

**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 24, 2018.

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, a smaller reporting company or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

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

Emerging growth company__

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

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

As of December 24, 2017, 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 \$11.3 million computed by reference to the price at which the common equity was last sold on the NASDAQ Capital Market.

As of September 21, 2018, there were 15,047,470 shares of the registrant’s common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive proxy statement, to be filed pursuant to Section 14(a) of the Securities Exchange Act in connection with the registrant’s annual meeting of shareholders scheduled for December 4, 2018, 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 facilitate food, equipment and supply distribution to our domestic and international system of restaurants through agreements with third party suppliers and distributors.

As of June 24, 2018, we owned and operated one Pie Five restaurant (“Pie Five Units”). As of that date, we also had 72 franchised Pie Five Units, 208 franchised Pizza Inn restaurants and three licensed Pizza Inn Express, or PIE, kiosks (“PIE Units”). The 150 domestic franchised Pizza Inn restaurants were comprised of 90 pizza buffet restaurants (“Buffet Units”), eight delivery/carry-out restaurants (“Delco Units”) and 52 express restaurants (“Express Units”). As of June 24, 2018, there were 58 international franchised Pizza Inn restaurants. Domestic Pizza Inn restaurants and kiosks were located predominantly in the southern half of the United States, with Texas, Arkansas, North Carolina and Tennessee accounting for approximately 24%, 13%, 13% and 7%, respectively, of the total number of domestic units.

Our History

The Company has offered consumers affordable, high quality pizza since 1958, when the first Pizza Inn restaurant opened in Dallas, Texas. We awarded our first franchise in 1963 and opened our first buffet restaurant in 1969. We began franchising the Pizza Inn brand internationally in the late 1970s. In 1993, our stock began trading on the NASDAQ Stock Market, and presently trades on the NASDAQ Capital Market under the ticker symbol “RAVE.” In June 2011, we opened the first Pie Five restaurant in Ft. Worth, Texas. In November 2012, we signed our first franchise development agreement for Pie Five. In 2018, we launched the PIE kiosk and convenience store solution to meet the consumer demand for tasty and high-quality pizzas within a grab-and-go delivery model.

Our Concepts

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

Pizza Inn

We franchise Buffet Units, Delco Units and Express Units under the Pizza Inn brand. Additionally, we license PIE kiosks 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 \$10.50 per person for fiscal year 2018. 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.

PIE Units serve customers through a non-traditional, licensed pizza-only model called Pizza Inn Express. PIE Units provide a nimble and streamlined pizza preparation and sales model at a minimal investment. PIE Units provide customers with a fast, seamless experience when picking up their favorite hot pizza. Geared towards convenience stores, but also an airport or entertainment venue option, PIE Units allow customers to order and pay at a kiosk for grab-and-go or pick up their food at a designated spot. A PIE Unit typically occupies approximately 52 square feet and is simple to configure and move to meet licensee retail sales traffic needs. For PIE Units, 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 and Express Units, PIE Units are primarily production-oriented facilities and, therefore, do not require all of the equipment, labor or square footage of the Buffet Unit.

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 proprietary and non-proprietary 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 \$9.50 per person for fiscal year 2018. The average per person ticket is slightly higher in restaurants offering beer and wine.

Traditional Pie Five restaurants typically occupy leased, in-line or end-cap space of between 1,800 and 2,400 square feet in retail strip or multi-unit retail space. With seating for 65 to 85 customers in most units, and patio seating where available, Pie Five restaurants primarily serve lunch and dinner to families, adults and kids of all ages. During fiscal 2018, an alternative prototype Pie Five was developed to minimize retail space needs with only 1,400 square feet and seating for 20 to 25 customers. Pie Five restaurants typically are located in high traffic, high visibility urban or suburban sites in mid to large-size metropolitan areas. Sales are predominantly on-premise though carry out and delivery is offered as well. The majority of Pie Five restaurants also sell wings, sandwiches, and large pizzas. Future sales growth initiatives may include expanded text ordering, additional "limited time offer" pizza recipes and additional menu offerings. Due to the relatively compact footprint of the restaurants, and other operating advantages, we believe Pie Five is also well suited for non-traditional locations such as airports.

Site Selection

We consider the restaurant site selection process critical to a restaurant's long-term success and devote significant resources to the investigation and evaluation of potential sites. The site selection process includes a review of trade area demographics 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 also plan to seek new domestic licensees for PIE kiosks. We expect to evaluate the continued development of new Pizza Inn Buffet and Delco Units in international markets in fiscal 2019, particularly in the Middle East.

In appropriate circumstances, we may 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 2019, we intend to continue developing franchised Pie Five Units domestically and internationally. As of June 24, 2018, we had 72 franchised units open and had executed multi-year development agreements with 19 franchisees for up to an additional 151 domestic and 40 international 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		
	Buffet Unit	Express Unit	Pie Five Unit
Development fee per unit	—	—	5,000
Franchise fee per unit	30,000	5,000	20,000
Initial franchise term	20 years	5 years	10 years
Renewal period	10 years	5 years	5 years
Royalty rate % of sales	4%	5%	6%
National ad fund % of sales	1%	2%	2%
Required total ad spending % of sales	5%	2%	5%

Since the Pizza Inn concept was first franchised in 1963, industry franchising concepts and development strategies have evolved, and our present franchise relationships are evidenced by a variety of contractual forms. Common to those forms are provisions that: (i) require the franchisee to follow the Pizza Inn system of restaurant operation and management, (ii) require the franchisee to pay a franchise fee 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 2019. Our Pie Five franchise agreement requires that the franchisees: (i) follow the Pie Five system of restaurant operation and management, (ii) pay a franchise fee and continuing royalties, (iii) contribute a specified percentage of sales to a marketing fund managed by the Company, and (iv) only open restaurants that comply with site and design standards determined by the Company.

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

Standards. We require franchisee adherence to a variety of standards designed to ensure proper operations and to protect and enhance the 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.

Domestic Kiosk License Agreements

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

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

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

Company-Owned Restaurant Operations

As of June 24, 2018, we operated one Pie Five Unit in the Dallas/Fort Worth metropolitan area. We do not currently intend to operate any Buffet Units, Delco Units, Express Units or PIE Units. In addition to generating revenues, we use the domestic Company-owned restaurant as a test site for new products and promotions as well as restaurant operational improvements and as a forum for training new managers and franchisees. We do not presently anticipate opening additional Company-owned restaurants during fiscal 2019.

International Franchise Operations

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

Our first franchised Pizza Inn restaurant outside of the United States opened in the late 1970s. As of June 24, 2018, there were 58 Pizza Inn restaurants operating internationally. With the exception of two restaurants in Honduras, all of the Pizza Inn restaurants operated or sub-licensed by our international master licensees are in the United Arab Emirates, Saudi Arabia and adjoining countries. Our ability to continue to develop select international markets is affected by a number of factors, including our ability to locate experienced, well-capitalized developers who can commit to an aggressive multi-restaurant development schedule and achieve maximum initial market penetration with minimal supervision by us. We expect the first international franchised Pie Five Unit to open in fiscal 2019 in Pakistan.

Food and Supply Distribution

During the fiscal quarter ended December 24, 2017, the Company discontinued its Norco distribution division and revised its arrangements with third party suppliers and distributors of food, equipment and supplies. The discontinuation of the Norco food and supply distribution entity was a strategic shift for the Company, releasing the Company from the credit risk, overhead expense, and delivery responsibilities of directly supplying franchised restaurants and PIE kiosks. As a result of the revised arrangements, franchisees and licensees began purchasing food and supplies directly from authorized, reputable and experienced supply and distribution companies. Also as a result of the strategic shift, the sale of food, equipment and supplies is no longer recognized as revenue and the cost of such items is no longer included in cost of sales.

Prior to the discontinuation of the Norco distribution division, supplier incentive funds were included in the margin of the Norco business unit. As a result of the Norco strategic shift, the Company reports incentive revenues received from third party suppliers and distributors as revenue.

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

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

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

Marketing and Advertising

By communicating a common brand message at the regional, local market and restaurant levels, we believe we can create and reinforce a strong, consistent marketing message to consumers and increase our market share. We offer or facilitate 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 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 24, 2018, 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 and PIE Unit licensees 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 in different metropolitan areas as well as the Company-owned restaurant. 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 optimize Pie Five marketing activities commensurate with the contributions 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 and municipality in which the restaurant is located. Difficulties in obtaining, or the failure to obtain, required licenses or approvals could delay or prevent the opening of a new restaurant or require the temporary or permanent closing of an existing restaurant in a particular area.

We are subject to Federal Trade Commission (“FTC”) 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 24, 2018, we had 51 employees, including 35 in our corporate office and one full-time and 15 part-time employees at the Company-owned restaurant. 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 and licenses, we compete with many franchisors of restaurants and other business concepts. We believe that the principal competitive factors affecting the sale of franchises are product quality, price, value, consumer acceptance, franchisor experience and support, and the quality of the relationship maintained between the franchisor and its franchisees. In general, there is also active competition for management personnel and attractive commercial real estate sites suitable for our restaurants.

ITEM 1A. RISK FACTORS.

Not required for a smaller reporting company.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable.

ITEM 2. PROPERTIES.

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

As of June 24, 2018, the Company also operated one Pie Five Unit from a leased location. The operating lease covers 2,400 square feet and has an initial term of ten years at a base rental rate of \$40.00 per square foot in the first five years and \$44.00 per square foot in the last five years. The lease contains provisions permitting renewal for an additional term of five years.

As of June 24, 2018, the Company had contingent and direct lease obligations for twenty-one additional locations. Two of the lease obligations have been subleased, sixteen of the lease obligations have been assigned to franchisees, and three of the lease obligations are direct lease obligations for non-operating locations. These leased properties range in size from 2,021 to 2,850 square feet, have annual rental rates ranging from approximately \$28.00 to \$44.00 per square foot and expire between 2019 and 2028. The Company has settled one of the non-operating leases and is currently pursuing alternatives for subleasing or terminating the remaining two non-operating unexpired leases.

ITEM 3. LEGAL PROCEEDINGS.

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

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

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

As of September 19, 2018, there were approximately 1,903 stockholders of record of the Company's common stock.

The Company had no sales of unregistered securities during fiscal 2018 or 2017.

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>Fiscal 2018:</u>		<u>High</u>		<u>Low</u>
Fourth Quarter Ended 6/24/2018	\$	1.50	\$	1.09
Third Quarter Ended 3/25/2018		2.33		1.20
Second Quarter Ended 12/24/2017		1.95		1.36
First Quarter Ended 9/24/2017		2.31		1.27
 <u>Fiscal 2017:</u>				
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

The Company did not pay any dividends on its common stock during the fiscal years ended June 24, 2018 or June 25, 2017. 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 24, 2018.

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 24, 2018, the Company has not repurchased any outstanding shares but may make further purchases under the 2007 Stock Purchase Plan. The Company may also purchase shares of our common stock other than pursuant to the 2007 Stock Purchase Plan or other publicly announced plans or programs.

Equity Compensation Plan Information

The following table furnishes information with respect to the Company's stock option equity compensation plans as of June 24, 2018:

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(1)
Stock option compensation plans approved by security holders	478,056	\$ 4.16	-0-
Stock option compensation plans not approved by security holders	-	-	-
Total	<u>478,056</u>	<u>\$ 4.16</u>	<u>-</u>

(1) Securities remaining available for future issuance are net of a maximum of 1,362,450 shares of common stock issuable pursuant to outstanding restricted stock units, subject to applicable vesting requirements and performance criteria. See note H to the audited consolidated financial statements included in this report.

ITEM 6. SELECTED FINANCIAL DATA

Not required for a smaller reporting company.

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

Results of Operations

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

Overview

The Company franchises pizza buffet ("Buffet Units"), delivery/carry-out ("Delco Units") and express ("Express Units") restaurants under the trademark "Pizza Inn" and operates and franchises fast casual pizza restaurants ("Pie Five Units") under the trademarks "Pie Five Pizza Company" or "Pie Five". The Company also licenses PIE Units under the trademark "Pizza Inn". We facilitate food, equipment and supply distribution to our domestic and international system of restaurants through agreements with third party distributors. At June 24, 2018, 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
Domestic Franchised/Licensed	153	\$ 86,801	72	\$ 43,377	225	\$ 130,178
Company-Owned	-	-	1	4,254	1	4,254
Total Domestic Units	153	\$ 86,801	73	\$ 47,631	226	\$ 134,432
International Franchised	58		-		58	

The domestic units were located in 23 states predominately situated in the southern half of the United States. The international restaurants were located in six foreign countries.

Rave Domestic Comparable Store Sales

The following table summarizes domestic comparable store retail sales for the Company.

	Fiscal Year Ended	
	June 24, 2018	June 25, 2017
	(in thousands)	
Pizza Inn Comparable Store Retail Sales - Domestic	\$ 82,747	\$ 81,271
Pie Five Comparable Store Retail Sales	25,646	29,453
Total Rave Comparable Store Retail Sales	\$ 108,393	\$ 110,724

Total domestic retail sales decreased by \$2.3 million, or 2.1% compared to the prior year. The net decrease was attributable to a decline in Pie Five comparable store retail sales partially offset by an increase in Pizza Inn comparable store retail sales.

Basic income per common share improved \$1.32 to income per share of \$0.14 for fiscal 2018 compared to a loss of \$1.18 per share in the prior fiscal year. Net income improved \$14.4 million to \$1.9 million for fiscal 2018 compared to a loss of \$12.5 million for the prior fiscal year on revenues of \$15.1 million for fiscal 2018 as compared to \$26.1 million in fiscal 2017. The improved net income over the prior year was due to a \$7.9 million improvement in our Company-owned stores segment related primarily to reductions in closed and non-operating store expenses, a \$1.0 million improvement in gains on sale of assets, a \$1.0 million reduction in Corporate general and administrative expenses, a \$1.1 million net improvement in other operations and a \$3.4 million benefit from an adjustment to the deferred tax valuation allowance.

Diluted income per common share improved \$1.31, to income per share of \$0.13 for fiscal 2018, compared to a loss of \$1.18 per share in the prior fiscal year. Weighted average common and potential dilutive common shares outstanding include equivalent shares for convertible notes and a corresponding net income adjustment for interest on the notes.

Adjusted EBITDA for the fiscal year ended June 24, 2018, improved to \$0.6 million compared to a loss of \$1.7 million for the comparable period of the prior fiscal year. The following table sets forth a reconciliation of net income to EBITDA and Adjusted EBITDA for the periods shown (in thousands):

	Twelve Months Ended	
	June 24, 2018	June 25, 2017
Net income (loss)	\$ 1,912	\$ (12,491)
Interest expense	183	106
Income taxes	(3,322)	53
Income taxes - discontinued ops	(60)	—
Depreciation and amortization	874	2,434
Depreciation and amortization - discontinued ops	—	22
EBITDA	<u>\$ (413)</u>	<u>\$ (9,876)</u>
Stock compensation expense	115	58
Pre-opening costs	114	162
(Gain)/Loss on sale/disposal of assets	(144)	882
Impairment of long-lived assets and other lease charges	894	5,877
Discontinued operations excl taxes	422	1,226
Closed and non-operating store costs	(369)	(75)
Adjusted EBITDA	<u>\$ 619</u>	<u>\$ (1,746)</u>

Results of operations for fiscal 2018 and 2017 both included 52 weeks.

Pizza Inn Brand Summary

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

	Fiscal Year Ended	
	June 24, 2018	June 25, 2017
(in thousands, except unit data)		
Pizza Inn Retail Sales - Total Domestic Units		
Domestic Units		
Buffet Units- Franchised	\$ 80,128	\$ 81,283
Delco/Express Units- Franchised	6,663	6,597
Buffet Units- Company-owned	-	568
Pie Units- Licensed	10	-
Total domestic retail sales	<u>\$ 86,801</u>	<u>\$ 88,448</u>
Pizza Inn Comparable Store Retail Sales - Total Domestic	\$ 82,747	\$ 81,271
Pizza Inn Average Units Open in Period		
Domestic Units		
Buffet Units- Franchised	90	94
Delco/Express Units- Franchised	65	63
Buffet Units- Company-owned	-	1
Pie Units- Licensed	-	-
Total domestic Units	<u>155</u>	<u>158</u>

Total domestic Pizza Inn total retail sales decreased \$1.6 million, or 1.9% compared to the prior year. The decrease in domestic retail sales was primarily due to a net decrease in store count. Comparable Pizza Inn retail sales increased by 1.8%.

The following chart summarizes Pizza Inn restaurant activity for the fiscal year ended June 24, 2018:

	Fiscal Year Ended June 24, 2018				Ending Units
	Beginning Units	Opened	Concept Change	Closed	
Domestic Units					
Buffet Units- Franchised	93	1	—	4	90
Delco/Express Units- Franchised	68	3	(1)	10	60
Pie Units Licensed	—	2	1	—	3
Total domestic Units	<u>161</u>	<u>6</u>	<u>—</u>	<u>14</u>	<u>153</u>
International Units (all types)	60	3	—	5	58
Total Units	<u>221</u>	<u>9</u>	<u>—</u>	<u>19</u>	<u>211</u>

We believe the net decrease of eight domestic Pizza Inn units during the fiscal year ending June 24, 2018 is consistent with the recent trend of modest domestic store closures. We believe the net decrease of two international Pizza Inn units represents a normal variation in the number of stores open.

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 24, 2018	June 25, 2017
(in thousands, except unit data)		
Pie Five Retail Sales - Total Units		
Domestic Units- Franchised	\$ 43,377	\$ 41,929
Domestic Units- Company-owned	4,254	15,233
Total domestic retail sales	<u>\$ 47,631</u>	<u>\$ 57,162</u>
Pie Five Comparable Store Retail Sales - Total	\$ 25,646	\$ 29,453
Pie Five Average Units Open in Period		
Domestic Units- Franchised	74	67
Domestic Units- Company-owned	7	26
Total domestic Units	<u>81</u>	<u>93</u>

Pie Five system-wide retail sales decreased \$9.5 million, or 16.7%, for the fiscal year ended June 24, 2018 when compared to the prior year. Compared to fiscal 2017, average units open in the period decreased from 93 to 81. Comparable store retail sales decreased by 12.9% during fiscal 2018 compared to fiscal 2017.

The following chart summarizes Pie Five restaurant activity for the fiscal year ended June 24, 2018:

	Fiscal Year Ended June 24, 2018				Ending Units
	Beginning Units	Opened	Transfer	Closed	
Domestic - Franchised	71	7	12	18	72
Domestic - Company-owned	13	1	(12)	1	1
Total domestic Units	<u>84</u>	<u>8</u>	<u>-</u>	<u>19</u>	<u>73</u>

The net decrease of 11 Pie Five Units during fiscal 2018 was primarily the result of the closure of poor-performing units, which we believe provides us a stronger foundation for future brand growth. We believe that this trend of net store closures will moderate and then reverse in future periods. The transfer of 12 Company-owned Pie Five Units to franchisees during fiscal 2018 represents the implementation of our strategic shift away from the ownership and operation of restaurants.

Pie Five - Company-Owned Restaurants

(in thousands, except store weeks and average data)

	Twelve Months Ended	
	June 24, 2018	June 25, 2017
Store weeks (excluding partial weeks)	358	1,369
Average weekly sales	\$ 11,707	\$ 11,122
Average number of units	7	26
Restaurant sales (excluding partial weeks)	\$ 4,191	\$ 15,226
Restaurant sales	\$ 4,254	\$ 15,233
Loss from continuing operations before taxes	\$ (1,763)	\$ (9,674)
Allocated marketing and advertising expenses	214	762
Depreciation/amortization expense	459	1,964
Pre-opening costs	114	162
Operations management and extraordinary expenses	96	735
Impairment, other lease charges and non-operating store costs	526	5,801
Restaurant operating cash flow	\$ (354)	\$ (250)

Primarily as a result of decreased store count, total retail sales of Company-owned Pie Five restaurants decreased \$10.9 million, or 72.1%, to \$4.3 million for fiscal 2018 compared to \$15.2 million for fiscal 2017. Average weekly sales for Company-owned Pie Five restaurants increased \$585, or 5.3%, to \$11,707 for the fiscal year ended June 24, 2018 compared to \$11,122 for the same period of prior year. Company-owned Pie Five restaurant operating cash flow decreased \$0.1 million, or 41.6%, during the fiscal year 2018 compared to the same period of prior year.

The increase in average weekly sales was attributable to closures of lower-performing Company-owned stores. The decrease in operating cash flow for Company-owned Pie Five restaurants was primarily attributable to weaker financial performance by select stores. Loss from continuing operations before taxes for Company-owned Pie Five stores improved \$7.9 million for the fiscal year ended June 24, 2018 compared to the same period of the prior year. The improved loss from continuing operations before taxes for Company-owned Pie Five restaurants was primarily the result of decrease in \$5.0 million in impairment charges and non-operating store costs and a decline pre-opening expenses, cost of sales, and general and administrative expenses.

Non-GAAP Financial Measures and Other Terms

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

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

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

- "EBITDA" represents earnings before interest, taxes, depreciation and amortization.
- "Adjusted EBITDA" represents earnings before interest, taxes, depreciation and amortization, stock compensation expense, pre-opening expense, costs related to impairment, gain/loss on scrap or 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 each 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 and other lease 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

	Pizza Inn Franchising		Pie Five Franchising		Company-Owned Stores		Corporate		Total	
	Fiscal Year Ended		Fiscal Year Ended		Fiscal Year Ended		Fiscal Year Ended		Fiscal Year Ended	
	Jun 24, 2018	Jun 25, 2017	Jun 24, 2018	Jun 25, 2017	Jun 24, 2018	Jun 25, 2017	Jun 24, 2018	Jun 25, 2017	Jun 24, 2018	Jun 25, 2017
REVENUES:										
Franchise revenues	\$ 6,892	\$ 7,307	\$ 3,970	\$ 3,521	\$ -	\$ -	\$ -	\$ -	\$ 10,862	\$ 10,828
Restaurant sales	-	-	-	-	4,254	15,233	-	-	4,254	15,233
Interest income	-	-	-	-	-	-	4	16	4	16
Total revenues	6,892	7,307	3,970	3,521	4,254	15,233	4	16	15,120	26,077
COSTS AND EXPENSES:										
Cost of sales	-	-	-	-	3,654	13,927	-	-	3,654	13,927
General and administrative expenses	-	-	-	-	772	2,977	6,825	7,824	7,597	10,801
Franchise expenses	1,298	1,355	1,347	1,381	-	-	-	-	2,645	2,736
Pre-opening expenses	-	-	-	-	114	162	-	-	114	162
(Gain)/Loss on sale of assets	-	-	-	-	-	-	(144)	882	(144)	882
Impairment of long-lived assets and other lease charges	-	-	-	-	894	5,877	-	-	894	5,877
Bad debt	-	-	-	-	124	-	227	342	351	342
Interest expense	-	-	-	-	-	-	183	106	183	106
Amortization and depreciation expense	-	-	-	-	459	1,964	415	470	874	2,434
Total costs and expenses	1,298	1,355	1,347	1,381	6,017	24,907	7,506	9,624	16,168	37,267
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE TAXES	\$ 5,594	\$ 5,952	\$ 2,623	\$ 2,140	\$ (1,763)	\$ (9,674)	\$ (7,502)	\$ (9,608)	\$ (1,048)	\$ (11,190)

Revenues:

Revenues are derived from (1) franchise royalties, franchise fees and supplier incentives, (2) sales by Company-owned restaurants, and (3) interest income. The volume of supplier incentive revenues is dependent on the level of chain-wide retail sales, which are impacted by changes in comparable store sales and restaurant count, and the products sold to franchisees through third-party food distributors. Total revenues for fiscal 2018 and for the same period in the prior fiscal year were \$15.1 million and \$26.1 million, respectively.

Pizza Inn Franchise Revenues

Pizza Inn franchise revenues decreased by \$0.4 million to \$6.9 million for the fiscal year ended June 24, 2018 compared to \$7.3 million for fiscal 2017. The 5.7% decrease was primarily the result of reduced retail sales, largely attributable to closure of under-performing stores. Franchise fees comprised \$0.1 million of Pizza Inn franchise revenues for each of the fiscal years ended June 24, 2018 and June 25, 2017.

Pie Five Franchise Revenue

Pie Five franchise revenues increased by \$0.5 million to \$4.0 million for the fiscal year ended June 24, 2018 compared to \$3.5 million for fiscal 2017. The increase was primarily driven by the recognition of a set up fee for the first international franchisee and recognition of defaulted franchisee fees. The transfer of Company-owned stores to franchisees also contributed to the increased franchise revenues. Franchise fees, area development fees, and set up fees comprised \$1.0 million and \$0.6 million of Pie Five franchise revenues for the fiscal years ended June 24, 2018 and June 25, 2017 respectively.

Restaurant Sales

Restaurant sales, which consist of revenue generated by Company-owned restaurants, decreased 72.1%, or \$10.9 million, to \$4.3 million for fiscal 2018 compared to \$15.2 million for the prior fiscal year. This decrease was primarily due to the transfer to franchisees of 12 Company-owned stores in fiscal 2018.

Interest Income

Interest income is primarily derived from franchisee notes and receivables. Total interest income for fiscal 2018 and for the same period in the prior fiscal year were \$4 thousand and \$16 thousand, respectively.

Costs and Expenses:

Cost of Sales

Cost of sales primarily includes food and supply costs and labor directly related to restaurant sales. These costs decreased 73.8%, or \$10.2 million, to \$3.7 million for fiscal 2018 compared to \$13.9 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.

General and Administrative Expenses

Total general and administrative expenses decreased \$3.2 million to \$7.6 million for fiscal 2018 compared to \$10.8 million for the prior fiscal year. General and administrative expenses for Company-owned restaurants decreased \$2.2 million to \$0.8 million for fiscal 2018 compared to \$3.0 million for the prior fiscal year primarily as a result of lower store count. General and administrative expenses for corporate decreased \$1.0 million to \$6.8 million for fiscal 2018 compared to \$7.8 million for the prior year primarily as a result of lower legal and recruiting fees, management fees, and other overhead expenses.

Franchise Expenses

Franchise expenses include general and administrative expenses directly related to the sale and continuing service of domestic and international franchises. Total franchise expenses decreased \$0.1 million to \$2.6 million in fiscal 2018 from \$2.7 million in the prior fiscal year. Pizza Inn franchise expenses decreased \$0.1 million to \$1.3 million in fiscal 2018 from \$1.4 million in the prior fiscal year primarily due to lower professional outside services during fiscal 2018. Pie Five franchise expenses remained roughly flat at \$1.3 million in fiscal 2018 as compared to 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 \$0.1 million in fiscal 2018 from \$0.2 million in the prior year primarily due to opening fewer Company-owned Pie Five stores.

(Gain)/Loss on sale of assets

The Company's (gain) / loss on sale of assets reflects the net difference between the sale price of assets and the net carrying value of the assets at the time of sale. (Gain) / loss on sale of assets improved \$1.0 million to a gain of \$0.1 million in fiscal 2018 from a loss of \$0.9 million in the prior year due to more favorable terms on assets sold in fiscal 2018.

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 2018, the Company tested its long-lived assets for impairment and recognized pre-tax, non-cash impairment charges of \$0.9 million compared to \$5.9 million in the prior year. The fiscal 2018 impairment charges related to \$0.9 million in other lease termination expenses for undeveloped, closed and transferred restaurant sites. These impairment charges arose as a result of the decisions over the past two fiscal years to close certain underperforming Company-owned Pie Five restaurants and to abandon previously executed leases for eight locations no longer deemed desirable for future restaurant development.

Bad Debt Expense

Total provision for bad debt remained relatively stable at \$0.3 million in both fiscal 2018 and fiscal 2017. Bad debt provision related to accounts receivable from franchisees decreased \$0.1 million to \$0.2 million in fiscal 2018 compared to \$0.3 million in the prior year. Bad debt provision for Company-owned stores of \$0.1 million related to the collectability of a promissory note taken in connection with the prior sale of two Company-owned Pie Five Units to a franchisee. The Company believes that the 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.

Interest Expense

Interest expense increased \$0.1 million for the fiscal year ended June 24, 2018 to \$0.2 million, compared to \$0.1 million in the prior year due to the timing of the 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. During the fourth quarter of fiscal year June 24, 2018, the Company reversed a portion of the prior valuation allowance against its deferred tax assets. The valuation allowance decreased by \$6.6 million during fiscal year 2018, from \$9.0 million at June 25, 2017 to \$2.4 million at June 24, 2018. This resulted in a tax benefit of \$3.4 million due to expected future taxable income.

The Company assessed whether the valuation allowance should be maintained against its deferred tax assets based on consideration of all available evidence, using a “more likely than not” standard. In assessing the need for the valuation allowance, the Company considered both positive and negative evidence related to the likelihood of realization of deferred tax assets. Future sources of taxable income were also considered in determining the amount of the recorded valuation allowance. Based on the Company's review of this evidence, management determined it was appropriate to reverse a portion of the valuation allowance against the Company's deferred tax assets.

Income tax benefit of \$3.3 million for fiscal 2018 represents \$0.1 million in state and foreign tax expense and a \$3.4 million benefit on reversal of a portion of the valuation allowance. At the end of tax year ended June 24, 2018, the Company had net operating loss carryforwards totaling \$23.5 million that are available to reduce future taxable income and will begin to expire in 2032.

Discontinued Operations

Net losses from the Norco food and supply distribution division are included within discontinued operations. The discontinuation of the Norco food and supply distribution entity was a strategic shift for the Company during the second quarter of fiscal 2018, releasing the Company from the credit risk, overhead expense, and delivery responsibilities of directly supplying franchised restaurants and PIE kiosks. Discontinued operations also includes losses from leased buildings and operating losses associated with Company-owned restaurants closed in prior years.

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 \$3.9 million in fiscal 2018 compared to cash used of \$5.5 million in fiscal year 2017.

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 2018 of \$0.7 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 provided by investing activities of \$0.4 million during the fiscal year ended June 25, 2017 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.

Cash flows from financing activities generally reflect changes in the Company's borrowings and securities activity during the period. Net cash provided by financing activities was \$4.1 million and \$4.7 million for the fiscal years ended June 24, 2018 and June 25, 2017, respectively. Cash flows from financing activities for fiscal 2018 were primarily the result of the sale of stock in connection with a shareholder rights offering that closed in September 2017, plus stock sales in an at-the-market offering, partially offset by the repayment of a \$1.0 million short-term promissory note. Cash flows from financing activities for fiscal 2017 were primarily the result of proceeds from the exercise of stock options, the issuance of convertible notes and proceeds from a short term note.

ATM Offering

On December 5, 2017, the Company entered into an At Market Issuance Sales Agreement with B. Riley FBR, Inc. ("B. Riley FBR") pursuant to which the Company may offer and sell shares of its common stock having an aggregate offering price of up to \$5,000,000 from time to time through B. Riley FBR acting as agent (the "2017 ATM Offering"). The 2017 ATM Offering is being undertaken pursuant to Rule 415 and a shelf Registration Statement on Form S-3 which was declared effective by the SEC on November 6, 2017. Through June 24, 2018, the Company had sold an aggregate of 150,011 shares in the 2017 ATM Offering, realizing aggregate gross proceeds of \$0.2 million.

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 bore 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. The short term loan was paid in full during fiscal 2018. 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.

During fiscal 2018, \$1.3 million in par value of the Notes were converted to common shares. At the end of fiscal 2018, \$1.7 million in par value of the Notes were outstanding, offset by \$0.1 million of unamortized debt issue costs and unamortized debt discounts.

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 2019 fiscal year.

Critical Accounting Policies and Estimates

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

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

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

The Company reviews long-lived assets for impairment when events or circumstances indicate that the carrying value of such assets may not be fully recoverable. Impairment is evaluated based on the sum of undiscounted estimated future cash flows expected to result from use of 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 2018, the Company tested its long-lived assets for impairment and recognized pre-tax, non-cash impairment charges of \$0.9 million primarily related to lease termination expense for closed and non-operating Pie Five Units. 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.

Franchise revenue consists of income from license fees, royalties, area development and foreign master license agreements and supplier incentive revenues. 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. Supplier incentive revenues are recognized as earned, typically as the underlying commodities are shipped.

The Company continually reviews the realizability of its deferred tax assets, including an analysis of factors such as future taxable income, reversal of existing taxable temporary differences, and tax planning strategies. The Company assesses whether a valuation allowance should be established against its deferred tax assets based on consideration of all available evidence, using a “more likely than not” standard. In assessing the need for a valuation allowance, the Company considers both positive and negative evidence related to the likelihood of realization of deferred tax assets. In making such assessment, more weight is given to evidence that can be objectively verified, including recent 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 24, 2018 and June 25, 2017, 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.

In December 2017, President Donald Trump signed the Tax Cuts and Jobs Act. The new law reduces the income tax rate for corporations to 21% effective January 1, 2018. Due to the tax rate change, the deferred tax assets as of December 24, 2017 were adjusted by \$3.5 million. There were approximately \$5.9 million of deferred tax assets less a valuation allowance of \$2.4 million at June 24, 2018.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-09, “Revenue from Contracts with Customers.” The standard requires that the transaction price received from customers be allocated to each separate and distinct performance obligation. The transaction price attributable to each separate and distinct performance obligation is then recognized into revenue as the performance obligations are met. The standard also requires any unamortized portion of allocated revenue obligations received prior to adoption be presented in the consolidated balance sheet as a liability. ASU 2014-09 is effective for annual reporting periods (including interim periods therein) beginning after December 15, 2017. The Company will adopt this new guidance in the first quarter of fiscal 2019 and expects to use the modified retrospective transition method, which will result in recognizing the cumulative effect of initially applying the revenue standard as an adjustment to the opening balance of retained earnings in the first quarter of fiscal 2019. The Company has not yet estimated the impact of the adoption of ASU 2014-09.

Based on a preliminary assessment, the Company believes the recognition of the majority of its revenues, including royalties and supplier and distributor incentive revenues, which are directly based upon franchise sales, and revenues from Company-owned stores, will not be affected by the new guidance. The Company expects the adoption of the new guidance to change the timing of recognition of license fees and area development and foreign master license fees. Currently, these fees are generally recognized into revenue upon either opening of the respective restaurant or when a renewal agreement becomes effective. The new guidance will generally require these fees to be recognized over the term of the related franchise license for the respective restaurant.

The Company also expects the adoption of ASU 2014-09 to change the reporting of franchisee advertising fund contributions and the related advertising fund expenditures, which are currently presented as a net expense in the consolidated statements of operations. Under the new guidance, the Company expects advertising fund contributions and expenditures to be reported on a gross basis in the consolidated statements of operations. Although we expect this change to have a material impact to our total revenues and expenses, we expect such contributions and expenditures to be largely offsetting and not to materially impact our reported net income.

The Company continues to evaluate the impact the adoption of this new guidance will have on these and other revenue transactions, in addition to the impact on accounting policies and related disclosures.

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

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 24, 2018. 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](#) Supplemental Indenture Number 1 dated as of October 31, 2017, between Rave Restaurant Group, Inc. and Securities Transfer Corporation (filed as Exhibit 4.1 to Form 8-K filed November 9, 2017 and incorporated herein by reference).
 - 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).*
 - 10.7 Lease agreement with A&H Properties Partnership for corporate headquarter offices located at 3551 Plano Parkway in The Colony, TX commencing January 2, 2017.
 - [10.8](#) 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).*
 - [10.9](#) At Market Issuance Sales Agreement between the Company and B. Riley FBR, Inc. dated December 5, 2017 (filed as Exhibit 1.1 to Form 8-K filed December 5, 2017 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 21, 2018

Rave Restaurant Group, Inc.

By: /s/ Scott Crane

Scott Crane

Chief Executive 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 Chief Executive Officer (Principal Executive Officer)	<u>September 21, 2018</u>
<u>/s/Andrea K. Allen</u> Andrea K. Allen Chief Accounting and Administrative Officer (Principal Financial and Accounting Officer)	<u>September 21, 2018</u>
<u>/s/Mark E. Schwarz</u> Mark E. Schwarz Director and Chairman of the Board	<u>September 21, 2018</u>
<u>/s/Ramon D. Phillips</u> Ramon D. Phillips Director and Vice Chairman of the Board	<u>September 21, 2018</u>
<u>/s/ Brian T. Bares</u> Brian T. Bares Director	<u>September 21, 2018</u>
<u>/s/Robert B. Page</u> Robert B. Page Director	<u>September 21, 2018</u>
<u>/s/ William C. Hammett, Jr.</u> William C. Hammett, Jr. Director	<u>September 21, 2018</u>
<u>/s/ Clinton J. Coleman</u> Clinton J. Coleman Director	<u>September 21, 2018</u>

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

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Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Rave Restaurant Group, Inc. as of June 24, 2018 and June 25, 2017 and the related consolidated statements of operations, shareholders' equity (deficit), and cash flows for the fiscal years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated 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 consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 24, 2018 and June 25, 2017, 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 21, 2018

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	Fiscal Year Ended	
	June 24, 2018	June 25, 2017
REVENUES:	\$ 15,120	\$ 26,077
COSTS AND EXPENSES:		
Cost of sales	3,654	13,927
General and administrative expenses	7,597	10,801
Franchise expenses	2,645	2,736
Pre-opening expenses	114	162
Loss/(Gain) on sale of assets	(144)	882
Impairment of long-lived assets and other lease charges	894	5,877
Bad debt	351	342
Interest expense	183	106
Depreciation and amortization expense	874	2,434
Total costs and expenses	16,168	37,267
LOSS FROM CONTINUING OPERATIONS BEFORE TAXES	(1,048)	(11,190)
Income tax expense / (benefit)	(3,322)	53
INCOME/(LOSS) FROM CONTINUING OPERATIONS	2,274	(11,243)
Loss from discontinued operations	(362)	(1,248)
NET INCOME / (LOSS)	<u>\$ 1,912</u>	<u>\$ (12,491)</u>
INCOME / (LOSS) PER SHARE OF COMMON STOCK - BASIC:		
Income / (loss) from continuing operations	\$ 0.17	\$ (1.06)
Loss from discontinued operations	(0.03)	(0.12)
Net income / (loss)	<u>\$ 0.14</u>	<u>\$ (1.18)</u>
INCOME / (LOSS) PER SHARE OF COMMON STOCK - DILUTED:		
Income / (loss) from continuing operations	\$ 0.16	\$ (1.06)
Loss from discontinued operations	(0.03)	(0.12)
Net income / (loss)	<u>\$ 0.13</u>	<u>\$ (1.18)</u>
Weighted average common shares outstanding - basic	<u>13,854</u>	<u>10,617</u>
Weighted average common and potential dilutive common shares outstanding	<u>14,983</u>	<u>10,617</u>

See accompanying Notes to Consolidated Financial Statements.

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

	June 25, 2018	June 24, 2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,386	\$ 451
Accounts receivable, less allowance for bad debts of \$158 and \$249, respectively	1,518	2,761
Other receivable	300	—
Notes receivable	712	675
Inventories	6	79
Income tax receivable	5	194
Property held for sale	539	671
Prepaid expenses and other	273	295
Total current assets	<u>4,739</u>	<u>5,126</u>
LONG-TERM ASSETS		
Property, plant and equipment, net	1,510	3,808
Intangible assets definite-lived, net	212	239
Long-term notes receivable	803	127
Deferred tax asset, net	3,479	—
Deposits and other	243	246
Total assets	<u>\$ 10,986</u>	<u>\$ 9,546</u>
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable - trade	\$ 774	\$ 4,165
Short-term debt	—	1,000
Accrued expenses	1,109	1,265
Deferred rent	32	101
Deferred revenues	65	212
Total current liabilities	<u>1,980</u>	<u>6,743</u>
LONG-TERM LIABILITIES		
Convertible notes	1,562	2,749
Deferred rent, net of current portion	433	655
Deferred revenues, net of current portion	670	1,425
Other long-term liabilities	42	53
Total liabilities	<u>4,687</u>	<u>11,625</u>
COMMITMENTS AND CONTINGENCIES (SEE NOTE J)		
SHAREHOLDERS' EQUITY (DEFICIT)		
Common stock, \$.01 par value; authorized 26,000,000 shares; issued 22,166,674 and 17,786,049 shares, respectively; outstanding 15,047,470 and 10,666,845 shares, respectively	222	178
Additional paid-in capital	33,206	26,784
Accumulated deficit	(2,493)	(4,405)
Treasury stock at cost		
Shares in treasury: 7,119,204	(24,636)	(24,636)
Total shareholders' equity (deficit)	<u>6,299</u>	<u>(2,079)</u>
Total liabilities and shareholders' equity (deficit)	<u>\$ 10,986</u>	<u>\$ 9,546</u>

See accompanying 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 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>
Stock compensation expense	—	—	115	—	—	—	115
Conversion of senior notes, net	614	6	1,308	—	—	—	1,314
Sale of shares	3,766	38	5,140	—	—	—	5,178
Equity issue costs - Sr conv notes	—	—	(92)	—	—	—	(92)
Equity issue costs - ATM offering	—	—	(49)	—	—	—	(49)
Net income	—	—	—	1,912	—	—	1,912
BALANCE, JUNE 24, 2018							
	<u>15,047</u>	<u>\$ 222</u>	<u>\$ 33,206</u>	<u>\$ (2,493)</u>	<u>(7,119)</u>	<u>\$ (24,636)</u>	<u>\$ 6,299</u>

See accompanying Notes to Consolidated Financial Statements.

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

	Fiscal Year Ended	
	June 24, 2018	June 25, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income/(loss)	\$ 1,912	\$ (12,491)
Adjustments to reconcile net income/(loss) to cash used by operating activities:		
Impairment of fixed assets and other assets	894	4,773
Stock compensation expense	115	58
Depreciation and amortization	835	2,410
Amortization of intangible assets definite-lived	39	46
Amortization of debt issue costs	35	—
Gain/loss on the sale of assets	(144)	882
Provision for bad debt	351	342
Changes in operating assets and liabilities:		
Accounts receivable	908	(576)
Inventories	73	118
Prepaid expenses, deposits and other, net	25	116
Deferred revenue	(767)	(107)
Accounts payable - trade	(4,241)	350
Deferred tax assets	(3,479)	—
Accrued expenses, deferred rent and other	(458)	(1,469)
Cash used by operating activities	<u>(3,902)</u>	<u>(5,548)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of assets	1,789	999
Capital expenditures	(1,081)	(573)
Cash provided by investing activities	<u>708</u>	<u>426</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance (payments) of short-term debt	(1,000)	1,000
Proceeds from sale of stock	5,129	—
Proceeds from issuance of convertible notes	—	2,894
Proceeds from exercise of stock options	—	806
Cash provided by financing activities	<u>4,129</u>	<u>4,700</u>
Net increase/(decrease) in cash and cash equivalents	935	(422)
Cash and cash equivalents, beginning of year	451	873
Cash and cash equivalents, end of year	<u>\$ 1,386</u>	<u>\$ 451</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

CASH PAID FOR:

Interest	\$ 187	\$ 25
Income taxes	\$ 64	\$ 29
Non-cash activities:		
Capital expenditures included in accounts payable	\$ 49	\$ —
Conversion of notes to equity	\$ 1,314	\$ —

See accompanying Notes to Consolidated Financial Statements.

RAVE RESTAURANT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Description of Business:

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

As of June 24, 2018, we owned and operated one Pie Five restaurant (“Pie Five Units”). As of that date, we also had 72 franchised Pie Five Units, 208 franchised Pizza Inn restaurants, and three licensed Pizza Inn Express, or PIE, kiosks (“PIE Units”). The 150 domestic franchised Pizza Inn restaurants were comprised of 90 pizza buffet restaurants (“Buffet Units”), eight delivery/carry-out restaurants (“Delco Units”), and 52 express restaurants (“Express Units”). As of June 24, 2018, there were 58 international franchised Pizza Inn restaurants. Domestic Pizza Inn restaurants and kiosks were located predominantly in the southern half of the United States, with Texas, Arkansas, North Carolina and Tennessee accounting for approximately 24%, 13%, 13% and 7%, respectively, of the total number of domestic units.

Principles of Consolidation:

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

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. Restricted cash of \$0.2 million at June 24, 2018 and June 25, 2017 is omitted from cash and cash equivalents and is included in other long term assets. The restricted cash is held in an interest-bearing money market account and is restricted pursuant to a letter of credit for an insurance claim dating back to the mid-1980’s.

Concentration of Credit Risk:

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of cash and cash equivalents. At June 24, 2018 and June 25, 2017, and at various times during the fiscal years then ended, cash and cash equivalents were in excess of Federal Depository Insurance Corporation insured limits. We do not believe we are exposed to any significant credit risk on cash and cash equivalents.

Notes receivable, which potentially subject the Company to concentrations of credit risk, consist primarily of structured Company-financed sales of assets. At June 24, 2018 and June 25, 2017, and at various times during the fiscal years then ended, the Company had concentrations of credit risk with three franchisees on notes receivables with both short and long term maturities. As of June 24, 2018, the Company had one short term note receivable with one franchisee with a balloon payment of \$0.6 million due during the second quarter of fiscal 2019. At June 24, 2018, the Company had three additional notes receivable with three franchisees totaling \$0.9 million. Each of the financed asset sales was executed with a 5.0% stated interest rate, principal and interest payments due monthly and a balloon payment due after 24 months.

Inventories:

Inventory consists primarily of food, paper products and supplies stored in and used by Company restaurants and was stated at lower of first-in, first-out (“FIFO”) or market. 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 include losses attributable to the discontinued Norco distribution and supply division, leased buildings associated with Company-owned restaurants closed in prior years, and Company-owned restaurants closed in the reported period.

Property, Plant and Equipment:

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

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

Impairment of Long-Lived Asset and other Lease Charges:

The Company reviews long-lived assets for impairment when events or circumstances indicate that the carrying value of such assets may not be fully recoverable. Impairment is evaluated based on the sum of undiscounted estimated future cash flows expected to result from use 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 2018 and 2017, the Company tested its long-lived assets for impairment and recognized pre-tax, non-cash impairment charges of \$0.9 million and \$5.9 million, respectively, related to the carrying value of multiple Pie Five and Pizza Inn units.

Accounts Receivable:

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

Notes Receivable:

Notes receivable primarily consist of promissory notes arising from franchisee agreements. The majority of amounts and terms are evidenced by formal promissory notes and personal guarantees. All notes allow for early payment without penalty. Fixed principle and interest payments are due monthly. Interest income is recognized monthly. Notes receivable mature at various dates through 2021 and bear interest at a weighted average rate of 5.0% at June 24, 2018.

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

The principal balance outstanding on the notes receivable and expected principal collections for the next three years were as follows as of June 24, 2018 (in thousands):

Notes Receivable	
2019	\$ 712
2020	317
2021	486
	<u>\$ 1,515</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. During the fourth quarter of fiscal year June 24, 2018, the Company reversed a portion of the prior valuation allowance against its deferred tax asset. The valuation allowance decreased by \$6.6 million during fiscal year 2018, from \$9.0 million at June 25, 2017 to \$2.4 million at June 24, 2018. This resulted in a tax benefit of \$3.4 million due to expected future taxable income.

The Company assessed whether the valuation allowance should be maintained against its deferred tax assets based on consideration of all available evidence, using a "more likely than not" standard. In assessing the need for the valuation allowance, the Company considered both positive and negative evidence related to the likelihood of realization of deferred tax assets. Future sources of taxable income were also considered in determining the amount of the recorded valuation allowance. Based on the Company's review of this evidence, management determined it was appropriate to reverse a portion of the valuation allowance against the Company's deferred tax assets.

Income tax benefit of \$3.3 million for fiscal 2018 represents \$0.1 million in state and foreign tax expense and a \$3.4 million benefit on reversal of a portion of the valuation allowance. At the end of tax year ended June 24, 2018, the Company had net operating loss carryforwards totaling \$23.5 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. The Agreement was terminated at the end of fiscal 2017.

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

Revenue Recognition:

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

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

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 \$0.7 million for fiscal year ended June 24, 2018 and \$0.8 million for fiscal year ended June 25, 2017. Advertising and marketing costs are included in cost of sales and franchise 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 years ended June 24, 2018 and June 25, 2017 both contained 52 weeks.

Discontinuation of Norco Distribution Division:

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

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

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

	Estimated Useful Lives	June 24, 2018	June 25, 2017
Equipment, furniture and fixtures	3 - 7 yrs	\$ 1,090	\$ 4,791
Software	5 yrs	778	1,143
Leasehold improvements	10 yrs or lease term, if shorter	1,033	3,949
		2,901	9,883
Less: accumulated depreciation/amortization		(1,391)	(6,075)
		<u>\$ 1,510</u>	<u>\$ 3,808</u>

Depreciation and amortization expense was approximately \$0.9 million and \$2.4 million for the fiscal years ended June 24, 2018 and June 25, 2017, respectively.

Intangible assets consist of the following (in thousands):

	Estimated Useful Lives	June 24, 2018			June 25, 2017		
		Acquisition Cost	Accumulated Amortization	Net Value	Acquisition Cost	Accumulated Amortization	Net Value
Trademarks and tradenames	10 years	\$ 264	\$ (127)	\$ 137	\$ 261	\$ (101)	\$ 160
Name change	15 years	70	(16)	54	70	(11)	59
Prototypes	5 years	218	(197)	21	208	(188)	20
		<u>\$ 552</u>	<u>\$ (340)</u>	<u>\$ 212</u>	<u>\$ 539</u>	<u>\$ (300)</u>	<u>\$ 239</u>

Amortization expense for intangible assets was approximately \$39 thousand and \$46 thousand for the fiscal years ended June 24, 2018 and June 25, 2017, respectively.

NOTE C - ACCRUED EXPENSES:

Accrued expenses consist of the following (in thousands):

	June 24, 2018	June 25, 2017
Compensation	\$ 654	\$ 836
Other	404	254
Professional fees	43	167
Insurance loss reserves	8	8
	<u>\$ 1,109</u>	<u>\$ 1,265</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.

During fiscal 2018, \$1.3 million in par value of the Notes were converted to common shares. At the end of fiscal 2018, \$1.7 million in par value of the Notes were outstanding, offset by \$0.1 million of unamortized debt issue costs and unamortized debt discounts.

NOTE E - INCOME TAXES:

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

	Fiscal Year Ended	
	June 24, 2018	June 25, 2017
Current - Federal	\$ (33)	\$ —
Current - Foreign	51	—
Current - State	30	53
Deferred - Federal	—	—
Deferred - State	—	—
Provision for income taxes	<u>\$ 48</u>	<u>\$ 53</u>

Included in loss from discontinued operations is \$60 thousand and \$0 of tax benefit for the fiscal years ended June 24, 2018 and June 25, 2017, respectively.

The effective income tax rate varied from the statutory rate for the fiscal years ended June 24, 2018 and June 25, 2017 as reflected below (in thousands):

	June 24, 2018	June 25, 2017
Federal income taxes blended statutory rate of 27.64% of pre-tax loss	\$ (291)	\$(4,119)
State income tax, net of federal effect	51	35
Foreign taxes	30	-
Permanent adjustments	35	24
Rate change	3,416	-
Valuation allowance	(6,597)	4,019
Other	34	94
	<u>\$ (3,322)</u>	<u>\$ 53</u>

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

	<u>June 24, 2018</u>	<u>June 25, 2017</u>
Current		
Reserve for bad debt	\$ 36	\$ 89
Deferred fees	15	27
Other reserves and accruals	<u>562</u>	<u>1,323</u>
	613	1,439
Non Current		
Credit carryforwards	153	199
Net operating loss carryforwards	5,122	4,799
Depreciable assets	<u>17</u>	<u>2,585</u>
Total gross deferred tax asset	5,905	9,022
Valuation allowance	<u>(2,426)</u>	<u>(9,022)</u>
Net deferred tax asset	<u>\$ 3,479</u>	<u>\$ —</u>

At the end of tax year ended June 24, 2018, the Company had net operating loss carryforwards totaling \$23.5 million that are available to reduce future taxable income and will begin to expire in 2032.

NOTE F - LEASES:

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

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

Future minimum rental payments under active non-cancelable leases with initial or remaining terms of one year or more at June 24, 2018 were as follows (in thousands):

	Operating Leases
2019	\$ 2,007
2020	2,024
2021	2,091
2022	2,035
2023	1,833
Thereafter	4,264
	<u>\$ 14,254</u>

Future minimum sublease rental income under active non-cancelable leases with initial or remaining terms of one year or more at June 24, 2018 were as follows (in thousands):

	Sublease Rental Income
2019	\$ 162
2020	168
2021	174
2022	175
2023	177
Thereafter	181
	<u>\$ 1,037</u>

Rental expense consisted of the following (in thousands):

	Fiscal Year Ended	
	Year Ended June 24, 2018	Year Ended June 25, 2017
Minimum rentals	\$ 1,114	\$ 1,878
Sublease rentals	(161)	(129)
	<u>\$ 953</u>	<u>\$ 1,749</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 2016 and 2017, 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 24, 2018 and June 25, 2017, total matching contributions to the tax advantaged savings plan by the Company on behalf of participating employees were approximately \$44,000 and \$40,000, 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:

	Twelve Months Ended			
	June 24, 2018		June 25, 2017	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	478,056	\$ 4.16	847,556	\$ 3.77
Granted	—	—	50,000	\$ 3.95
Exercised	—	—	(315,000)	\$ 2.56
Forfeited/Canceled/Expired	—	—	(104,500)	\$ 5.67
Outstanding at end of period	478,056	\$ 4.16	478,056	\$ 4.16
Exercisable at end of year	478,056	\$ 4.16	388,056	\$ 3.54
Weighted-average fair value of options granted during the year		—		1.11
Total intrinsic value of options exercised		\$ —		\$ 806,400

At June 24, 2018, there was no intrinsic value of options outstanding.

The following table provides information on options outstanding and options exercisable as of June 24, 2018:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Options Outstanding at Jun 24, 2018	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Shares Exercisable at Jun 24, 2018	Weighted-Average Exercise Price
\$1.55 - 1.95	81,306	1.1	\$1.90	81,306	\$1.90
\$1.96 - 2.35	90,000	0.0	\$2.32	90,000	\$2.32
\$2.36 - 2.75	40,000	3.0	\$2.71	40,000	\$2.71
\$2.76 - 3.30	55,000	4.0	\$3.11	55,000	\$3.11
\$3.31 - 3.95	50,000	8.0	\$3.95	50,000	\$3.95
\$5.51 - 5.74	8,664	5.0	\$5.74	8,664	\$5.74
\$5.95 - 6.25	128,800	5.9	\$6.07	128,800	\$6.07
\$6.26 - 13.11	24,286	7.0	\$13.11	24,286	\$13.11
	478,056	3.8	\$4.16	478,056	\$4.16

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 24, 2018	June 25, 2017
Expected life (in years)	n/a	5.5
Expected volatility	n/a	34.6%
Risk-free interest rate	n/a	1.1%
Expected forfeiture rate	n/a	61.8%

At June 24, 2018, the Company had no unvested options. Stock compensation expense related to stock options of \$35 thousand and \$58 thousand was recognized in fiscal years 2018 and 2017, 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 2018, an aggregate of 488,723 performance-based restricted stock units were granted to certain employees. During fiscal 2017, an aggregate of 536,310 performance-based restricted stock units were granted to certain employees.

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

Compensation cost is measured as an amount equal to the fair value of the restricted stock units on the date of grant and is expensed over the vesting period if achievement of the performance criteria is deemed probable, with the amount of the expense recognized based on the best estimate of the ultimate achievement level. The grant date fair value of the restricted stock units granted in fiscal 2018 was \$1.27 per unit.

A summary of the status of restricted stock units as of June 24, 2018 and June 25, 2017, and changes during the fiscal years then ended is presented below:

	June 24, 2018	June 25, 2017
Outstanding at beginning of year	487,950	79,620
Granted during the year	488,723	536,310
Forfeited during the year	(68,380)	(127,980)
Outstanding at end of year	<u>908,293</u>	<u>487,950</u>
Vested at beginning of year	—	—
Vested during the year	—	—
Vested at end of year	—	—
Unvested at end of year	908,293	487,950

NOTE 1 - 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 2018 and, as of June 24, 2018, there were 848,425 shares available to repurchase under the plan.

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

The Company pays to B. Riley FBR a fee equal to 3% of the gross sales price in addition to reimbursing certain costs. The Company had \$8 thousand in expenses associated with the 2017 ATM Offering in fiscal 2018.

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 24, 2018	June 25, 2017
Income/(loss) from continuing operations	\$ 2,274	\$ (11,243)
Loss from discontinued operations	(362)	(1,248)
Net income/(loss) available to common stockholders	<u>\$ 1,912</u>	<u>\$ (12,491)</u>
Interest saved on Notes of \$2,258.4 at 4%	\$ 90	\$ —
Adjusted net income/(loss)	<u>\$ 2,002</u>	<u>\$ (12,491)</u>
BASIC:		
Weighted average common shares	13,854	10,617
Income/(loss) from continuing operations per common share	\$ 0.17	\$ (1.06)
Loss from discontinued operations per common share	(0.03)	(0.12)
Net income/(loss) per common share	<u>\$ 0.14</u>	<u>\$ (1.18)</u>
DILUTED:		
Weighted average common shares	13,854	10,617
Convertible Notes	1,129	—
Dilutive stock options	—	—
Weighted average common shares outstanding	<u>14,983</u>	<u>10,617</u>
Income/(loss) from continuing operations per common share	\$ 0.16	\$ (1.06)
Loss from discontinued operations per common share	(0.03)	(0.12)
Net income/(loss) per common share	<u>\$ 0.13</u>	<u>\$ (1.18)</u>

We had 478,056 shares and 388,056 shares of common stock potentially issuable upon exercise of employee stock options for years ended June 24, 2018 and June 25, 2017, respectively, that were excluded from the weighted average number of shares outstanding on a diluted basis because the effect of such options would be anti-dilutive. These instruments expire at varying times from fiscal 2019 through fiscal 2026.

NOTE L- SEGMENT REPORTING:

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

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

The Company-Owned 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 24, 2018 and June 25, 2017 (in thousands):

	Fiscal Year Ended	
	June 24, 2018	June 25, 2017
Net sales and operating revenues:		
Pizza Inn Franchising	\$ 6,892	\$ 7,307
Pie Five Franchising	3,970	3,521
Company-Owned Restaurants (Note 1)	4,254	15,233
Interest income	4	16
Consolidated revenues	<u>\$ 15,120</u>	<u>\$ 26,077</u>
Depreciation and amortization:		
Pizza Inn Franchising	\$ -	\$ -
Pie Five Franchising	-	-
Company-Owned Restaurants (Note 1)	459	1,964
Combined	<u>459</u>	<u>1,964</u>
Corporate administration and other (Note 2)	415	470
Depreciation and amortization	<u>\$ 874</u>	<u>\$ 2,434</u>
Gain/(Loss) from continuing operations before taxes:		
Pizza Inn Franchising	\$ 5,594	\$ 5,952
Pie Five Franchising	2,623	2,140
Company-Owned Restaurants (Note 1)	(1,763)	(9,674)
Combined	<u>6,454</u>	<u>(1,582)</u>
Corporate administration and other	(7,502)	(9,608)
Loss from continuing operations before taxes	<u>\$ (1,048)</u>	<u>\$ (11,190)</u>

Notes:

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

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

Geographic information (revenues):		
United States	\$ 14,566	\$ 25,807
Foreign countries	554	270
Consolidated total	<u>\$ 15,120</u>	<u>\$ 26,077</u>

Exhibit 21.1

SUBSIDIARIES OF RAVE RESTAURANT GROUP, INC.

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

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

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Rave Restaurant Group, Inc.
The Colony, Texas

We hereby consent to the incorporation by reference in the Registration Statements on Forms S-8 (Nos. 033-71700, 333-77617, 333-76296, 333-177436 and 333-207428) and Forms S-3 (Nos. 333-219483 and 333-221169) of Rave Restaurant Group, Inc. of our report dated September 19, 2018, relating to the consolidated financial statements, which appears in this Form 10-K.

Montgomery Coscia Greilich LLP
Plano, Texas

September 21, 2018

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

I, Scott Crane, certify that:

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

Date: September 21, 2018

By: /s/ Scott Crane
Scott Crane
Chief Executive Officer
(Principal Executive Officer)

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

I, Andrea K. Allen, certify that:

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

Date: September 21, 2018

By: /s/ Andrea K. Allen
Andrea K. Allen
Chief Accounting and Administrative Officer
(Principal Financial Officer)

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

The undersigned officer of Rave Restaurant Group, Inc. (the “Company”), does hereby certify, to such officer’s knowledge, that the accompanying Annual Report on Form 10-K for the fiscal year ended June 24, 2018, and filed with the Securities and Exchange Commission on the date hereof (the “Form 10-K”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 21, 2018

By: /s/ Scott Crane
Chief Executive Officer
(Principal Executive Officer)

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

The undersigned officer of Rave Restaurant Group, Inc. (the “Company”), does hereby certify, to such officer’s knowledge, that the accompanying Annual Report on Form 10-K for the fiscal year ended June 24, 2018, and filed with the Securities and Exchange Commission on the date hereof (the “Form 10-K”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 21, 2018

By: /s/ Andrea K. Allen
Andrea K. Allen
Chief Accounting and Administrative Officer
(Principal Financial Officer)