



Rave Restaurant Group, Inc.
2017 Annual Report
to Shareholders

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-K

(Mark One)

Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the fiscal year ended June 25, 2017.

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

For the transition period from _____ to _____.

Commission File Number 0-12919

RAVE RESTAURANT GROUP, INC.

(Exact name of registrant as specified in its charter)

Missouri
(State or jurisdiction of
incorporation or organization)

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

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

75056
(Zip Code)

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

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

Title of class
Common stock, par value \$.01 each

Name of each exchange on which registered
NASDAQ Capital Market

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

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

No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

As of December 25, 2016, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the voting and non-voting common equity held by non-affiliates was approximately \$16.9 million computed by reference to the price at which the common equity was last sold on the NASDAQ Capital Market.

As of September 20, 2017, there were 14,282,558 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement, to be filed pursuant to Section 14(a) of the Securities Exchange Act in connection with the registrant's annual meeting of shareholders scheduled for November 16, 2017, have been incorporated by reference in Part III of this report.

Forward-Looking Statements

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

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

PART I

ITEM 1. BUSINESS.

General

Rave Restaurant Group, Inc. 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 under the trademark “Pizza Inn” and operate and franchise fast casual restaurants under the trademarks “Pie Five Pizza Company” or “Pie Five”. We provide or facilitate the procurement and distribution of food, equipment and supplies to our domestic and international system of restaurants through our Norco Restaurant Services Company (“Norco”) division and through agreements with third party distributors.

As of June 25, 2017, we owned and operated 13 Pie Five restaurants (“Pie Five Units”). As of that date, we also had 71 franchised Pie Five Units and 221 franchised Pizza Inn restaurants. The 161 domestic franchised Pizza Inn restaurants were comprised of 93 pizza buffet restaurants (“Buffet Units”), 11 delivery/carry-out restaurants (“Delco Units”) and 57 express restaurants (“Express Units”). The 60 international franchised Pizza Inn restaurants were comprised of 12 Buffet Units, 40 Delco Units and eight Express Units. Domestic Pizza Inn restaurants were located predominantly in the southern half of the United States, with Texas, Arkansas, North Carolina and Mississippi accounting for approximately 23%, 17%, 17% and 9%, respectively, of the total number of domestic restaurants.

Our History

The Company has offered consumers affordable, high quality pizza since 1958, when the first Pizza Inn restaurant opened in Dallas, Texas. We awarded our first franchise in 1963 and opened our first buffet restaurant in 1969. We began franchising the Pizza Inn brand internationally in the late 1970s. In 1993, our stock began trading on the NASDAQ Stock Market, and presently trades on the NASDAQ Capital Market under the ticker symbol “RAVE.” In June 2011, we opened the first Pie Five restaurant in Ft. Worth, Texas. In November 2012, we signed our first franchise development agreement for Pie Five.

Our Concepts

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

Pie Five

Pie Five is a fast-casual pizza concept that creates individualized pizzas which are baked in 140 seconds in our specially designed oven. Pizzas are created at the direction of our customers who choose from a variety of freshly prepared and displayed toppings, cheeses, sauces and doughs and complete their purchase process in less than five minutes. Customers can also get freshly prepared side salads, also made to order from our recipes or at the customer's direction. They can also choose from several baked daily desserts like brownies, cookie pies, and cakes. A variety of soft beverages are available, as well as beer and wine in some locations. Pie Five restaurants offer items at prices from \$5.99 to \$12.99, and the average ticket price per meal, including a drink, was approximately \$8.45 per person for fiscal year 2017. The average per person ticket is slightly higher in restaurants offering beer and wine.

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

Pizza Inn

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

Buffet Units offer dine-in, carryout and catering service and, in many cases, also offer delivery service. Buffet Units offer a variety of pizza crusts with standard toppings and special combinations of toppings in addition to pasta, salad, sandwiches, appetizers, desserts and beverages, including beer and wine in some locations, in an informal, family-oriented atmosphere. We occasionally offer other items on a limited promotional basis. Buffet Units are generally located in free standing buildings or strip center locations in retail developments in close proximity to offices, shopping centers and residential areas. The current standard Buffet Units are between 2,100 and 4,500 square feet in size and seat 120 to 185 customers. The interior decor is designed to promote a casual, lively, contemporary, family-style atmosphere. Some Buffet Units feature game rooms that offer a range of electronic game entertainment for the entire family. The buffet is typically offered at prices from \$6.99 to \$9.99, and the average ticket price, including a drink, was approximately \$10.00 per person for fiscal year 2017. The average per person ticket is slightly higher in restaurants offering beer and wine.

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

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

Site Selection

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

Development and Operations

New Unit Development

We intend to expand the Pizza Inn system domestically and internationally in markets with significant long-term growth potential and where we believe we can use our competitive strengths to establish brand recognition and gain local market share. We plan to expand our Pizza Inn branded domestic restaurant base primarily through opening new franchised restaurants with new and existing franchisees. We expect to evaluate the expanded development of new Pizza Inn Buffet and Delco Units in international markets in fiscal 2018, particularly in the Middle East.

In appropriate circumstances, we grant area developer rights for Pizza Inn restaurants in new and existing domestic markets. A Pizza Inn area developer typically pays a negotiated fee to purchase the right to operate or develop restaurants within a defined territory and, typically, agrees to a multi-restaurant development schedule. The area developer assists us in local franchise service and quality control in exchange for half of the franchise fees and royalties from all restaurants within the territory during the term of the agreement.

In fiscal 2018, we intend to continue developing franchised Pie Five Units domestically and internationally. As of June 25, 2017, we had 71 franchised units open and had executed multi-year development agreements with 22 franchisees for up to an additional 174 domestic Pie Five Units. The number of Pie Five Units subject to a development agreement is scaled relative to the estimated development potential of the specified geographic area and requires the franchisee to achieve specified unit development milestones over a period of time, typically five years, to maintain their development rights in the area. The rate at which we will be able to continue to expand the Pie Five concept through franchise development is determined in part by our success at selecting qualified franchisees, by our ability to identify satisfactory sites in appropriate markets and by our ability to continue training and monitoring our franchisees. We intend to continue to focus on franchise development opportunities with experienced, well-capitalized, multi-restaurant operators. In addition we intend to take the brand into international markets, starting with Pakistan.

Domestic Franchise Operations

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

	Pizza Inn		Pie Five Unit
	Buffet Unit	Express Unit	
Development fee per unit	-	-	5,000
Franchise fee per unit	25,000	5,000	20,000
Initial franchise term	20 years	5 years	10 years
Renewal period	10 years	5 years	5 years
Royalty rate % of sales	4%	5%	6%
National Ad fund % of sales	1%	2%	2%
Require total ad spending % of sales	5%	2%	5%

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

We launched the franchise program for Pie Five in fiscal 2013. Based on the Pie Five development agreements currently in effect, we anticipate allocating significant internal resources to the growth of our Pie Five franchise and development operation in fiscal 2018. Our Pie Five franchise agreement requires that the franchisees: (i) follow the Pie Five system of restaurant operation and management, (ii) pay a franchise fee and continuing royalties, (iii) contribute a specified percentage of sales to a marketing fund managed by the Company, and (iv) only open restaurants that comply with site and design standards determined by the Company.

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

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

Company-Owned Restaurant Operations

As of June 25, 2017, we operated 13 Pie Five Units in the Dallas/Fort Worth metropolitan area. We do not currently intend to operate any Buffet Units, Delco Units or Express Units. In addition to generating revenues and earnings, we use domestic Company-owned restaurants as test sites for new products and promotions as well as restaurant operational improvements and as a forum for training new managers and franchisees. Outside of the one Texas Pie Five Unit we opened in August 2017, we do not presently anticipate opening additional Company-owned restaurants during fiscal 2018.

International Franchise Operations

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

Our first franchised restaurant outside of the United States opened in the late 1970s. As of June 25, 2017, there were 60 Pizza Inn restaurants operating internationally. With the exception of two restaurants in Honduras, all of the restaurants operated or sub-licensed by our international master licensees are in the United Arab Emirates, Saudi Arabia and adjoining countries. Our ability to continue to develop select international markets is affected by a number of factors, including our ability to locate experienced, well-capitalized developers who can commit to an aggressive multi-restaurant development schedule and achieve maximum initial market penetration with minimal supervision by us. In fiscal 2018, we plan to expand the Pie Five brand internationally beginning with Pakistan.

Food and Supply Distribution

Our Norco division provides product sourcing, purchasing, quality assurance, research and development, franchisee order and billing services, and logistics support functions for both the Pizza Inn and Pie Five restaurant systems. We outsource our warehousing and distribution services to reputable and experienced restaurant distribution companies, including Performance Food Group, Inc. and its affiliates. The distributors make deliveries to all domestic restaurants from several distribution centers, with delivery territories and responsibilities for each determined according to geographical region. We believe this division of responsibilities for our purchasing, franchisee support and distribution systems has resulted in lower operating costs and logistical efficiencies. Norco also arranges for the distribution of certain products and equipment to some international franchisees.

Norco is able to leverage the advantages of direct vendor negotiations and volume purchasing of food, equipment and supplies for the franchisees' benefit in the form of a concentrated, one-truck delivery system, competitive pricing and product consistency. Franchisees are able to purchase all products and ingredients from Norco and have them delivered by experienced and efficient distributors. In order to assure product quality and consistency, our franchisees are required to purchase from Norco certain food products that are proprietary to the Pizza Inn and Pie Five systems, including cheese, pizza sauce, flour mixture, certain meats and spice blend. In addition, franchisees may purchase other non-proprietary food products and supplies from Norco. Alternatively, franchisees may also purchase non-proprietary products and supplies from other suppliers who meet our requirements for quality and reliability.

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

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

Marketing and Advertising

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

The Pizza Inn Advertising Plan Cooperative ("PIAP Cooperative") is a Texas cooperative association that is responsible for creating and producing various marketing programs and materials, which may include print and digital advertisements, direct mail materials, social media and e-mail marketing, television and radio commercials, in-store promotional materials, and related marketing and public relations services. Each operator of a domestic Buffet Unit or Delco Unit is entitled to membership in PIAP Cooperative. Nearly all of our existing Pizza Inn franchise agreements for Buffet Units and Delco Units require the franchisees to become members of PIAP Cooperative. Members contribute 1% of their sales to PIAP Cooperative. PIAP Cooperative is managed by a board of trustees comprised of franchisee representatives who are elected by the members each year. We do not have any ownership interest in PIAP Cooperative. We provide certain administrative, marketing and other services to PIAP Cooperative and are paid by PIAP Cooperative for such services. As of June 25, 2017, substantially all of our domestic franchisees were members of PIAP Cooperative. Operators of Express Units do not participate in PIAP Cooperative. However, they contribute directly to a Pizza Inn Express Fund ("PIEF") to help fund purchases of Express Unit marketing materials and similar expenditures. International franchisees do not participate in the PIAP Cooperative or the PIEF.

In the past year we have allocated additional resources to the development and execution of marketing programs for the Pie Five restaurant system to benefit Pie Five franchisees and Company-owned restaurants in different metropolitan areas. Pie Five franchisees contribute a specified percentage of their sales to the Company to fund the creation and production of various marketing and advertising programs and materials, which may include print and digital advertisements, direct mail materials, customer satisfaction systems, social media and e-mail marketing, television and radio commercials, in-store promotional materials, and related marketing and public relations services. We anticipate continuing to expand Pie Five marketing activities commensurate with the growth of the Pie Five system.

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

Trademarks and Quality Control

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

Government Regulation

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

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

Employees

As of June 25, 2017, we had 353 employees, including 49 in our corporate office and 65 full-time and 239 part-time employees at the Company-owned restaurants. None of our employees are currently covered by collective bargaining agreements.

Industry and Competition

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

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

Our Norco division competes with both national and local distributors of food and other restaurant suppliers. The distribution industry is very competitive. We believe that the principal competitive factors in the distribution industry are product quality, customer service and price. Norco or its designees are the sole authorized suppliers of certain proprietary products that all Pizza Inn or Pie Five restaurants are required to use.

ITEM 1A. RISK FACTORS.

Not required for a smaller reporting company.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable.

ITEM 2. PROPERTIES.

The company leases its 38,130 square foot corporate office facility with average annual lease payments of approximately \$9.00 per square foot. This lease began on January 2, 2017 and has a ten year term.

As of June 25, 2017, the Company also operated 13 Pie Five Units from leased locations. The operating leases cover premises from 1,765 to 4,634 square feet and have initial terms of from five to ten years at base rental rates of \$18.00 to \$42.00 per square foot and contain provisions permitting renewal for one or more specified terms.

As of June 25, 2017, the Company has lease obligations for eight non-operating locations. These leased properties range in size from 2,011 to 4,000 square feet, have annual rental rates ranging from approximately \$30.00 to \$46.00 per square foot and expire between 2019 and 2026. The Company is currently pursuing alternatives for subleasing or terminating the unexpired leases.

ITEM 3. LEGAL PROCEEDINGS.

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

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

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

As of September 20, 2017, there were approximately 1,910 stockholders of record of the Company's common stock.

The Company had no sales of unregistered securities during fiscal 2017 or 2016.

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

	<u>High</u>	<u>Low</u>
Fiscal 2017:		
Fourth Quarter Ended 6/25/2017	\$ 2.29	\$ 1.83
Third Quarter Ended 3/26/2017	3.01	1.75
Second Quarter Ended 12/25/2016	3.28	1.66
First Quarter Ended 9/25/2016	4.75	3.02
Fiscal 2016:		
Fourth Quarter Ended 6/26/2016	\$ 5.57	\$ 3.88
Third Quarter Ended 3/27/2016	7.74	4.50
Second Quarter Ended 12/27/2015	9.70	5.40
First Quarter Ended 9/27/2015	14.47	8.88

The Company did not pay any dividends on its common stock during the fiscal years ended June 25, 2017 or June 26, 2016. Any determination to pay cash dividends in the future will be at the discretion of the Company's board of directors and will be dependent upon the Company's results of operations, financial condition, capital requirements, contractual restrictions and other factors deemed relevant. Currently, there is no intention to pay any dividends on our common stock.

2007 Stock Purchase Plan

On May 23, 2007, the Company's board of directors approved a stock purchase plan (the "2007 Stock Purchase Plan") authorizing the purchase on our behalf of up to 1,016,000 shares of our common stock in the open market or in privately negotiated transactions. On June 2, 2008, the Company's board of directors amended the 2007 Stock Purchase Plan to increase the number of shares of common stock the Company may repurchase by 1,000,000 shares to a total of 2,016,000 shares. On April 22, 2009 the Company's board of directors amended the 2007 Stock Purchase Plan again to increase the number of shares of common stock the Company may repurchase by 1,000,000 shares to a total of 3,016,000 shares. The 2007 Stock Purchase Plan does not have an expiration date. There were no stock purchases in the fiscal year ended June 25, 2017.

The Company's ability to purchase shares of our common stock is subject to various laws, regulations and policies as well as the rules and regulations of the Securities and Exchange Commission (the "SEC"). Subsequent to June 25, 2017, the Company has not repurchased any outstanding shares but may make further purchases under the 2007 Stock Purchase Plan. The Company may also purchase shares of our common stock other than pursuant to the 2007 Stock Purchase Plan or other publicly announced plans or programs.

Equity Compensation Plan Information

The following table furnishes information with respect to the Company's equity compensation plans as of June 25, 2017:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights	Weighted-average exercise price of outstanding options, warrants, and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	478,056	\$ 4.16	949,600
Equity compensation plans not approved by security holders	-	-	-
Total	<u>478,056</u>	<u>\$ 4.16</u>	<u>949,600</u>

Additional information regarding equity compensation can be found in the notes to the consolidated financial statements.

ITEM 6. SELECTED FINANCIAL DATA

Not required for a smaller reporting company.

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

Results of Operations

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

Overview

The Company franchises pizza buffet ("Buffet Units"), delivery/carry-out ("Delco Units") and express ("Express Units") restaurants under the trademark "Pizza Inn" and operates and franchises fast casual pizza restaurants ("Pie Five Units") under the trademarks "Pie Five Pizza Company" or "Pie Five". We provide or facilitate food, equipment and supply distribution to our domestic and international system of restaurants through our Norco Restaurant Services Company ("Norco") division and through agreements with third party distributors. At June 25, 2017, Company-owned and franchised restaurants consisted of the following (in thousands, except unit data):

	Pizza Inn		Pie Five		All Concepts	
	Ending Units	Retail Sales	Ending Units	Retail Sales	Ending Units	Retail Sales
Company-Owned	-	\$ 568	13	\$ 15,233	13	\$ 15,801
Domestic Franchised	161	87,880	71	41,929	232	129,809
Total Domestic Units	<u>161</u>	<u>\$ 88,448</u>	<u>84</u>	<u>\$ 57,162</u>	<u>245</u>	<u>\$ 145,610</u>
International Franchised	60		-		60	

The domestic restaurants were located in 25 states predominately situated in the southern half of the United States. The international restaurants were located in five foreign countries.

Basic and diluted loss per common share increased \$0.32, to a loss of \$1.18 per share for fiscal 2017, compared to \$0.86 per share in the prior fiscal year. Net loss increased \$3.6 million to a loss of \$12.5 million for fiscal 2017 compared to a loss of \$8.9 million for the prior fiscal year on revenues of \$57.1 million for fiscal 2017 as compared to \$60.0 million in fiscal 2016. The increased net loss over the prior year was primarily due to loss on sale of assets, additional impairment and closed store expense totaling \$7.0 million. The Company also experienced lower sales and financial performance by Company-owned Pie Five stores in newer markets.

Adjusted EBITDA for the fiscal year ended June 25, 2017, decreased to a loss of \$2.7 million compared to a loss of \$0.1 million for the comparable period of the prior fiscal year. The following table sets forth a reconciliation of net income to Adjusted EBITDA for the periods shown (in thousands):

	Fiscal Year Ended	
	June 25, 2017	June 26, 2016
Net loss	\$ (12,491)	\$ (8,886)
Interest expense	106	4
Income taxes	53	2,654
Depreciation and amortization	2,456	2,722
EBITDA	<u>\$ (9,876)</u>	<u>\$ (3,506)</u>
Stock compensation expense	58	213
Pre-opening costs	162	883
Loss on sale/disposal of assets	882	-
Impairment charges, non-operating store costs and discontinued operations	6,104	2,122
Adjusted EBITDA	<u>\$ (2,670)</u>	<u>\$ (102)</u>

Results of operations for fiscal 2017 and 2016 both included 52 weeks.

Pie Five Brand Summary

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

	Fiscal Year Ended	
	June 25, 2017	June 26, 2016
Pie Five Retail Sales - Total Stores		
Domestic - Franchised	\$ 41,929	\$ 33,681
Domestic - Company-owned	15,233	19,629
Total domestic retail sales	<u>\$ 57,162</u>	<u>\$ 53,310</u>
Pie Five Comparable Store Retail Sales - Total	\$ 25,237	\$ 30,049
Pie Five Average Units Open in Period		
Domestic - Franchised	67	45
Domestic - Company-owned	26	31
Total domestic Units	<u>93</u>	<u>76</u>

Pie Five system-wide retail sales increased \$3.9 million, or 7.2%, for the fiscal year ended June 25, 2017 when compared to the prior year. Compared to the fiscal year 2016, average units open in the period increased from 76 to 93. Comparable store retail sales decreased by 16.0% during fiscal 2017 compared to fiscal 2016.

The following chart summarizes Pie Five restaurant activity for the fiscal year ended June 25, 2017:

	Fiscal Year Ended June 25, 2017				Ending Units
	Beginning Units	Opened	Closed	Transfer	
Domestic - Franchised	57	25	17	6	71
Domestic - Company-owned	31	-	12	(6)	13
Total domestic Units	<u>88</u>	<u>25</u>	<u>29</u>	<u>-</u>	<u>84</u>

The net decrease of four Pie Five Units during fiscal 2017 was primarily the result of the closure of poor-performing units, which we believe provides us a stronger foundation for future brand growth. We believe that the net increase of 14 franchised Pie Five Units reflects a continuing but moderated growth as franchised stores opened primarily pursuant to previously executed domestic franchise development agreements.

Pie Five - Company-Owned Restaurants

(in thousands, except store weeks and average data)

	Three Months Ended				Fiscal Year Ended
	Sept 25, 2016	Dec 25, 2016	March 26, 2017	June 25, 2017	June 25, 2017
Store weeks	400	386	368	215	1,369
Average weekly sales	11,764	10,517	10,535	12,018	11,122
Average number of units	31	30	28	17	26
Restaurant sales (excluding partial weeks)	4,705	4,060	3,877	2,584	15,226
Restaurant sales	4,707	4,060	3,877	2,589	15,233
Loss from continuing operations before taxes	(1,505)	(6,269)	(1,013)	(887)	(9,674)
Allocated marketing and advertising expenses	234	204	194	130	762
Depreciation/amortization expense	676	628	436	224	1,964
Pre-opening costs	19	47	29	67	162
Operations management and extraordinary expenses	227	213	195	100	735
Impairment and non-operating store costs	385	5,121	(26)	760	6,240
Restaurant operating cash flow	36	(56)	(185)	394	189

	Three Months Ended				Fiscal Year Ended
	Sept 27, 2015	Dec 27, 2015	March 27, 2016	June 26, 2016	June 26, 2016
Store weeks	327	414	452	422	1,615
Average weekly sales	13,297	11,725	11,645	12,005	12,093
Average number of units	25	32	35	33	31
Restaurant sales (excluding partial weeks)	4,348	4,854	5,263	5,066	19,531
Restaurant sales	4,393	4,876	5,294	5,066	19,629
Loss from continuing operations before taxes	(611)	(2,016)	(1,132)	(2,218)	(5,977)
Allocated marketing and advertising expenses	220	243	264	406	1,133
Depreciation/amortization expense	430	568	749	669	2,416
Pre-opening costs	424	264	115	80	883
Operations management and extraordinary expenses	164	172	162	150	648
Impairment and non-operating store costs	-	1,010	(23)	964	1,951
Restaurant operating cash flow	627	241	135	51	1,054

As a result of decreased store count and lower weekly average unit sales, total retail sales of Company-owned Pie Five restaurants decreased \$4.4 million, or 22.4%, to \$15.2 million for fiscal 2017 compared to \$19.6 million for fiscal 2016. Average weekly sales for Company-owned Pie Five restaurants decreased \$971, or 8.0%, to \$11,122 for the fiscal year ended June 25, 2017 compared to \$12,093 for the same period of prior year. Company-owned Pie Five restaurant operating cash flow decreased \$0.9 million, or 82.1%, during the fiscal year 2017 compared to the same period of prior year. The decline in average weekly sales and operating cash flow for Company-owned Pie Five restaurants was primarily attributable to lower sales and weaker financial performance by stores in newer markets. Loss from continuing operations before taxes for Company-owned Pie Five stores increased \$3.7 million for the fiscal year ended June 25, 2017 compared to the same period of the prior year. The higher loss from continuing operations before taxes for Company-owned Pie Five restaurants was primarily the result of \$6.2 million in impairment charges and non-operating store costs and a decline in average weekly sales partially offset by lower pre-opening expenses.

Pizza Inn Brand Summary

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

	Fiscal Year Ended	
	June 25, 2017	June 26, 2016
Pizza Inn Retail Sales - Total Domestic Stores		
Domestic Units		
Buffet - Franchised	\$ 81,283	\$ 80,592
Delco/Express - Franchised	\$ 6,597	7,212
Buffet - Company-owned	568	858
Total domestic retail sales	<u>\$ 88,448</u>	<u>\$ 88,662</u>
Pizza Inn Comparable Store Retail Sales - Total Domestic	\$ 81,799	\$ 81,691
Pizza Inn Average Units Open in Period		
Domestic Units		
Buffet - Franchised	94	95
Delco/Express - Franchised	63	68
Buffet - Company-owned	1	1
Total domestic units	<u>158</u>	<u>164</u>

Total domestic Pizza Inn total retail sales decreased \$0.2 million, or 0.2% compared to the prior year. The decrease in domestic retail sales was primarily due to a net decrease in number of Buffet Units, partially offset by a net increase in Delco/Express Units opened during the year. Comparable Pizza Inn retail sales increased by 0.1%.

The following chart summarizes Pizza Inn restaurant activity for the fiscal year ended June 25, 2017:

	Fiscal Year Ended June 25, 2017				
	Beginning Units	Opened	Closed	Concept Change	Ending Units
Domestic Units					
Buffet - Franchised	95	3	4	(1)	93
Delco/Express - Franchised	66	5	4	1	68
Buffet - Company-owned	1	-	1	-	-
Total domestic Units	<u>162</u>	<u>8</u>	<u>9</u>	<u>-</u>	<u>161</u>
International Units (all types)	60	-	-	-	60
Total Units	<u>222</u>	<u>8</u>	<u>9</u>	<u>-</u>	<u>221</u>

There was a net decrease of one domestic Pizza Inn unit during the fiscal year ending June 25, 2017. We believe this is consistent with the recent trend of modest domestic store closures. The number of international Pizza Inn units remained the same.

Non-GAAP Financial Measures and Other Terms

The Company's financial statements are prepared in accordance with United States generally accepted accounting principles ("GAAP"). However, the Company also presents and discusses certain non-GAAP financial measures that it believes are useful to investors as measures of operating performance. Management may also use such non-GAAP financial measures in evaluating the effectiveness of business strategies and for planning and budgeting purposes. However, these non-GAAP financial measures should not be viewed as an alternative or substitute for the results reflected in the Company's GAAP financial statements.

We consider EBITDA and Adjusted EBITDA to be important supplemental measures of operating performance that are commonly used by securities analysts, investors and other parties interested in our industry. We believe that EBITDA is helpful to investors in evaluating our results of operations without the impact of expenses affected by financing methods, accounting methods and the tax environment. We believe that Adjusted EBITDA provides additional useful information to investors by excluding non-operational or non-recurring expenses to provide a measure of operating performance that is more comparable from period to period. We believe that restaurant operating cash flow is a useful metric to investors in evaluating the ongoing operating performance of Company-owned Pie Five and Pizza Inn restaurants and comparing such store operating performance from period to period. Management also uses these non-GAAP financial measures for evaluating operating performance, assessing the effectiveness of business strategies, projecting future capital needs, budgeting and other planning purposes.

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

- "EBITDA" represents earnings before interest, taxes, depreciation and amortization.
- "Adjusted EBITDA" represents earnings before interest, taxes, depreciation and amortization, stock compensation expense, pre-opening expense, costs related to impairment, gain/loss on scrap and sale of assets, non-operating store costs and discontinued operations.
- "Retail sales" represents the restaurant sales reported by our franchisees and Company-owned restaurants, which may be segmented by brand or domestic/international locations.
- "System-wide retail sales" represents combined retail sales for franchisee and Company-owned restaurants for a specified brand.
- "Comparable store retail sales" includes the retail sales for restaurants that have been open for at least 18 months as of the end of the reporting period. The sales results for a restaurant that was closed temporarily for remodeling or relocation within the same trade area are included in the calculation only for the days that the restaurant was open in both periods being compared.
- "Store weeks" represent the total number of full weeks that specified restaurants were open during the period.
- "Average units open" reflects the number of restaurants open during a reporting period weighted by the percentage of the weeks in a reporting period that each restaurant was open.
- "Average weekly sales" for a specified period is calculated as total retail sales (excluding partial weeks) divided by store weeks in the period.
- "Restaurant operating cash flow" represents the pre-tax income earned by Company-owned restaurants before (1) allocated marketing and advertising expenses, (2) depreciation and amortization, (3) pre-opening expenses, (4) operations management and extraordinary expenses, (5) impairment charges, and (6) non-operating store costs.
- "Non-operating store costs" represent gain or loss on asset disposal, store closure expenses, lease termination expenses and expenses related to abandoned store sites.
- "Pre-opening expenses" consist primarily of certain costs incurred prior to the opening of a Company-owned restaurant, including: (1) marketing and promotional expenses, (2) accrued rent, and (3) manager salaries, employee payroll and related training costs.

Financial Results

	Franchising and Food & Supply Distribution		Company-Owned				Total	
	Fiscal Year		Restaurants		Corporate		Fiscal Year	
	June 25, 2017	June 26, 2016	June 25, 2017	June 26, 2016	June 25, 2017	June 26, 2016	June 25, 2017	June 26, 2016
REVENUES:								
Food and supply sales	36,282	34,879	-	-	-	-	36,282	34,879
Franchise revenues	5,598	5,445	-	-	-	-	5,598	5,445
Restaurant sales	-	-	15,233	19,629	-	-	15,233	19,629
Total revenues	41,880	40,324	15,233	19,629	-	-	57,113	59,953
COSTS AND EXPENSES:								
Cost of sales	34,319	32,486	15,933	19,869	-	-	50,252	52,355
General and administrative expenses	1,371	1,275	2,935	3,170	3,404	2,664	7,710	7,109
Franchise expenses	3,896	3,636	-	-	-	-	3,896	3,636
Pre-opening expenses	-	-	162	883	-	-	162	883
Loss on sale of assets	-	-	-	-	882	-	882	-
Impairment of long-lived assets and other lease charges	-	-	5,877	1,698	-	-	5,877	1,698
Bad debt	-	-	-	-	342	101	342	101
Interest expense	-	-	-	-	106	4	106	4
Total costs and expenses	39,586	37,397	24,907	25,620	4,734	2,769	69,227	65,786
INCOME (LOSS) FROM CONTINUING OPERATIONS								
BEFORE TAXES	<u>2,294</u>	<u>2,927</u>	<u>(9,674)</u>	<u>(5,991)</u>	<u>(4,734)</u>	<u>(2,769)</u>	<u>(12,114)</u>	<u>(5,833)</u>

Revenues:

Revenues are derived from (1) sales of food, paper products and supplies from Norco to franchisees, (2) franchise royalties and franchise fees, and (3) Company-owned restaurant operations. Financial results are dependent in large part upon the volume, pricing and cost of the products and supplies sold to franchisees. The volume of products sold by Norco to franchisees is dependent on the level of franchisee chain-wide retail sales, which are impacted by changes in comparable store sales and restaurant count, and the mix of products sold to franchisees through Norco rather than through third-party food distributors. Total revenues for fiscal 2017 and for the same period in the prior fiscal year were \$57.1 million and \$60.0 million, respectively.

Food and Supply Sales

Food and supply sales by Norco include food and paper products and other distribution revenues. For fiscal 2017, food and supply sales increased 4.0% to \$36.3 million compared to \$34.9 million for the prior fiscal year due to an increase in sales to franchisees. This increase was driven by an \$8.3 million, or 6.9%, increase in domestic franchisee retail sales attributable to an increase in the average number of stores open in the current year when compared to prior year.

Franchise Revenue

Franchise revenue, which includes income from domestic and international royalties and license fees, increased to \$5.6 million for fiscal 2017 compared to \$5.4 million for the prior fiscal year as the result of higher domestic and international royalties resulting from increased franchisee retail sales and an increase in franchise and development fees due to Pie Five store openings.

Restaurant Sales

Restaurant sales, which consist of revenue generated by Company-owned restaurants, decreased 22.4%, or \$4.4 million, to \$15.2 million for fiscal 2017 compared to \$19.6 million for the prior fiscal year. This decrease was primarily due to the transfer or closings of 18 Company-owned stores in fiscal 2017, as well as lower average weekly sales.

Costs and Expenses:

Cost of Sales Total

Cost of sales primarily includes food and supply costs, distribution fees, labor and general and administrative expenses directly related to restaurant sales. These costs decreased 4.0%, or \$2.1 million, to \$50.3 million for fiscal 2017 compared to \$52.4 million for the prior fiscal year. The decrease in cost of sales was primarily due to the decreased number of Company-owned Pie Five restaurants compared to the prior year.

Cost of Sales – Franchising and Food and Supply Distribution

Franchising and Food and Supply Distribution cost of sales increased 5.6%, or \$1.8 million, to \$34.3 million for fiscal 2017 compared to \$32.5 million for the prior fiscal year. The increase in cost of sales was primarily due to increased Norco sales to franchisees compared to the prior year.

Cost of Sales – Company-Owned Stores

Company-owned Stores cost of sales decreased 19.8% or \$4.0 million, to \$15.9 million for fiscal 2017 compared to \$19.9 million for the prior year. The decrease in cost of sales was primarily the result of lower store count.

General and Administrative Expenses Total

General and administrative expenses increased \$0.6 million to \$7.7 million for fiscal 2017 compared to \$7.1 million for the prior fiscal year primarily due to increased payroll, legal and professional fees.

General and Administrative Expenses – Franchising and Food and Supply Distribution

Franchising and Food and Supply Distribution general and administrative expenses increased only slightly to \$1.4 million compared to \$1.3 million for the prior fiscal year.

General and Administrative Expenses – Company-Owned Stores

Company-owned Stores general and administrative expenses decreased \$0.3 million to \$2.9 million for fiscal 2017 compared to \$3.2 million for the prior fiscal year primarily as a result of lower store count.

General and Administrative Expenses – Corporate

General and administrative expenses for corporate increased to \$3.4 million for fiscal 2017 compared to \$2.7 million for the prior year. Increases included payroll, legal and professional fees.

Franchise Expenses

Franchise expenses include selling, general and administrative expenses directly related to the sale and continuing service of domestic and international franchises. These expenses increased to \$3.9 million in fiscal 2017 from \$3.6 million in the prior fiscal year primarily due to higher payroll, travel and professional outside services during fiscal 2017.

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 of Company-owned restaurants. Pre-opening expenses decreased to \$0.2 million in fiscal 2017 from \$0.9 million in the prior year primarily due to fewer Pie Five store openings.

Impairment Expenses

The Company reviews long-lived assets for impairment when events or circumstances indicate that the carrying value of such assets may not be fully recoverable. Impairment is evaluated based on the sum of undiscounted estimated future cash flows expected to result from use of an asset compared to its carrying value. If impairment is recognized, the carrying value of the impaired asset is reduced to its fair value, based on discounted estimated future cash flows. During fiscal year 2017, the Company tested its long-lived assets for impairment and recognized pre-tax, non-cash impairment charges of \$5.9 million compared to \$1.7 million in the prior year. The fiscal 2017 impairment charges related to \$4.7 million in carrying value of Company-owned restaurants and \$1.2 million in other lease termination expenses for undeveloped, closed and transferred restaurant sites. These impairment charges arose as a result of the decision to close 12 underperforming Pie Five restaurants and one underperforming Pizza Inn restaurant and to abandon previously executed leases for seven locations no longer deemed desirable for future restaurant development.

Provision for Bad Debt

Bad debt provision related to accounts receivable from franchisees increased to \$0.3 million in fiscal 2017 compared to \$0.1 million in the prior year. The Company believes that this provision and related allowance for doubtful accounts adequately reserves for outstanding receivables due from franchisees whose restaurants closed and for outstanding receivables due from continuing franchisees. For restaurants that are anticipated to close or are exhibiting signs of financial distress, credit terms are typically restricted, weekly food orders are required to be paid prior to delivery and royalty and advertising fees are collected as add-ons to the delivered price of weekly food orders.

Interest Expense

Interest expense increased for the fiscal year ended June 25, 2017 to \$0.1 million, compared to a negligible amount in the prior year due to short-term borrowing of \$1.0 million during the second quarter of fiscal 2017 and issuance of \$3.0 million in senior convertible notes in the third quarter of fiscal 2017.

Provision for Income Tax

The Company continually reviews the realizability of its deferred tax assets, including an analysis of factors such as future taxable income, reversal of existing taxable temporary differences, and tax planning strategies. In fiscal year 2017, the Company had a full valuation allowance against its net deferred tax assets. The valuation allowance was increased by \$4.1 million in fiscal year 2017, increasing from \$4.9 million at June 26, 2016 to \$9.0 million at June 25, 2017. The Company assessed whether a valuation allowance should be established against its deferred tax assets based on consideration of all available evidence, using a "more likely than not" standard. In assessing the need for a valuation allowance, the Company considered both positive and negative evidence related to the likelihood of realization of deferred tax assets. In making such assessment, more weight was given to evidence that could be objectively verified, including recent cumulative losses. 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 that it was appropriate to maintain a full valuation allowance against all of the Company's deferred tax assets.

Income tax expense of \$0.1 million for fiscal 2017 represents state taxes. At the end of tax year ended June 25, 2017, the Company had net operating loss carryforwards totaling \$13.6 million that are available to reduce future taxable income and will begin to expire in 2032.

Discontinued Operations

Discontinued operations includes income/loss from a Pizza Inn Company-owned restaurant that closed in fiscal 2017 and a leased building associated with a Company-owned Pizza Inn restaurant closed in a prior year.

Liquidity and Capital Resources

Sources and Uses of Funds

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

Cash flows from operating activities generally reflect net income adjusted for certain non-cash items including depreciation and amortization, changes in deferred tax assets, share based compensation, and changes in working capital. Cash used by operations was \$5.5 million in fiscal 2017 compared to cash provided of \$1.9 million in fiscal year 2016.

Cash flows from investing activities reflect net proceeds from sale of assets and capital expenditures for the purchase of Company assets. Cash provided by investing activities during fiscal 2017 of \$0.4 million was primarily attributable to sales of assets of closed Company-owned Pie Five restaurants partially offset by capital expenditures for a new Pie Five Unit, computers and other miscellaneous assets. This compares to cash used by investing activities of \$7.7 million during the fiscal year ended June 26, 2016 primarily attributable to Company-owned Pie Five restaurants that opened during the period.

Cash flows from financing activities generally reflect changes in the Company's borrowings and stock activity during the period. Net cash provided by financing activities was \$4.7 million and \$0.9 million for the fiscal years ended June 25, 2017 and June 26, 2016, respectively, which reflected proceeds from issuance of convertible senior notes, stock options and short-term borrowings in the current year versus proceeds from the sale of stock in the prior year.

ATM Offerings

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

On October 1, 2014, the Company entered into a new At Market Issuance Sales Agreement with MLV pursuant to which the Company could initially offer and sell shares of its common stock having an aggregate offering price of up to \$5,000,000 from time to time through MLV, acting as agent (the "2014 ATM Offering"). On February 13, 2015, the aggregate offering amount of the 2014 ATM Offering was increased to \$10,000,000. The 2014 ATM Offering is being undertaken pursuant to Rule 415 and a shelf Registration Statement on Form S-3 which was declared effective by the SEC on August 8, 2014. Through June 25, 2017, the Company had sold an aggregate of 825,763 shares in the 2014 ATM Offering, realizing aggregate gross proceeds of \$8.1 million. No sales were made under the 2014 ATM Offering during fiscal 2017.

Short Term Loan

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 bears interest at 10% per annum and was originally due and payable on April 30, 2017. On May 8, 2017, the Company executed an Extended and Restated Promissory Note in favor of Newcastle extending the due date of the short term loan until the earlier of September 1, 2017, or the Company’s receipt of at least \$2.0 million in additional debt or equity capital. Newcastle is an affiliate of the Company’s Chairman, Mark E. Schwarz.

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 effective February 15, May 15, August 15 and November 15 of each year, 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 accreted into interest expense using the effective interest method over the debt maturity period.

Fiscal 2018 Equity Rights Offering

On September 13, 2017, the Company completed a registered shareholder rights offering of 3,571,429 shares of its common stock at a subscription price of \$1.40 per share. The equity shareholder rights offering was fully subscribed resulting in gross offering proceeds to the Company of \$5.0 million.

Liquidity

We expect to fund continuing operations and planned capital expenditures for the next fiscal year primarily from cash on hand, operating cash flow and sales of securities. Based on budgeted and year-to-date cash flow information, we believe that we have sufficient liquidity to satisfy our cash requirements for the 2018 fiscal year.

Critical Accounting Policies and Estimates

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

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

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

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

The Company reviews long-lived assets for impairment when events or circumstances indicate that the carrying value of such assets may not be fully recoverable. Impairment is evaluated based on the sum of undiscounted estimated future cash flows expected to result from use of an asset compared to its carrying value. If impairment is recognized, the carrying value of the impaired asset is reduced to its fair value based on discounted estimated future cash flows. During fiscal year 2017, the Company tested its long-lived assets for impairment and recognized pre-tax, non-cash impairment charges of \$5.9 million primarily related to the carrying value of 20 Pie Five Units and lease termination expenses for seven undeveloped restaurant sites. During fiscal year 2016, the Company tested its long-lived assets for impairment and recognized pre-tax, non-cash impairment charges of \$1.7 million related to the carrying value of five Pie Five Units.

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

The Company accounts for uncertain tax positions in accordance with ASC 740-10, which prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that it has taken or expects to take on a tax return. ASC 740-10 requires that a company recognize in its financial statements the impact of tax positions that meet a "more likely than not" threshold, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. As of June 25, 2017 and June 26, 2016, the Company had no uncertain tax positions.

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

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

Not required for a smaller reporting company.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

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

Management Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate "internal control over financial reporting" (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934). Under the supervision and with the participation of management, including our principal executive officer and principal financial officer, the Company has conducted an evaluation of the effectiveness of its internal control over financial reporting. The Company's management based its evaluation on criteria set forth in the framework in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon that evaluation, management has concluded that our internal control over financial reporting was effective as of June 25, 2017. During the most recent fiscal quarter, there have been no changes in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

There is no information required to be disclosed under this Item.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

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

ITEM 11. EXECUTIVE COMPENSATION.

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

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

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

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

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

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

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

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

- (a)1. The financial statements filed as part of this report are listed in the Index to Consolidated Financial Statements and Supplementary Data appearing on page F-1 of this report on Form 10-K.
2. Any financial statement schedule filed as part of this report is listed in the Index to Consolidated Financial Statements and Supplementary Data appearing on page F-1 of this report on Form 10-K.
3. Exhibits:
 - 3.1 Amended and Restated Articles of Incorporation of Rave Restaurant Group, Inc. (filed as Exhibit 3.1 to Form 8-K filed January 8, 2015 and incorporated herein by reference).
 - 3.2 Amended and Restated Bylaws of Rave Restaurant Group, Inc. (filed as Exhibit 3.2 to Form 8-K filed January 8, 2015 and incorporated herein by reference).
 - 4.1 Indenture for 4% Convertible Senior Notes due 2022 (filed as Exhibit 4.1 to Form S-3/A filed January 6, 2017 and incorporated herein by reference).
 - 4.2 Pledge Agreement (filed as Exhibit 4.2 to Form S-3/A filed January 6, 2017 and incorporated herein by reference).
 - 4.3 Extended and Restated Promissory Note dated May 8, 2017, payable by Rave Restaurant Group, Inc. to Newcastle Partners, LP. (filed as Exhibit 4.1 to form 10-Q for fiscal quarter ended March 26, 2017 and incorporated herein by reference).
 - 10.1 2005 Non-Employee Directors Stock Award Plan of the Company and form of Stock Option Award Agreement (filed as Exhibit 10.25 to Form 10-K for the fiscal year ended June 26, 2005 and incorporated herein by reference).*
 - 10.2 2005 Employee Incentive Stock Option Award Plan of the Company and form of Stock Option Award Agreement (filed as Exhibit 10.26 to Form 10-K for the fiscal year ended June 26, 2005 and incorporated herein by reference).*
 - 10.3 2015 Long Term Incentive Plan of the Company (filed as Exhibit 10.1 to Form 8-K filed November 20, 2014 and incorporated herein by reference).*
 - 10.4 Form of Stock Option Grant Agreement under the Company's 2015 Long Term Incentive Plan (filed as Exhibit 10.2 to Form 8-K filed November 20, 2014 and incorporated herein by reference).*
 - 10.5 Form of Restricted Stock Unit Award Agreement under the Company's 2015 Long-Term Incentive Plan (filed as Exhibit 10.1 to Form 10-Q for the fiscal quarter ended December 27, 2015, and incorporated herein by reference).*

- 10.6 Employment letter dated April 7, 2014, between the Company and Timothy E. Mullany (filed as Exhibit 10.1 to Form 8-K filed April 30, 2014, and incorporated herein by reference).*
- 10.7 Letter agreement dated January 6, 2017, between Rave Restaurant Group, Inc. and Scott Crane (filed as Exhibit 10.1 to Form 8-K filed January 12, 2017 and incorporated herein by reference).*
- 10.8 At Market Issuance Sales Agreement between the Company and MLV & Co. LLC dated October 1, 2014 (filed as Exhibit 1.1 to Form 8-K filed October 1, 2014, and incorporated herein by reference).
- 10.9 Advisory Services Agreement between the Company and NCM Services, Inc. dated February 20, 2014 (filed as Exhibit 10.1 to Form 8-K filed February 24, 2014, and incorporated herein by reference).*
- 21.1 List of Subsidiaries.
- 23.1 Consent of Independent Registered Public Accounting Firm.
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer.
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer.
- 32.1 Section 1350 Certification of Principal Executive Officer.
- 32.2 Section 1350 Certification of Principal Financial Officer.
- 101 Interactive data files pursuant to Rule 405 of Regulation S-T.

* Management contract or compensatory plan or arrangement.

SIGNATURES

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

Date: September 20, 2017

Rave Restaurant Group, Inc.
By: /s/ Scott Crane
Scott Crane
President and Chief Executive Officer

By: /s/ Timothy E. Mullany
Timothy E. Mullany
Chief Financial Officer

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

<u>Name and Position</u>	<u>Date</u>
<u>/s/ Scott Crane</u> Scott Crane President and Chief Executive Officer (Principal Executive Officer)	<u>September 20, 2017</u>
<u>/s/Timothy E. Mullany</u> Timothy E. Mullany Chief Financial Officer (Principal Financial and Accounting Officer)	<u>September 20, 2017</u>
<u>/s/Mark E. Schwarz</u> Mark E. Schwarz Director and Chairman of the Board	<u>September 20, 2017</u>
<u>/s/Ramon D. Phillips</u> Ramon D. Phillips Director and Vice Chairman of the Board	<u>September 20, 2017</u>
<u>/s/ Steven M. Johnson</u> Steven M. Johnson Director	<u>September 20, 2017</u>
<u>/s/Robert B. Page</u> Robert B. Page Director	<u>September 20, 2017</u>
<u>/s/ William C. Hammett, Jr.</u> William C. Hammett, Jr. Director	<u>September 20, 2017</u>
<u>/s/ Clinton J. Coleman</u> Clinton J. Coleman Director	<u>September 20, 2017</u>

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

Description	Page No.
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Consolidated Statements of Operations for the years ended June 25, 2017 and June 26, 2016.	F-3
Consolidated Balance Sheets at June 25, 2017 and June 26, 2016.	F-4
Consolidated Statements of Shareholders' Equity (Deficit) for the years ended June 25, 2017 and June 26, 2016.	F-5
Consolidated Statements of Cash Flows for the years ended June 25, 2017 and June 26, 2016.	F-6
Supplemental Disclosures of Cash Flow Information for the years ended June 25, 2017 and June 26, 2016.	F-6
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Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Rave Restaurant Group, Inc. as of June 25, 2017 and June 26, 2016 and the related consolidated statements of operations, shareholders' equity (deficit), and cash flows for the fiscal years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rave Restaurant Group, Inc. as of June 25, 2017 and June 26, 2016, and the results of its operations and cash flows for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Montgomery Coscia Greilich LLP
Plano, Texas
September 20, 2017

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

	Fiscal Year Ended	
	June 25, 2017	June 26, 2016
REVENUES:	\$ 57,113	\$ 59,953
COSTS AND EXPENSES:		
Cost of sales	50,252	52,355
General and administrative expenses	7,710	7,109
Franchise expenses	3,896	3,636
Pre-opening expenses	162	883
Loss on sale of assets	882	-
Impairment of long-lived assets and other lease charges (See Note A)	5,877	1,698
Bad debt	342	101
Interest expense	106	4
	<u>69,227</u>	<u>65,786</u>
LOSS FROM CONTINUING OPERATIONS BEFORE TAXES	(12,114)	(5,833)
Income tax expense	53	2,654
LOSS FROM CONTINUING OPERATIONS	(12,167)	(8,487)
Loss from discontinued operations, net of taxes	(324)	(399)
NET LOSS	<u>\$ (12,491)</u>	<u>\$ (8,886)</u>
LOSS PER SHARE OF COMMON STOCK - BASIC:		
Loss from continuing operations	\$ (1.15)	\$ (0.82)
Loss from discontinued operations	\$ (0.03)	\$ (0.04)
Net loss	<u>\$ (1.18)</u>	<u>\$ (0.86)</u>
LOSS PER SHARE OF COMMON STOCK - DILUTED:		
Loss from continuing operations	\$ (1.15)	\$ (0.82)
Loss from discontinued operations	\$ (0.03)	\$ (0.04)
Net loss	<u>\$ (1.18)</u>	<u>\$ (0.86)</u>
Weighted average common shares outstanding - basic	<u>10,617</u>	<u>10,317</u>
Weighted average common shares outstanding - diluted	<u>10,617</u>	<u>10,317</u>

See accompanying Report of Independent Registered Public Accounting Firm and Notes to Consolidated Financial Statements.

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

ASSETS	<u>June 25, 2017</u>	<u>June 26, 2016</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 451	\$ 873
Accounts receivable, less allowance for doubtful accounts of \$249 and \$198, respectively	2,761	2,780
Notes receivable	675	167
Inventories	79	197
Income tax receivable	194	194
Property held for sale	671	-
Prepaid expenses and other	295	430
Total current assets	5,126	4,641
LONG-TERM ASSETS		
Property, plant and equipment, net	3,808	12,979
Long-term notes receivable	127	382
Deposits and other, net	485	503
Total assets	\$ 9,546	\$ 18,505
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable - trade	\$ 4,165	\$ 3,815
Short-term debt	1,000	-
Accrued expenses	1,265	1,220
Deferred rent	101	160
Deferred revenues	212	304
Total current liabilities	6,743	5,499
LONG-TERM LIABILITIES		
Convertible notes	2,749	-
Deferred rent, net of current portion	655	1,710
Deferred revenues, net of current portion	1,425	1,440
Other long-term liabilities	53	453
Total liabilities	11,625	9,102
COMMITMENTS AND CONTINGENCIES (See Notes F and J)		
SHAREHOLDERS' EQUITY (DEFICIT)		
Common stock, \$.01 par value; authorized 26,000,000 shares; issued 17,786,049 and 17,460,951 shares, respectively; outstanding 10,666,649 and 10,341,551 shares, respectively	178	175
Additional paid-in capital	26,784	25,778
Retained earnings (accumulated deficit)	(4,405)	8,086
Treasury stock at cost 7,119,400 shares	(24,636)	(24,636)
Total shareholders' equity (deficit)	(2,079)	9,403
Total liabilities and shareholders' equity (deficit)	\$ 9,546	\$ 18,505

*See accompanying Report of Independent Registered Public
Accounting Firm and Notes to Consolidated Financial Statements.*

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

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Retained Earnings (Accumulated Deficit)</u>	<u>Treasury Stock</u>		<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			<u>Shares</u>	<u>Amount</u>	
BALANCE, JUNE 28, 2015	<u>10,255</u>	<u>\$ 174</u>	<u>\$ 24,700</u>	<u>\$ 16,972</u>	<u>(7,119)</u>	<u>\$ (24,636)</u>	<u>\$ 17,210</u>
Stock compensation expense	-	-	213	-	-	-	213
Stock options exercised	28	-	102	-	-	-	102
Sale of stock	59	1	763	-	-	-	764
Net loss	-	-	-	(8,886)	-	-	(8,886)
BALANCE, JUNE 26, 2016	<u>10,342</u>	<u>\$ 175</u>	<u>\$ 25,778</u>	<u>\$ 8,086</u>	<u>(7,119)</u>	<u>\$ (24,636)</u>	<u>\$ 9,403</u>
Stock compensation expense	-	-	58	-	-	-	58
Stock options exercised	315	3	803	-	-	-	806
Conversion of senior notes, net	10	-	145	-	-	-	145
Net loss	-	-	-	(12,491)	-	-	(12,491)
BALANCE, JUNE 25, 2017	<u>10,667</u>	<u>\$ 178</u>	<u>\$ 26,784</u>	<u>\$ (4,405)</u>	<u>(7,119)</u>	<u>\$ (24,636)</u>	<u>\$ (2,079)</u>

*See accompanying Report of Independent Registered Public
Accounting Firm and Notes to Consolidated Financial Statements.*

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

	Fiscal Year Ended	
	June 25, 2017	June 26, 2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (12,491)	\$ (8,886)
Adjustments to reconcile net loss to cash provided (used) by operating activities:		
Impairment of fixed assets and other assets	4,773	1,698
Stock compensation expense	58	213
Deferred income taxes	-	2,593
Depreciation and amortization	2,456	2,722
Loss on the sale of assets	882	432
Provision for bad debt	342	101
Changes in operating assets and liabilities:		
Notes and accounts receivable	(576)	(44)
Inventories	118	(17)
Income tax receivable	-	492
Prepaid expenses, deposits and other, net	116	419
Deferred revenue	(107)	195
Accounts payable - trade	350	940
Accrued expenses, deferred rent and other	(1,469)	1,088
Cash provided (used) by operating activities	(5,548)	1,946
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of assets	999	444
Capital expenditures	(573)	(8,110)
Cash provided (used) by investing activities	426	(7,666)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in short-term debt	1,000	-
Proceeds from sale of stock	-	764
Proceeds from issuance of convertible notes	2,894	-
Proceeds from exercise of stock options	806	102
Cash provided by financing activities	4,700	866
Net decrease in cash and cash equivalents	(422)	(4,854)
Cash and cash equivalents, beginning of year	873	5,727
Cash and cash equivalents, end of year	\$ 451	\$ 873

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

CASH PAID FOR:

Interest	\$ 25	\$ 4
Income taxes	\$ 29	\$ -

*See accompanying Report of Independent Registered Public
Accounting Firm and 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”) operate and 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 provide or facilitate the procurement and distribution of food, equipment and supplies to our domestic and international system of restaurants through our Norco Restaurant Services Company (“Norco”) division and through agreements with third party distributors.

As of June 25, 2017, we owned and operated 13 Pie Five restaurants (“Pie Five Units”). As of that date, we also had 71 franchised Pie Five Units and 221 franchised Pizza Inn restaurants. The 161 domestic franchised Pizza Inn restaurants were comprised of 93 pizza buffet restaurants (“Buffet Units”), 11 delivery/carry-out restaurants (“Delco Units”) and 57 express restaurants (“Express Units”). The 60 international franchised Pizza Inn restaurants were comprised of 12 Buffet Units, 40 Delco Units and eight Express Units. Domestic Pizza Inn restaurants were located predominantly in the southern half of the United States, with Texas, Arkansas, North Carolina and Mississippi accounting for approximately 23%, 17%, 17% and 9%, respectively, of the total number of domestic restaurants.

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.

Reclassifications:

Certain reclassifications have been made to prior period amounts to conform to the current period presentation.

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.

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 25, 2017 and June 26, 2016 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.

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. The valuation of such restaurant inventory requires us to estimate the amount of obsolete and excess inventory based on estimates of future retail sales by Company-owned restaurants. Overestimating retail sales by Company-owned restaurants could result in the write-down of inventory which would have a negative impact on the gross margin of such Company-owned restaurants.

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 condensed 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 includes income/loss from a restaurant that closed in fiscal 2017 and a leased building associated with a Company-owned restaurant closed in a prior year.

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 of an asset compared to its carrying value. If impairment is recognized, the carrying value of the impaired asset is reduced to its fair value, based on discounted estimated future cash flows. During fiscal year 2017 and 2016, the Company tested its long-lived assets for impairment and recognized pre-tax, non-cash impairment charges of \$5.9 million and \$1.7 million, respectively, related to the carrying value of multiple Pie Five and Pizza Inn units.

Accounts Receivable:

Accounts receivable consist primarily of receivables from food and supply sales and 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 contained under formal promissory and personal guarantee agreements. All notes allow for early payment without penalty. Fixed principle and interest payments are due weekly or monthly. Interest income is recognized monthly. Notes receivable mature at various dates through 2021 and bear interest at rates that range from 0.0% to 7.0% (3.9% weighted average rate at June 25, 2017).

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. Notes receivable as of June 25, 2017 consisted of \$0.7 million in current assets and \$0.1 million in long-term assets. Notes receivable as of June 26, 2016 consisted of \$0.2 million in current assets and \$0.4 million in long-term assets.

The principal balance outstanding on the notes receivable and expected principal collections for the next five years and thereafter were as follows as of June 25, 2017 (in thousands):

	Notes Receivable, Gross	Notes Receivable, Net of Allowance
2018	752	675
2019	66	4
2020	69	69
2021	54	54
	<u>941</u>	<u>802</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 fiscal year 2017, the Company had a full valuation allowance against its net deferred tax assets. The valuation allowance was increased by \$4.1 million in fiscal year 2017, increasing from \$4.9 million at June 26, 2016 to \$9.0 million at June 25, 2017. The Company assessed whether a valuation allowance should be established against its deferred tax assets based on consideration of all available evidence, using a "more likely than not" standard. In assessing the need for a valuation allowance, the Company considered both positive and negative evidence related to the likelihood of realization of deferred tax assets. In making such assessment, more weight was given to evidence that could be objectively verified, including recent cumulative losses. 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 that it was appropriate to maintain a full valuation allowance against all of the Company's deferred tax assets.

Income tax expense of \$0.1 million for fiscal 2017 represented state taxes. At the end of tax year ended June 25, 2017, the Company had net operating loss carryforwards totaling \$13.6 million that are available to reduce future taxable income and will begin to expire in 2032.

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

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 bears 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. Newcastle is an affiliate of the Company's Chairman, Mark E. Schwarz.

Revenue Recognition:

The Company recognizes food and supply revenue when products are delivered and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. The Company's Norco division sells food and supplies to franchisees on trade accounts under terms common in the industry. Shipping and handling costs billed to customers are recognized as revenue and the associated costs are included in cost of sales.

Franchise revenue consists of income from license fees, royalties, and area development and foreign master license sales. License fees are recognized as income when there has been substantial performance of the agreement by both the franchisee and the Company, generally at the time the restaurant is opened. Royalties are recognized as income when earned. For the fiscal years ended June 25, 2017 and June 26, 2016, 87.8% and 82.8%, respectively, of franchise revenue was comprised of recurring royalties.

We recognize restaurant sales when food and beverage products are sold. The Company reports revenue net of sales and use taxes collected from customers and remitted to governmental taxing authorities.

Stock Options:

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.

The Company's stock-based compensation plans are described more fully in Note H. Stock options under these plans are granted at exercise prices equal to the fair market value of the Company's stock at the dates of grant. Generally those options vest ratably over various vesting periods.

Restricted Stock Units:

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.

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.

Advertising and Marketing Costs:

Advertising and marketing costs are expensed as incurred and totaled \$0.8 million for fiscal year ended June 25, 2017 and \$1.2 million for fiscal year ended June 26, 2016. Advertising and marketing costs are included in cost of sales and general and administrative expenses in the consolidated statements of operations.

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 25, 2017 and the fiscal year ended June 26, 2016 both contained 52 weeks.

NOTE B – PROPERTY, PLANT AND EQUIPMENT:

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

	<u>Estimated Useful Lives</u>	<u>June 25, 2017</u>	<u>June 26, 2016</u>
Equipment, furniture and fixtures	3 - 7 yrs	\$ 4,791	\$ 9,697
Software	5 yrs	1,143	872
Leasehold improvements	10 yrs or lease term, if shorter	<u>3,949</u>	<u>13,290</u>
		9,883	23,859
Less: accumulated depreciation/amortization		<u>(6,075)</u>	<u>(10,880)</u>
		<u>\$ 3,808</u>	<u>\$ 12,979</u>

Depreciation and amortization expense was approximately \$2.5 million and \$2.7 million for the fiscal years ended June 25, 2017 and June 26, 2016, respectively.

NOTE C - ACCRUED EXPENSES:

Accrued expenses consist of the following (in thousands):

	<u>June 25, 2017</u>	<u>June 26, 2016</u>
Compensation	\$ 836	\$ 728
Other	254	447
Professional fees	167	37
Insurance loss reserves	<u>8</u>	<u>8</u>
	<u>\$ 1,265</u>	<u>\$ 1,220</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 effective February 15, May 15, August 15 and November 15 of each year, 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 accreted into interest expense using the effective interest method over the debt maturity period.

NOTE E - INCOME TAXES:

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

	<u>Fiscal Year Ended</u>	
	<u>June 25, 2017</u>	<u>June 26, 2016</u>
Current - Federal	\$ —	\$ —
Current - Foreign	—	—
Current - State	53	4
Deferred - Federal	—	2,764
Deferred - State	—	(114)
Provision for income taxes	<u>\$ 53</u>	<u>\$ 2,654</u>

Discontinued operations had no material impact on provision for income taxes for fiscal years ended June 25, 2017 and June 26, 2016.

The effective income tax rate varied from the statutory rate for the fiscal years ended June 25, 2017 and June 26, 2016 as reflected below (in thousands):

	<u>June 25, 2017</u>	<u>June 26, 2016</u>
Federal income taxes based on 34% of pre-tax loss	\$ (4,119)	\$ (1,983)
State income tax, net of federal effect	35	30
Permanent adjustments	24	19
Valuation allowance	4,019	4,757
Other	<u>94</u>	<u>(169)</u>
	<u>\$ 53</u>	<u>\$ 2,654</u>

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

	<u>June 25, 2017</u>	<u>June 26, 2016</u>
Current		
Reserve for bad debt	\$ 89	\$ 70
Deferred fees	27	105
Other reserves and accruals	<u>1,323</u>	<u>1,246</u>
	1,439	1,421
Non Current		
Credit carryforwards	199	747
Net operating loss carryforwards	4,799	197
Depreciable assets	<u>2,585</u>	<u>2,526</u>
Total gross deferred tax asset	9,022	4,891
Valuation allowance	<u>(9,022)</u>	<u>(4,891)</u>
Net deferred tax asset	<u>\$ -</u>	<u>\$ -</u>

At the end of tax year ended June 25, 2017, the Company had net operating loss carryforwards totaling \$13.6 million that are available to reduce future taxable income and will begin to expire in 2032.

The Company continually reviews the reliability 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 fiscal 2016, the Company recorded a \$4.9 million valuation allowance against its net deferred tax assets. The valuation allowance was increased by \$4.1 million in fiscal 2017 to \$9.0 million as of June 25, 2017. The Company assessed whether a valuation allowance should be established against its deferred tax assets based on consideration of all available evidence, using a “more likely than not” standard.

In assessing the need for a valuation allowance, the Company considered both positive and negative evidence related to the likelihood of realization of deferred tax assets. In making such an assessment, more weight was given to the evidence that could be objectively verified, including recent cumulative losses. 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 that a full valuation allowance against all of the Company's deferred tax assets was appropriate.

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 38,130 square foot corporate office facility with average annual lease payments of approximately \$9.00 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 25, 2017 were as follows (in thousands):

	<u>Operating Leases</u>
2018	\$ 2,485
2019	2,246
2020	2,272
2021	2,347
2022	2,258
Thereafter	<u>6,381</u>
	<u>\$ 17,989</u>

Future minimum sublease rental income under active non-cancelable leases with initial or remaining terms of one year or more at June 25, 2017 were as follows (in thousands):

	<u>Sublease Rental Income</u>
2018	\$ 187
2019	162
2020	168
2021	174
2022	175
Thereafter	<u>350</u>
	<u>\$ 1,216</u>

Rental expense consisted of the following (in thousands):

	<u>Fiscal Year Ended</u>	
	<u>June 25, 2017</u>	<u>June 26, 2016</u>
Minimum rentals	\$ 1,878	\$ 3,090
Sublease rentals	<u>(129)</u>	<u>(257)</u>
	<u>\$ 1,749</u>	<u>\$ 2,833</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 2015 and 2016, 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 25, 2017 and June 26, 2016, total matching contributions to the tax advantaged savings plan by the Company on behalf of participating employees were approximately \$40,000 and \$53,000, 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 25, 2017		June 26, 2016	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	847,556	\$ 3.77	871,798	\$ 3.51
Granted	50,000	\$ 3.95	42,786	\$ 10.92
Exercised	(315,000)	\$ 2.56	(27,916)	\$ 3.65
Forfeited/Canceled/Expired	(104,500)	\$ 5.67	(39,112)	\$ 5.67
Outstanding at end of year	478,056	\$ 4.16	847,556	\$ 3.77
Exercisable at end of year	388,056	\$ 3.54	558,620	\$ 2.71
Weighted-average fair value of options granted during the year		\$ 1.11		\$ 4.24
Total intrinsic value of options exercised		\$ 806,400		\$ 102,010

At June 25, 2017, there was no intrinsic value of options outstanding.

The following table provides information on options outstanding and options exercisable as of June 25, 2017:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Options Outstanding at June 25, 2017	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Options Exercisable at June 25, 2017	Weighted-Average Exercise Price
\$1.55 - 1.95	81,306	2.1	\$1.90	81,306	\$1.90
\$1.96 - 2.35	90,000	1.0	\$2.32	90,000	\$2.32
\$2.36 - 2.75	40,000	4.0	\$2.71	40,000	\$2.71
\$2.76 - 3.30	55,000	5.0	\$3.11	55,000	\$3.11
\$3.31 - 3.95	50,000	18.5	\$3.95	-	\$0.00
\$5.51 - 5.74	8,664	6.0	\$5.74	8,664	\$5.74
\$5.95 - 6.25	128,800	6.9	\$6.07	88,800	\$4.07
\$6.26 - 13.11	24,286	8.0	\$13.11	24,286	\$13.11
	<u>478,056</u>	<u>5.8</u>	<u>\$4.16</u>	<u>388,056</u>	<u>\$3.54</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.

The following weighted average assumptions were used for options granted in the last two fiscal years:

Fiscal Year Ended	June 25, 2017	June 26, 2016
Expected life (in years)	5.5	5.7
Expected volatility	34.6%	36.0%
Risk-free interest rate	1.1%	1.6%
Expected forfeiture rate	61.8%	61.8%

At June 25, 2017, the Company had unvested options to purchase 90,000 shares with a weighted average grant date fair value of \$6.77. The total remaining unrecognized compensation cost related to unvested stock options amounted to approximately \$0.2 million at June 25, 2017. The weighted average remaining requisite service period of the unvested awards was 4.6 months. Stock compensation expense related to stock options of \$58,000 and \$213,000 was recognized in fiscal years 2017 and 2016, 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 2017, an aggregate of 536,310 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 its fiscal year ending June 24, 2019. 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. The grant date fair value of the restricted stock units granted in fiscal 2017 is \$5.99 per unit. The Company benefited from a credit in compensation expense of \$33 thousand which had no income tax impact due to a full valuation allowance.

A summary of the status of restricted stock units as of June 25, 2017 and June 26, 2016, and changes during the fiscal years then ended is presented below:

Number of Restricted Stock Units

	June 25, 2017	June 26, 2016
Outstanding at beginning of year	79,620	—
Granted during the year	536,310	100,190
Forfeited during the year	(127,980)	(20,570)
Outstanding at end of year	<u>487,950</u>	<u>79,620</u>
Vested at beginning of year	—	—
Vested during the year	—	—
Vested at end of year	—	—
Unvested at end of year	487,950	79,620

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 2017 and, as of June 25, 2017, there were 848,425 shares available to repurchase under the plan.

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

On October 1, 2014, the Company entered into a new At Market Issuance Sales Agreement with MLV pursuant to which the Company could initially offer and sell shares of its common stock having an aggregate offering price of up to \$5,000,000 from time to time through MLV, acting as agent (the “2014 ATM Offering”). On February 13, 2015, the aggregate offering amount of the 2014 ATM Offering was increased to \$10,000,000. The 2014 ATM Offering is being undertaken pursuant to Rule 415 and a shelf Registration Statement on Form S-3 which was declared effective by the SEC on August 8, 2014. Through June 25, 2017, the Company had sold an aggregate of 825,763 shares in the 2014 ATM Offering, realizing aggregate gross proceeds of \$8.1 million. No sales were made under the 2014 ATM Offering during fiscal 2017.

The Company pays to MLV a fee equal to 3% of the gross sales price in addition to reimbursing certain costs. Expenses associated with the 2013 ATM Offering and 2014 ATM Offering were \$0 and \$21,000 in fiscal 2017 and fiscal 2016, respectively, which includes fees and expense reimbursement to MLV and legal and other offering expenses incurred by the Company.

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 25, 2017	June 26, 2016
Loss from continuing operations	\$ (12,167)	\$ (8,487)
Discontinued operations	(324)	(399)
Net loss available to common stockholders	<u>\$ (12,491)</u>	<u>\$ (8,886)</u>
BASIC:		
Weighted average common shares	10,617	10,317
Loss from continuing operations per common share	\$ (1.15)	\$ (0.82)
Discontinued operations per common share	<u>(0.03)</u>	<u>(0.04)</u>
Net loss per common share	<u>\$ (1.18)</u>	<u>\$ (0.86)</u>
DILUTED:		
Weighted average common shares	10,617	10,317
Stock options	-	-
Weighted average common shares outstanding	<u>10,617</u>	<u>10,317</u>
Loss from continuing operations per common share	\$ (1.15)	\$ (0.82)
Discontinued operations per common share	<u>(0.03)</u>	<u>(0.04)</u>
Net loss per common share	<u>\$ (1.18)</u>	<u>\$ (0.86)</u>

NOTE L– SEGMENT REPORTING:

The Company has two 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) Franchising and Food and Supply Distribution, and (2) 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 two operating segments. Other revenue consists of nonrecurring items.

The Franchising and Food and Supply Distribution segment establishes franchisees and franchise territorial rights and sells and distributes proprietary and non-proprietary food and other items to franchisees. Revenue for this segment is derived from the sale of distributed products and franchise royalties, franchise fees and sale of area development and foreign master license rights. Assets for this segment include equipment, furniture and fixtures.

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

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 25, 2017 and June 26, 2016 (in thousands):

	Fiscal Year Ended	
	June 25, 2017	June 26, 2016
Net sales and operating revenues:		
Franchising and food and supply distribution	\$ 41,880	\$ 40,324
Company-owned restaurants (1)	15,233	19,629
Consolidated revenues	<u>\$ 57,113</u>	<u>\$ 59,953</u>
Depreciation and amortization:		
Franchising and food and supply distribution	\$ 11	\$ 23
Company-owned restaurants (1)	1,987	2,458
Combined	1,998	2,481
Corporate administration and other	458	241
Depreciation and amortization	<u>\$ 2,456</u>	<u>\$ 2,722</u>
Loss from continuing operations before taxes		
Franchising and food and supply distribution (2)	\$ 2,294	\$ 2,927
Company-owned restaurants (1) (2)	(3,797)	(4,293)
Combined	(1,503)	(1,366)
Impairment of long-lived assets and other lease charges	(5,877)	(1,698)
Corporate administration and other (2)	(4,734)	(2,769)
Loss from continuing operations before taxes	<u>\$ (12,114)</u>	<u>\$ (5,833)</u>
Capital Expenditures:		
Franchising and food and supply distribution	\$ -	\$ -
Company-owned restaurants	337	7,497
Corporate administration	236	613
Combined capital expenditures	<u>\$ 573</u>	<u>\$ 8,110</u>
Assets:		
Franchising and food and supply distribution	\$ 3,326	\$ 3,187
Company-owned restaurants	3,346	12,817
Corporate administration	2,874	2,501
Combined assets	<u>\$ 9,546</u>	<u>\$ 18,505</u>

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

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

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

Geographic information (revenues):		
United States	\$ 56,509	\$ 59,402
Foreign countries	604	551
Consolidated total	<u>\$ 57,113</u>	<u>\$ 59,953</u>

CORPORATE INFORMATION

OFFICERS

Scott Crane
President/Chief Executive Officer

Timothy E. Mullany
Chief Financial Officer/Secretary

DIRECTORS

Mark E. Schwarz
*Chairman of the Board
Chairman and Chief Executive Officer
of Newcastle Capital Management, L.P.*

Ramon D. Phillips
*Former Chairman of the Board and
Chief Executive Officer of
Hallmark Financial Services, Inc.*

Robert B. Page
*Restaurant Consultant
Former Chief Executive Officer of
Backyard Burgers, Inc.*

William C. Hammett, Jr.
*Former Chief Executive Officer of
iH3, LLC*

Clinton J. Coleman
*Chairman and Chief Executive Officer
of Novo Labs, Inc.*

Brian T. Bares
*Chief Executive and Investment Officer of
Bares Capital Management, Inc.*

LOCATIONS

CORPORATE OFFICE

RAVE Restaurant Group, Inc.
3551 Plano Parkway
The Colony, TX 75056
(469) 384-5000
Internet: <http://www.raverg.com>

DOMESTIC

Alabama	Indiana	New Jersey
Arkansas	Kansas	New Mexico
California	Kentucky	Oklahoma
Delaware	Louisiana	South Carolina
Florida	Maryland	Tennessee
Georgia	Missouri	Texas
Iowa	Mississippi	Virginia
Illinois	North Carolina	Washington DC

STOCK EXCHANGE

AND TRADING SYMBOL

RAVE Restaurant Group, Inc.
common stock is traded on
the NASDAQ Market System under the
symbol "RAVE".

INTERNATIONAL

Bangladesh
Honduras
Kuwait
Oman
Saudi Arabia
United Arab Emirates

STOCK TRANSFER AGENT

Securities Transfer Corporation
2591 Dallas Parkway, Suite 102
Frisco, TX 75034

INVESTOR INFORMATION

For further information about the company's common stock, please
write to the Investor Relations Department at the company's corporate office.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Montgomery, Coscia and Greilich, LLP
Plano, TX

ANNUAL MEETING

The Annual Meeting of Shareholders will take place on Thursday,
June 14, 2018 at 10:00 a.m. CDT at
Hampton Inn – The Colony
3650 Plano Parkway
The Colony, TX 75056

OUTSIDE LEGAL COUNSEL

McGuire, Craddock & Strother, P.C.
Dallas, TX

