenwood	AR	71943	(870) 356-7466

10413100	Flash Market - Woodward	1728 Hwy 69	Trumann	AR	72472	(870) 483-1918
10413200	Flash Market - Woodward	1920 Main St.	Brinkley	AR	72021	(870) 734-3120
10413300	Flash Market - Woodward	988 South Falls Blvd.	Wynne	AR	72396	(870) 238-3714
10413600	Flash Market - Woodward	1250 Truman Baker Dr.	Searcy	AR	72143	(501) 305-2676
10413700	Blackmon, David	104 E. 13th Street	Murfreesboro	AR	71958	(870) 285-4146
10413800	Flash Market - Woodward	Hwy 62 & US 167	Ash Flat	AR	72513	(870)994-7441
10413900	Flash Market - Woodward	759 Heber Springs Rd.	Batesville	AR	72501	(870) 257-2403
10414200	Aman, Anwar	4710 W. Keiser Ave.	Osceola	AR	72370	(870) 563-4928
10414300	Akhunji, Mohammed	3701 S. Division	Blytheville	AR	72315	(870) 563-4928
10414400	Flash Market - Woodward	100 East Main St.	Monette	AR	72447	(870) 486-2739
10414500	Blackmon, David	101 S. Elm St.	Gurdon	AR	71743	(870) 353-2888
10414600	Arif, Mohammad	3816 Hwy. 367 N.	Bald Knob	AR	72010	(501) 724-5410
10414900	Flash Market - Woodward	816 S Main St.	Rector	AR	72461	(870) 595-3871
10415100	Flash Market - Woodward	2074 Evening Shade Dr.	Evening Shade	AR	72532	(870) 266-3030
10415200	Flash Market - Woodward	910 Magnolia St.	Jonesboro	AR	72401	(870) 933-0516
10415500	Jalal, Noor	16251 Hwy 77	Turrell	AR	72384	(870) 343-8748
10417500	Blackmon, David	804 E. 8th	Danville	AR	72833	(479) 495-7499
10417800	Blackmon, David	859 N. Cedar St.	Bearden	AR	71720	(870) 687-2030
12514600	Singh, Vikramjeet	1935 W State Line Rd	Southaven	MS	38671	(662) 510-2866
12607300	Jewell, Russel E	Junction Hwy 19 & 63 S.	Thayer	MO	65791	(417) 264-3800
12609600	Flash Market - Woodward	300 N. Main St.	Clarkton	MO	63837	(573) 448-3737
13411400	Pope, Judson (E.J.)	1605 Herring Ave. NE	Wilson	NC	28793	(252) 291-7551
13411600	Pope, Judson (E.J.)	358 NE Center St.	Faison	NC	28341	(910) 267-9281
13416700	Pope, Judson (E.J.)	1031 Kingold Blvd.	Snow Hill	NC	28580	(252) 747-7115
14111200	Patel, Yash	335 Main St. North	Allendale	SC	29810	(803) 584-1616
14469900	Haile, Don	301 W Second St	Hico	TX	76457	(254) 796-4738
14470000	Haile, Don	710 N. Ave G	Clifton	TX	76633	(254) 206-2063
14471100	Haile, Don	520 W. Main St.	Hamilton	TX	76531	(254) 386-8903
14484600	Engineer, Habib	8605 Memorial Dr.	Houston	TX	77024	(713) 686-3758
14488100	Mouri, Foad	915 Early Blvd.	Early	TX	76802	(325) 646-0801
14490500	Huchton, Neil & Barbara	203 East Division	Muenster	TX	76252	(940) 759-2923
14490700	Almufti, Sam /Alex Barakat	5355 FM 1565	Caddo Mills	TX	75135	(903) 527-5820
14490800	Sidhu, Sonny	801 S. Main St.	Anahuac	TX	77514	(409) 267-6151
14493700	Khawja, Nooruddin	12131 Northpoint Blvd	Tomball	TX	77377	
14494500	Naqvi, Tony	13309 Hwy 21 W	North Zulch	TX	77872	(936)399-2356
14495500	Dhuka, Rasheed	8610 FM 3180	Baytown	TX	77523	
14495700	Naqvi, Tony	506 W. Broad St.	Oakwood	TX	75855	(903) 545-1954
14496000	Patel, Snehat (Hiren Patel)	6757 West Port Arthur Dr.	Port Arthur	TX	77640	(409) 736-3981
14709900	Clinger, Case & Beth	801 E. Main St.	Floyd	VA	24091	(540) 745-7499

LIST OF CURRENT DELCO FRANCHISEES FY 2021						
	FRANCHISEE	ADDRESS	CITY	ST	ZIP	PHONE #
14708500	Cockerham, Danny	US Hwy. 58 & Interstate Hwy. 77	Hillsville	VA	24343	(276) 728-2799
13419000	Solanki, Prakashkumar	6638 W. Hwy 27	Vale	NC	28168	(704) 244-1666
13418300	Parikh, Nimesh	7902 Emerald Dr.	Emerald Isle	NC	28594	(252) 354-4468
10412200	Flash Market - Woodward	1114 Hwy 77 South	Marion	AR	72364	(870) 735-4496
10414800	Flash Market - Woodward	406 SW Front St.	Walnut Ridge	AR	72476	(870) 886-5129
10412500	Flash Market - Woodward	502 N. Main	Cave City	AR	72521	(870) 283-3176
14492100	Alyousef, Hatem	11003 Antoine Dr., Ste. E	Houston	TX	77086	(281) 586-8299
14594700	Hanif, Wajiha	6911 FM 521	Arcola	TX	77583	(281) 972-9498
14493300	Gonzalez, Dave	204 W. Viggie St.	Hebbbronville	TX	78361	361-527-3513
14499400	Calderon, Alex & Iris	114 N. Cedar Ridge Drive	Duncanville	TX	75116	(972) 296-5258
14708500	Cockerham, Danny	US 58 & I- 77	Hillsville	VA	24343	(276) 728-2799

EXHIBIT J

LIST OF FRANCHISEES THAT HAVE CLOSED/TRANSFERRED RESTAURANTS IN THE PAST FISCAL YEAR

The following is a list of the name, city and state, and current business telephone number (or if unknown, the last known home telephone number) of each franchisee that had a Restaurant terminated, canceled or not renewed or otherwise voluntarily or involuntarily ceased to do business under the franchise agreement during fiscal year 2021; or failed to communicate with Pizza Inn, Inc. within 10 weeks of the application date of this disclosure document. If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system.

LIST OF FRANCHISEES WHO CLOSED BUFFET RESTAURANTS IN FISCAL YEAR 2021

FRANCHISEE	CITY	ST	PHONE NO
Arvind Rao	Mt. Home	AR	501-317-6391
Gursam Singh	McGehee	AR	870-222-8929
Robert Wiggins	Baxley	GA	912-278-0453
Jack Saussy	Waycross	GA	912-337-2225
Kevin Khambhati	Pearl	MS	601-624-9075
Page / Milner	Greenville	NC	252-946-8156
Bill Simmons	High Point	NC	704-609-6358
Tony Nemer	Stillwater	OK	580-716-7084
Allen Odetallah	OK City	OK	405-410-5306
Allen Odetallah	McAlester	OK	405-410-5306
Daven Acker	Greenwood	SC	864-323-4551
Tim & Jan Broome	Elizabethton	TN	423-747-0594
Ed Cozart	Abingdon	VA	276-608-8874

LIST OF FRANCHISEES WHO TRANSFERRED BUFFET RESTAURANTS IN FISCAL YEAR 2021

FRANCHISEE	CITY	ST	PHONE NO
Dennis Schafer	Salem	MO	573-729-1439
Ali & Rahim Hemani	Duncanville	TX	817-666-9677
Joe Crouch	Sulphur Springs	TX	903-243-0963

LIST OF FRANCHISEES WHO CLOSED EXPRESS RESTAURANTS IN FISCAL YEAR 2021

FRANCHISEE	CITY	ST	PHONE NO
Nirav Patel	Manila	AR	215-301-9596
Nimesh Parikh	Atlantic Beach	NC	917-519-8445

LIST OF FRANCHISEES WHO TRANSFERRED EXPRESS RESTAURANTS IN FISCAL YEAR 2021

FRANCHISEE	CITY	ST	PHONE NO
Soy Thottumkal	Arcola	TX	281-972-9498

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**LIST OF FRANCHISEES WHO CLOSED
DELCO RESTAURANTS IN FISCAL YEAR 2021**

FRANCHISEE	CITY	ST	PHONE NO
Tom Vail	Pikeville	NC	919-738-1624
Ashraf Assaedi	Vanceboro	NC	252-244-1666

**LIST OF FRANCHISEES WHO TRANSFERRED
DELCO RESTAURANTS IN FISCAL YEAR 2021**

FRANCHISEE	CITY	ST	PHONE NO
Not Applicable			

EXHIBIT K
PARENT GUARANTY

EXHIBIT K

PARENT GUARANTY

GUARANTEE OF PERFORMANCE

For value received, RAVE RESTAURANT GROUP, INC., a Missouri corporation located at 3551 Plano Parkway, The Colony, Texas 75056 (the "Guarantor"), absolutely and unconditionally guarantees the performance by PIZZA INN, INC., located at 3551 Plano Parkway, The Colony, Texas 75056 (the "Franchisor"), of all of the obligations of Franchisor in accordance with the terms and conditions of the franchise registration in each state where the franchise is registered, and under its Franchise Agreement identified in its Franchise Disclosure Document, as it may be amended, and as that Franchise Agreement may be entered into with franchisees as amended, modified or extended from time to time.

This guarantee continues in full force and effect until all obligations of the Franchisor under its franchise registrations, and Franchise Agreement are satisfied or until the liability of Franchisor to its franchisees under the Franchise Agreement has been completely discharged, whichever first occurs. The Guarantor is not discharged from liability if a claim by a franchisee against the Franchisor remains outstanding. Notice of acceptance is waived. The Guarantor does not waive notice of Franchisor's default. This guarantee is binding on the Guarantor and its successors and assignees.

The Guarantor signs this guarantee at 3551 Plano Parkway, The Colony, Texas 75056 on October 20, 2021.

GUARANTOR:

RAVE RESTAURANT GROUP, INC.

By: 
Brandon Solano, Chief Executive Officer

EXHIBIT L

SAMPLE GENERAL RELEASE

Grant of Franchisor Consent and Franchisee Release

PIZZA INN, INC. (“we,” “us,” or “our”) and the undersigned [**franchisee or multi-unit developer**], _____ (“you” or “your”), currently are parties to a certain [**franchise agreement or development agreement**] (the [**“Franchise Agreement” or “Development Agreement”**]) dated _____, 202___. You have asked us to take the following action or to agree to the following request: [**insert as appropriate for renewal or transfer situation**]

1. We have the right under the [**Franchise Agreement or Development Agreement**] to obtain a general release from you (and, if applicable, your owners) as a condition of taking this action or agreeing to this request. Therefore, we are willing to take the action or agree to the request specified above if you (and, if applicable, your owners) give us the release and covenant not to sue provided below in this document. You (and, if applicable, your owners) are willing to give us the release and covenant not to sue provided below as partial consideration for our willingness to take the action or agree to the request described above.

General Release. Consistent with the previous introduction, you, on your own behalf and on behalf of your successors, heirs, executors, administrators, personal representatives, agents, assigns, partners, owners, managers, directors, officers, principals, employees, and affiliated entities (collectively, the “Releasing Parties”), hereby forever release and discharge us and our current and former officers, directors, owners, managers, principals, employees, agents, representatives, affiliated entities, successors, and assigns (collectively, the “Released Parties”) from any and all claims, damages (known and unknown), demands, causes of action, suits, duties, liabilities, and agreements of any nature and kind (collectively, “Claims”) that you and any of the other Releasing Parties now has, ever had, or, but for this document, hereafter would or could have against any of the Released Parties, including without limitation, (1) arising out of or related to the Released Parties’ obligations under the [**Franchise Agreement or Development Agreement**] or (2) otherwise arising from or related to your and the other Releasing Parties’ relationship, from the beginning of time to the date of your signature below, with any of the Released Parties. You, on your own behalf and on behalf of the other Releasing Parties, further covenant not to sue any of the Released Parties on any of the Claims released by this paragraph.

We also are entitled to a release and covenant not to sue from your owners. By his, her, or their separate signatures below, your owners likewise grant to us the release and covenant not to sue provided above.

Representations and Warranties. You represent and warrant to us that, in entering into this release, you (i) are doing so freely and voluntarily upon the advice of counsel and business advisor of your own choosing (or declined to do so, free from coercion, duress or fraud); (ii) have read and fully understand the terms and scope of this release; (iii) realize that it is final and conclusive, and intend it to be final and conclusive, as to the matters set forth in this release; and (iv) have not assigned, transferred, or conveyed to any third party all or any part of or partial or contingent interest in any of the Claims which are called for to be released by this release, that you are aware of no third party who contends or claims otherwise, and that you shall not purport to assign, transfer, or convey any such claim in the future.

2. Miscellaneous.

This release cannot be modified, altered or otherwise amended except by an agreement in writing signed by all of the parties hereto.

This release, together with the agreements referenced in this release, constitute the entire understanding between and among the parties with respect to the subject matter of this release. This release supersedes any prior negotiations and agreements, oral or written, with respect to its subject matter. No representations, warranties, agreements or covenants have been made with respect to this release, and in executing this release, none of the parties is relying upon any representation, warranty, agreement or covenant not set forth in this release.

This release may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument. Signatures transmitted via fax or scanned and e-mailed shall be given the same force and effect as originals.

This release shall be binding upon and inure to the benefit of the parties to this release and their respective successors and permitted assigns.

Any provision of this release which is prohibited, unenforceable or not authorized in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition, unenforceability or non-authorization without invalidating the remaining provisions hereof or affecting the validity, enforceability or legality of such provision in any other jurisdiction.

This release shall be governed by and construed in accordance with the internal laws of the State of Texas, without reference to conflict of law principles.

IN WITNESS WHEREOF, the parties have caused this instrument to be duly executed.

LICENSOR:

By: _____

Print Name: _____

Title: _____

Date: _____

LICENSEE:

By: _____

Print Name: _____

Title: _____

Date: _____

EXHIBIT M

REPRESENTATIONS AND ACKNOWLEDGMENT STATEMENT

REPRESENTATIONS AND ACKNOWLEDGMENT STATEMENT

The purpose of this Statement is to demonstrate to **Pizza Inn, Inc.**, (“Franchisor”) that each person signing below (“I,” “me” or “my”), whether acting individually or on behalf of any legal entity established to acquire the multi-unit development and/or franchise rights (“Franchisee”), (a) fully understands that the purchase of a Pizza Inn franchise is a significant long-term commitment, complete with its associated risks, and (b) is not relying on any statements, representations, promises or assurances that are not specifically set forth in Franchisor’s Franchise Disclosure Document and Exhibits (collectively, the “FDD”) in deciding to purchase the franchise.

In that regard, I represent to Franchisor and acknowledge that:

I understand that buying a franchise is not a guarantee of success. Purchasing or establishing any business is risky, and the success or failure of the franchise is subject to many variables over which Franchisor has no control such as my skills and abilities (and those of my partners, officers, employees), the time my associates and I devote to the business, competition, interest rates, the economy, inflation, operation costs, location, lease terms, the market place generally and other economic and business factors. I am aware of and am willing to undertake these business risks. I understand that the success or failure of my business will depend primarily upon my efforts and not those of Franchisor.	INITIAL:
I received a copy of the FDD, including the Franchise Agreement and Development Agreement, at least 14 calendar days before I executed the Franchise Agreement and/or the Development Agreement, as applicable. I understand that all of my rights and responsibilities and those of Franchisor in connection with the franchise are set forth in these documents and only in these documents. I acknowledge that I have had the opportunity to personally and carefully review these documents and have, in fact, done so. I have been advised to have professionals (such as lawyers and accountants) review the documents for me and to have them help me understand these documents. I have also been advised to consult with other franchisees regarding the risks associated with the purchase of the franchise.	INITIAL:
Neither the Franchisor nor any of its officers, employees or agents (including any franchise broker) has made a statement, promise or assurance to me concerning any matter related to the franchise (including those regarding advertising, marketing, training, support service or assistance provided by Franchisor) that is contrary to, or different from, the information contained in the FDD.	INITIAL:
My decision to purchase the franchise has not been influenced by any oral representations, assurances, warranties, guarantees or promises whatsoever made by the Franchisor or any of its officers, employees or agents (including any franchise broker), including as to the likelihood of success of the franchise.	INITIAL:
I have made my own independent determination as to whether I have the capital necessary to fund the business and my living expenses, particularly during the start-up phase.	INITIAL:

SPECIAL REPRESENTATION REGARDING RECEIPT OF FINANCIAL INFORMATION.

PLEASE READ THE FOLLOWING QUESTION CAREFULLY. THEN SELECT YES OR NO AND PLACE YOUR INITIALS WHERE INDICATED.

Have you received any information from the Franchisor or any of its officers, employees or agents (including any franchise broker) concerning actual, average, projected or forecasted sales, revenues, income, profits or earnings of the franchise business (including any statement, promise or assurance concerning the likelihood of success)?

(INSERT INITIAL HERE:____)

If you selected “Yes,” please describe the information you received on the lines below:

Prohibited Parties Clause. I acknowledge that Franchisor, its employees and its agents are subject to U.S. laws that prohibit or restrict (a) transactions with certain parties, and (b) the conduct of transactions involving certain foreign parties. These laws include, without limitation, U.S. Executive Order 13224, the U.S. Foreign Corrupt Practices Act, the Bank Secrecy Act, the International Money Laundering Abatement and Anti-terrorism Financing Act, the Export Administration Act, the Arms Export Control Act, the U.S. Patriot Act, and the International Economic Emergency Powers Act, and the regulations issued pursuant to these and other U.S. laws. As part of the express consideration for the purchase of the franchise, I represent that neither I nor any of my employees, agents, or representatives, nor any other person or entity associated with me, is now, or has been listed on:

1. the U.S. Treasury Department’s List of Specially Designated Nationals;
2. the U.S. Commerce Department’s Denied Persons List, Unverified List, Entity List, or General Orders;
3. the U.S. State Department’s Debarred List or Nonproliferation Sanctions; or
4. the Annex to U.S. Executive Order 13224.

I warrant that neither I nor any of my employees, agents, or representatives, nor any other person or entity associated with me, is now, or has been: (i) a person or entity who assists, sponsors, or supports terrorists or acts of terrorism; or (ii) is owned or controlled by terrorists or sponsors of terrorism. I warrant that I am now, and have been, in compliance with U.S. anti-money laundering and counter- terrorism financing laws and regulations, and that any funds provided by me to Franchisor were legally obtained in compliance with these laws.

I further covenant that neither I nor any of my employees, agents, or representatives, nor any other person or entity associated with me, will, during the term of the Franchise Agreement, become a person or entity described above or otherwise become a target of any anti-terrorism law.

LICENSEE:

By: _____

Print Name: _____

Title: _____

Date: _____

EXHIBIT N

STATE ADDENDUM TO FRANCHISE DISCLOSURE DOCUMENT

**ADDITIONAL DISCLOSURES FOR THE
FRANCHISE DISCLOSURE DOCUMENT OF PIZZA INN, INC.**

1. The following are additional disclosures for the Franchise Disclosure Document of Pizza Inn, Inc., required by various state franchise laws. Each provision of these additional disclosures will only apply to you if the applicable state franchise registration and disclosure law applies to you.

VIRGINIA

1. The following language is added to the end of the “Summary” section of Item 17(e), entitled “Termination by franchisor without cause”:

The following disclosures apply only to Virginia franchisees. Pursuant to Section 13.1- 564 of the Virginia Retail Franchising Act (“VRFA”) it is unlawful for a franchisor to:

(A) cancel a franchise without reasonable cause. If any grounds for default or termination stated in the Franchise Agreement does not constitute “reasonable cause,” as that term may be defined in the VRFA or the laws of Virginia, that provision may not be unenforceable; and (B) use undue influence to induce a franchisee to surrender any right given to him under the franchise. If any provision of the Franchise Agreement involves the use of undue influence by the franchisor to induce a franchisee to surrender any rights given to him under the franchise, that provision may not be enforceable.

EXHIBIT O
STATE EFFECTIVE DATES

STATE EFFECTIVE DATES

The following states require that the Franchise Disclosure Document be registered or filed with the state, or be exempt from registration: California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington and Wisconsin.

This Franchise Disclosure Document is registered, on file or exempt from registration in the following state having a franchise registration and disclosure law, with the following effective date:

Virginia

Pending

In all other states that do not require registration, the effective date of this Disclosure Document is the issuance date of October 27, 2021.

FRANCHISE DISCLOSURE DOCUMENT RECEIPTS

RECEIPT (OUR COPY)

This Disclosure Document summarizes provisions of the license agreement and other information in plain language. Read this Disclosure Document and all agreements carefully.

If Pizza Inn, Inc. offers you a franchise, it must provide this Disclosure Document to you 14 calendar-days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale, or sooner if required by applicable state law. Under Iowa law, we must give you this Disclosure Document at the earlier of our 1st personal meeting or 14 calendar days before you sign an agreement with, or make a payment to us or an affiliate in connection with the proposed franchise sale.

If Pizza Inn, Inc. does not deliver this Disclosure Document on time, or if it contains a false or misleading statement, or a material omission, a violation of federal and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20590 or the appropriate state agency listed in Exhibit J.

Franchise Seller Information: Name – Chris Cochran, Sr. Director of Franchise Sales and Development, Address – 3551 Plano Parkway, The Colony, Texas 75056, and Telephone Number – (469) 384-5000;

This Disclosure Document is to be used in the District of Columbia and all states except: California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Washington and Wisconsin.

I have received a Disclosure Document issued on October 27, 2021. This Disclosure Document included the following exhibits:

Exhibit A	Financial Statements	Exhibit J	List of Franchisees That Have Closed /
Exhibit B	Franchise Agreement		Transferred Restaurants
Exhibit C	Development Agreement	Exhibit K	Parent Guaranty
Exhibit D	Location Acceptance Form	Exhibit L	Sample General Release
Exhibit E	Guaranty	Exhibit M	Representations and Acknowledgement
Exhibit F	Confidentiality Agreements		Statement
Exhibit G	Table of Contents of Manual	Exhibit N	State Addendum and Rider
Exhibit H	List of State Administrators/ Agents	Exhibit O	State Effective Dates
	for Service of Process		
Exhibit I	List of Current Franchisees		

Date of Receipt: _____, 202____
_____, Individually or as an Officer
of _____
(a _____ Corporation)
(a _____ Partnership)

RECEIPT (YOUR COPY)

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Date of Receipt: _____, 202____
_____, Individually or as an Officer
of _____
(a _____ Corporation)
(a _____ Partnership)