
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 26, 2017

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

Commission File Number: 0-12919

RAVE RESTAURANT GROUP, INC.

(Exact name of registrant as specified in its charter)

Missouri

(State or other jurisdiction of
Incorporation or organization)

45-3189287

(I.R.S. Employer
Identification No.)

3551 Plano Parkway

The Colony, Texas 75056

(Address of principal executive offices)

(469) 384-5000

(Registrant's telephone number,
including area code)

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

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

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

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

Emerging growth company

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

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

As of May 5, 2017, 10,656,551 shares of the issuer’s common stock were outstanding.

RAVE RESTAURANT GROUP, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended		Nine Months Ended	
	March 26, 2017	March 27, 2016	March 26, 2017	March 27, 2016
REVENUES:	\$ 14,081	\$ 15,262	\$ 44,329	\$ 45,109
COSTS AND EXPENSES:				
Cost of sales	12,644	13,770	39,898	39,259
General and administrative expenses	2,141	1,885	6,219	5,148
Franchise expenses	893	924	2,729	2,732
Pre-opening expenses	29	115	95	851
Loss on sale of assets	345	-	1,044	-
Impairment of long-lived assets and other lease charges	(123)	(165)	5,243	845
Bad debt	72	(80)	423	151
Interest expense	37	1	39	4
Total costs and expenses	<u>16,038</u>	<u>16,450</u>	<u>55,690</u>	<u>48,990</u>
LOSS FROM CONTINUING OPERATIONS BEFORE TAXES	(1,957)	(1,188)	(11,361)	(3,881)
Income tax expense	5	3	24	2,637
LOSS FROM CONTINUING OPERATIONS	<u>(1,962)</u>	<u>(1,191)</u>	<u>(11,385)</u>	<u>(6,518)</u>
Income (loss) from discontinued operations, net of taxes	-	(39)	2	(99)
NET LOSS	<u>\$ (1,962)</u>	<u>\$ (1,230)</u>	<u>\$ (11,383)</u>	<u>\$ (6,617)</u>
LOSS PER SHARE OF COMMON STOCK - BASIC:				
Loss from continuing operations	\$ (0.18)	\$ (0.12)	\$ (1.07)	\$ (0.63)
Income (loss) from discontinued operations	-	-	-	(0.01)
Net loss	<u>\$ (0.18)</u>	<u>\$ (0.12)</u>	<u>\$ (1.07)</u>	<u>\$ (0.64)</u>
LOSS PER SHARE OF COMMON STOCK - DILUTED:				
Loss from continuing operations	\$ (0.18)	\$ (0.12)	\$ (1.07)	\$ (0.63)
Income (loss) from discontinued operations	-	-	-	(0.01)
Net loss	<u>\$ (0.18)</u>	<u>\$ (0.12)</u>	<u>\$ (1.07)</u>	<u>\$ (0.64)</u>
Weighted average common shares outstanding - basic	<u>10,657</u>	<u>10,315</u>	<u>10,602</u>	<u>10,312</u>
Weighted average common and potential dilutive common shares outstanding	<u>10,657</u>	<u>10,315</u>	<u>10,602</u>	<u>10,312</u>

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

ASSETS	March 26, 2017 (unaudited)	June 26, 2016
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,373	873
Accounts receivable, less allowance for bad debts accounts of \$471 and \$198, respectively	2,576	2,780
Notes receivable	85	167
Inventories	132	197
Income tax receivable	194	194
Property held for sale	811	-
Prepaid expenses and other	727	430
Total current assets	6,898	4,641
LONG-TERM ASSETS		
Property, plant and equipment, net	4,427	12,979
Long-term notes receivable	206	382
Deposits and other	463	503
Total assets	\$ 11,994	\$ 18,505
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable - trade	\$ 4,327	3,815
Short-term debt	1,000	-
Accrued expenses	1,331	1,220
Deferred rent	192	160
Deferred revenues	386	304
Total current liabilities	7,236	5,499
LONG-TERM LIABILITIES		
Convertible notes	2,758	-
Deferred rent, net of current portion	1,511	1,710
Deferred revenues, net of current portion	1,375	1,440
Other long-term liabilities	21	453
Total liabilities	12,901	9,102
COMMITMENTS AND CONTINGENCIES (See Note 3)		
SHAREHOLDERS' EQUITY		
Common stock, \$.01 par value; authorized 26,000,000 shares; issued 17,775,951 and 17,460,951 shares, respectively; outstanding 10,656,551 and 10,341,551 shares, respectively	178	175
Additional paid-in capital	26,848	25,778
Retained earnings (accumulated deficit)	(3,297)	8,086
Treasury stock at cost		
Shares in treasury: 7,119,400	(24,636)	(24,636)
Total shareholders' equity	(907)	9,403
	\$ 11,994	\$ 18,505

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Nine Months Ended	
	March 26, 2017	March 27, 2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (11,383)	\$ (6,617)
Adjustments to reconcile net loss to cash provided by (used in) operating activities:		
Depreciation and amortization	2,117	1,955
Impairment of long-lived assets	4,773	845
Stock compensation expense	143	135
Deferred income taxes	—	2,593
Loss on sale/disposal of assets	1,044	1
Provision for bad debt	423	151
Changes in operating assets and liabilities:		
Notes and accounts receivable	39	842
Inventories	65	(60)
Accounts payable - trade	512	1,241
Accrued expenses	(321)	794
Deferred rent	(167)	(97)
Deferred revenue	17	—
Prepaid expenses and other	(294)	360
Cash (used in) provided by operating activities	(3,032)	2,143
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of assets	102	14
Capital expenditures	(258)	(7,624)
Cash used in investing activities	(156)	(7,610)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of stock	—	768
Proceeds from stock options	806	7
Proceeds from issuance of convertible notes	2,882	—
Net change in short-term debt	1,000	—
Cash provided by financing activities	4,688	775
Net increase (decrease) in cash and cash equivalents	1,500	(4,692)
Cash and cash equivalents, beginning of period	873	5,727
Cash and cash equivalents, end of period	\$ 2,373	\$ 1,035

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

CASH PAYMENTS FOR:

Interest	\$ 25	\$ 1
Income taxes - net	\$ 29	\$ —

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

RAVE RESTAURANT GROUP, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying condensed consolidated financial statements of Rave Restaurant Group, Inc. (the "Company") have been prepared without audit pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in the financial statements have been omitted pursuant to such rules and regulations. The unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended June 26, 2016.

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

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

Principles of Consolidation

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

Cash and Cash Equivalents

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

Fiscal Quarters

The three and nine month periods ended March 26, 2017 and March 27, 2016, each contained 13 weeks and 39 weeks, respectively.

Revenue Recognition

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

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

Impairment of Long-Lived Assets 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 the assets compared to their carrying values. If impairment is recognized, the carrying value of the impaired asset is reduced to its fair value, based on discounted estimated future cash flows.

Stock-Based Compensation

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

Restricted Stock Units

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.

Use of Management Estimates

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

Reclassification

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

(2)

Convertible Notes

On March 3, 2017, the Company approved a proposed rights offering to its existing shareholders and, in connection therewith, declared a dividend of subscription rights ("Rights") to holders of record of its common stock as of December 21, 2016, to purchase 4% Convertible Senior Notes due 2022, par \$100 ("Notes"). Shareholders were issued 0.2817% of a Right per share of the common stock held on the record date (i.e., one Right for each 355 shares); provided, however, that the number of Rights was rounded to the nearest whole number and no fractional Rights were issued. Each whole Right entitled the holder to purchase one Note at the par value of \$100 each. The Notes are convertible into shares of common stock at a conversion price of \$2.00 per share (i.e., 50 shares of common stock per Note). The rights offering was completed on March 3, 2017. Shareholders exercised subscription rights to purchase all 30,000 of the Company's Notes offered at the par value of \$100 per convertible note, resulting in gross offering proceeds to the Company of \$3.0 million.

The Notes have been issued in book-entry form represented by a permanent global certificate deposited with The Depository Trust Company ("DTC"). Beneficial interests in the convertible notes will be shown on, and transfers will be effected through, records maintained by DTC. The convertible notes are not listed for trading on any exchange but are DTC-eligible for over-the-counter trading.

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 common share of 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 are considered a debt discount and are accreted into interest expense using the effective interest method over the debt maturity period. As of March 27, 2016, the debt discount balance was \$0.2 million. For the three months ended March 27, 2016, accreted interest expense was \$3 thousand.

(3) **Commitments and Contingencies**

On April 22, 2009, the Company's board of directors amended the stock purchase plan first adopted on May 23, 2007, and previously amended on June 2, 2008, to increase the number of shares of common stock the Company may repurchase to a total of 3,016,000 shares. As of March 26, 2017, up to an additional 848,425 shares could be purchased under the plan.

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

(4) **Impairment and other lease charges**

The Company reviews on a quarterly basis its long-lived assets for impairment and the estimated lease obligations for closed stores or abandoned sites. The Company determined there were recoveries to prior lease termination charges of \$0.1 million and \$0.2 million for the fiscal quarters ended March 26, 2017 and March 27, 2016 as a result of negotiated settlements with landlords. For the nine months ended March 26, 2017, the Company recognized impairment charges of \$4.7 million related to 14 underperforming Company-owned Pie Five locations, nine of which were closed during the third quarter. Additionally, the Company recognized lease termination expenses of \$0.5 million attributable to previously executed leases for 16 locations no longer deemed desirable for future development of Company-owned Pie Five units. For the nine months ended March 27, 2016, the Company recognized impairment and lease termination charges of \$0.8 million related to three underperforming Company-owned Pie Five units.

(5) **Stock-Based Compensation**

Stock Options

For the three months ended March 26, 2017, and March 27, 2016, the Company recognized stock-based compensation expense related to stock options of \$20,000 and \$45,000, respectively. For the nine month periods ended March 26, 2017, and March 27, 2016, the Company recognized stock-based compensation expense related to stock options of \$70,000 and \$135,000, respectively. As of March 26, 2017, unamortized stock-based compensation expense was \$0.1 million.

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

	Nine Months Ended	
	March 26, 2017	March 27, 2016
Outstanding at beginning of year	847,556	871,798
Granted	50,000	42,786
Exercised	(315,000)	(3,000)
Forfeited/Canceled/Expired	(104,500)	(39,111)
Outstanding at end of period	478,056	872,473
Exercisable at end of period	358,056	563,537

Restricted Stock Units

For the three months ended March 26, 2017 and March 27, 2016, the Company recognized stock-based compensation expense related to restricted stock units in the amount of \$33,000 and \$0, respectively. For the nine months ended March 26, 2017 and March 27, 2016, the Company recognized stock-based compensation expense related to restricted stock units in the amount of \$73,000 and \$0, respectively. As of March 26, 2017, unamortized stock-based compensation expense related to restricted stock units was \$0.5 million.

A summary of the status of restricted stock units as of March 26, 2017, and changes during the nine months then ended is presented below:

Number of Restricted Stock Units

Unvested at June 26, 2016	79,620
Granted	536,310
Vested	-
Forfeited	<u>(123,030)</u>
Unvested at March 26, 2017	<u>492,900</u>

(6) **Earnings per Share (EPS)**

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

	Three Months Ended		Nine Months Ended	
	March 26, 2017	March 27, 2016	March 26, 2017	March 27, 2016
Loss from continuing operations	\$ (1,962)	\$ (1,191)	\$ (11,385)	\$ (6,518)
Income (loss) from discontinued operations	-	(39)	2	(99)
Net loss available to common stockholders	<u>\$ (1,962)</u>	<u>\$ (1,230)</u>	<u>\$ (11,383)</u>	<u>\$ (6,617)</u>
BASIC:				
Weighted average common shares	10,657	10,315	10,602	10,312
Loss from continuing operations per common share	\$ (0.18)	\$ (0.12)	\$ (1.07)	\$ (0.63)
Income (loss) from discontinued operations per common share	-	-	-	(0.01)
Net loss per common share	<u>\$ (0.18)</u>	<u>\$ (0.12)</u>	<u>\$ (1.07)</u>	<u>\$ (0.64)</u>
DILUTED:				
Weighted average common shares	10,657	10,315	10,602	10,312
Stock options	-	-	-	-
Weighted average common shares outstanding	<u>10,657</u>	<u>10,315</u>	<u>10,602</u>	<u>10,312</u>
Loss from continuing operations per common share	\$ (0.18)	\$ (0.12)	\$ (1.07)	\$ (0.63)
Income (loss) from discontinued operations per common share	-	-	-	(0.01)
Net loss per common share	<u>\$ (0.18)</u>	<u>\$ (0.12)</u>	<u>\$ (1.07)</u>	<u>\$ (0.64)</u>

For the three and nine months ended March 26, 2017, options to purchase 358,056 shares of common stock were excluded from the computation of diluted EPS because they would have an anti-dilutive effect due to the net losses incurred. For the three and nine months ended March 25, 2016, options to purchase 563,537 were excluded for the same reason.

(7) **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 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 included income/loss from a leased building associated with a Company-owned restaurant closed in a prior year.

(8) **Income Taxes**

The Company accounts for income taxes under the provisions of ASC 740, Accounting for Income Taxes. Under ASC 740, deferred tax assets and liabilities for the expected future tax consequences of transactions and events are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

The Company files income tax returns in the U.S. federal jurisdiction and various states. The Company has open tax years for the U.S. federal return from fiscal year 2012 forward and fiscal year 2011 for various state purposes.

Accounting Standards Update No. 2105-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes, issued on November 20, 2015, eliminates the requirement for entities that present a classified statement of financial position to classify deferred tax assets and liabilities as current and noncurrent, and instead required that they classify all deferred tax assets and liabilities as noncurrent. The Company is making an early adoption of this accounting standard on a prospective basis.

For the three months ended March 26, 2017, income tax expense of \$5 thousand represents an income tax benefit of \$0.5 million calculated at a rate consistent with the 34% statutory U.S. federal rate offset by an income tax expense of \$0.5 million related to a valuation allowance for deferred tax assets and state taxes of \$5 thousand. For the three months ended March 27, 2016, income tax expense was \$3 thousand.

For the nine months ended March 26, 2017, income tax expense represents an income tax benefit of \$3.9 million calculated at a rate consistent with the 34% statutory U.S. federal rate offset by an income tax expense of \$3.9 million related to recording a valuation allowance for deferred tax assets of \$3.9 million and state taxes of \$24 thousand. For the nine months ended March 27, 2016, income tax expense was \$2.6 million.

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. Based on the Company's review of this evidence at March 26, 2017, management determined that a full valuation allowance against all of the Company's deferred tax assets at March 26, 2017 was appropriate. There was approximately \$8.7 million of deferred tax assets at March 26, 2017.

(9) **Related Party Transactions**

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

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

(10) **Segment Reporting**

Summarized in the following tables are net sales and operating revenues, operating income and geographic information (revenues) for the Company's reportable segments for the three and nine month periods ended March 26, 2017 and March 27, 2016 (in thousands). Operating income reported below excludes income tax provision and discontinued operations.

	Three Months Ended		Nine Months Ended	
	March 26, 2017	March 27, 2016	March 26, 2017	March 27, 2016
Net sales and operating revenues:				
Franchising and food and supply distribution	\$ 10,042	\$ 9,756	\$ 31,164	\$ 29,895
Company-owned restaurants	4,039	5,506	13,165	15,214
Consolidated revenues	<u>\$ 14,081</u>	<u>\$ 15,262</u>	<u>\$ 44,329</u>	<u>\$ 45,109</u>
Depreciation and amortization:				
Franchising and food and supply distribution	\$ 2	\$ 6	\$ 11	\$ 18
Company-owned restaurants	436	760	1,762	1,778
Combined	<u>438</u>	<u>766</u>	<u>1,773</u>	<u>1,796</u>
Corporate administration and other	140	71	344	159
Depreciation and amortization	<u>\$ 578</u>	<u>\$ 837</u>	<u>\$ 2,117</u>	<u>\$ 1,955</u>
Income (loss) from continuing operations before taxes:				
Franchising and food and supply distribution (1)	\$ 484	\$ 550	\$ 1,944	\$ 2,061
Company-owned restaurants (1)	(1,039)	(1,192)	(9,074)	(3,905)
Combined	<u>(555)</u>	<u>(642)</u>	<u>(7,130)</u>	<u>(1,844)</u>
Corporate administration and other (1)	(1,402)	(546)	(4,231)	(2,037)
Loss from continuing operations before taxes	<u>\$ (1,957)</u>	<u>\$ (1,188)</u>	<u>\$ (11,361)</u>	<u>\$ (3,881)</u>
Geographic information (revenues):				
United States	\$ 13,955	\$ 15,228	\$ 43,902	\$ 44,685
Foreign countries	126	34	427	424
Consolidated total	<u>\$ 14,081</u>	<u>\$ 15,262</u>	<u>\$ 44,329</u>	<u>\$ 45,109</u>

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

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

The following discussion should be read in conjunction with the consolidated financial statements and accompanying notes appearing elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended June 26, 2016, and may contain certain forward-looking statements that are based on current management expectations. Generally, verbs in the future tense and the words "believe," "expect," "anticipate," "estimate," "intends," "opinion," "potential" and similar expressions identify forward-looking statements. Forward-looking statements in this report include, without limitation, statements relating to our business objectives, our customers and franchisees, our liquidity and capital resources, and the impact of our historical and potential business strategies on our business, financial condition, and operating results. Our actual results could differ materially from our expectations. Further information concerning our business, including additional factors that could cause actual results to differ materially from the forward-looking statements contained in this Quarterly Report on Form 10-Q, are set forth in our Annual Report on Form 10-K for the year ended June 26, 2016. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. The forward-looking statements contained herein speak only as of the date of this Quarterly Report on Form 10-Q and, except as may be required by applicable law, we do not undertake, and specifically disclaim any obligation to, publicly update or revise such statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

Results of Operations

Overview

Rave Restaurant Group, Inc., through its subsidiaries (collectively, the "Company" or "we," "us" or "our") operates and franchises pizza buffet ("Buffet Units"), delivery/carry-out ("Delco Units") and express ("Express Units") restaurants domestically and internationally under the trademark "Pizza Inn" and operates and franchises domestic fast casual pizza restaurants ("Pie Five Units") under the trademarks "Pie Five Pizza Company" or "Pie Five". We provide or facilitate food, equipment and supply distribution to our domestic and international system of restaurants through our Norco Restaurant Services Company ("Norco") division and through agreements with third party distributors. The following chart presents information concerning Company-owned and franchised restaurants as of and for the three and nine month periods ended March 26, 2017:

Three Months Ended March 26, 2017

(in thousands, except unit data)

	Pizza Inn		Pie Five		All Concepts	
	Ending Units	Retail Sales	Ending Units	Retail Sales	Ending Units	Retail Sales
Company-Owned	1	\$ 162	20	\$ 3,877	21	\$ 4,039
Domestic Franchised	158	21,954	66	10,456	224	32,410
Total Domestic Units	159	\$ 22,116	86	\$ 14,333	245	\$ 36,449
International Franchised	60		-		60	

Nine Months Ended March 26, 2017

(in thousands, except unit data)

	Pizza Inn		Pie Five		All Concepts	
	Ending Units	Retail Sales	Ending Units	Retail Sales	Ending Units	Retail Sales
Company-Owned	1	\$ 521	20	\$ 12,644	21	\$ 13,165
Domestic Franchised	158	65,325	66	30,957	224	96,282
Total Domestic Units	159	\$ 65,846	86	\$ 43,601	245	\$ 109,447
International Franchised	60		-		60	

Domestic restaurants are located in 29 states predominantly situated in the southern half of the United States. International restaurants are located in seven foreign countries.

Basic and diluted loss per common share decreased \$0.06 per share, to a loss of \$0.18 per share for the three month period ended March 26, 2017, compared to a loss of \$0.12 per share, in the comparable period in the prior fiscal year. The Company had a net loss of \$2.0 million for the three month period ended March 26, 2017, and net loss of \$1.2 million in the comparable period in the prior fiscal year, on revenues of \$14.1 million for the three month period ended March 26, 2017 compared to \$15.3 million in the comparable period in the prior fiscal year. Basic and diluted loss per common share increased \$0.43 per share, to a loss of \$1.07 per share for the nine month period ended March 26, 2017, compared to a loss of \$0.64 per share, in the comparable period in the prior fiscal year. The Company had a net loss of \$11.4 million for the nine month period ended March 26, 2017, and net loss of \$6.6 million in the comparable period in the prior fiscal year, on revenues of \$44.3 million for the nine month period ended March 26, 2017 compared to \$45.1 million in the comparable period in the prior fiscal year. The year to date increase in net loss from prior year was primarily due to increased impairments and other lease charges of \$5.2 million and \$1.0 million of losses from the sale of assets.

Adjusted EBITDA for the fiscal quarter ended March 26, 2017, decreased to a loss of \$1.0 million compared to a loss of \$0.2 million for the same period of the prior fiscal year. Year-to-date adjusted EBITDA decreased to a \$2.3 million loss compared to a gain of \$0.1 million the prior fiscal year. The following table sets forth a reconciliation of net income to Adjusted EBITDA for the periods shown (in thousands):

	Three Months Ended		Nine Months Ended	
	March 26, 2017	March 27, 2016	March 26, 2017	March 27, 2016
Net loss	\$ (1,962)	\$ (1,230)	\$ (11,383)	\$ (6,617)
Interest expense	37	1	39	4
Income taxes	5	3	24	2,637
Income taxes--discontinued operations	-	-	(9)	(31)
Depreciation and amortization	578	837	2,117	1,955
EBITDA	\$ (1,342)	\$ (389)	\$ (9,212)	\$ (2,052)
Stock compensation expense	53	45	143	135
Pre-opening expenses	29	115	95	851
Loss on sale/disposal of assets	345	-	1,044	-
Impairment charges, non-operating store costs and discontinued operations	(39)	16	5,613	1,158
Adjusted EBITDA	\$ (954)	\$ (213)	\$ (2,317)	\$ 92

Pie Five Brand Summary

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

	Three Months Ended		Nine Months Ended	
	March 26, 2017	March 27, 2016	March 26, 2017	March 27, 2016
	(in thousands, except unit data)		(in thousands, except unit data)	
Pie Five Retail Sales - Total Stores				
Domestic - Franchised	\$ 10,456	\$ 8,958	\$ 30,957	\$ 23,761
Domestic - Company-owned	3,877	5,294	12,644	14,563
Total domestic retail sales	\$ 14,333	\$ 14,252	\$ 43,601	\$ 38,324
Pie Five Comparable Store Retail Sales - Total	\$ 6,931	\$ 8,227	\$ 17,671	\$ 21,041
Pie Five Average Units Open in Period				
Domestic - Franchised	68	49	64	41
Domestic - Company-owned	28	35	30	31
Total domestic Units	96	84	94	72

Pie Five system-wide retail sales increased \$0.1 million, or 0.6%, for the three month period ended March 26, 2017 when compared to the same period of the prior year. Compared to the same fiscal quarter of the prior year, average units open in the period increased from 84 to 96. Comparable store retail sales decreased by \$1.3 million, or 15.8%, during the third quarter of fiscal 2017 compared to the same period of the prior year.

Pie Five system-wide retail sales increased \$5.3 million, or 13.8%, for the nine month period ended March 26, 2017 when compared to the same period of the prior year. Year-to-date fiscal 2017 compared to the year-to-date of the prior year, average units open in the period increased from 72 to 94. Comparable store retail sales decreased by \$3.4 million, or 16.0%, during the first nine months fiscal 2017 compared to the same period of the prior year.

The following chart summarizes Pie Five restaurant activity for the three and nine month periods ended March 26, 2017:

	Three Months Ended March 26, 2017					Nine Months Ended March 26, 2017				
	Beginning Units	Opened	Concept Change	Closed	Ending Units	Beginning Units	Opened	Concept Change	Closed	Ending Units
Domestic - Franchised	70	5	-	9	66	57	19	-	10	66
Domestic - Company-owned	29	-	-	9	20	31	-	-	11	20
Total domestic Units	99	5	-	18	86	88	19	-	21	86

Management made the decision to close seven Pie Five restaurants in Illinois and two Pie Five restaurants in Minnesota during the third quarter of fiscal 2017. In addition, nine franchised Pie Five restaurants closed due to underperformance during the third quarter of fiscal 2017. Year-to-date, a total of 19 franchised Pie Five restaurants have opened, ten franchised Pie Five restaurants closed in Colorado, Florida, Tennessee and Illinois, and eleven Company-owned Pie Five restaurants closed in Illinois, Minnesota, Arizona and Texas. We believe that the recent decline in the number of franchised and Company-owned Pie Five stores is an aberration primarily attributable to overly aggressive expansion in certain isolated markets. We expect the overall trend of net increases in Pie Five stores to resume in future periods, although at a moderated pace with respect to Company-owned stores.

Pie Five - Company-Owned Restaurants

(in thousands, except store weeks and average data)

	Three Months Ended		Nine Months Ended	
	March 26, 2017	March 27, 2016	March 26, 2017	March 27, 2016
Store weeks	368	452	1,154	1,193
Average weekly sales	10,535	11,645	10,952	12,125
Average number of units	28	35	30	31
Restaurant sales (excluding partial weeks)	3,877	5,263	12,644	14,465
Restaurant sales	3,877	5,294	12,644	14,563
Loss from continuing operations before taxes	(1,013)	(1,151)	(8,787)	(3,759)
Allocated marketing and advertising expenses	194	264	632	727
Depreciation/amortization expense	436	749	1,740	1,747
Pre-opening expenses	29	115	95	851
Operations management and extraordinary expenses	195	181	635	498
Impairment, other lease charges and non-operating store costs	(26)	(23)	5,480	1,003
Restaurant operating cash flow	(185)	135	(205)	1,067

Average weekly sales for Company-owned Pie Five restaurants decreased \$1,110, or 9.5%, to \$10,535 for the three month period ended March 26, 2017 compared to \$11,645 for the same period of prior year. Loss from continuing operations before taxes for Company-owned Pie Five stores decreased \$0.1 million to a loss of \$1.0 million for the three months ended March 26, 2017 compared to a loss of \$1.1 million the same period of the prior year. Company-owned Pie Five restaurant operating cash flow decreased by \$0.3 million during the third quarter of fiscal 2017 compared to the same period of prior year.

Average weekly sales for Company-owned Pie Five restaurants decreased \$1,173, or 9.7%, to \$10,952 for the nine month period ended March 26, 2017 compared to \$12,125 for the same period of prior year. Loss from continuing operations before taxes for Company-owned Pie Five stores increased \$5.0 million to a loss of \$8.9 million for the first nine months of fiscal 2017 compared to a loss of \$3.8 million for the same period of the prior year. Company-owned Pie Five restaurant operating cash flow decreased \$1.3 million for the first nine months of fiscal 2017.

Pizza Inn Brand Summary

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

	Three Months Ended		Nine Months Ended	
	March 26, 2017	March 27, 2016	March 26, 2017	March 27, 2016
Pizza Inn Retail Sales - Total Domestic Stores	(in thousands, except unit data)		(in thousands, except unit data)	
Domestic Units				
Buffet - Franchised	\$ 20,390	\$ 19,523	\$ 60,399	\$ 59,278
Delco/Express - Franchised	1,564	1,764	4,926	5,565
Buffet - Company-owned	162	212	521	651
Total domestic retail sales	<u>\$ 22,116</u>	<u>\$ 21,499</u>	<u>\$ 65,846</u>	<u>\$ 65,494</u>
Pizza Inn Comparable Store Retail Sales - Total Domestic	\$ 20,589	\$ 20,570	\$ 61,247	\$ 61,338
Pizza Inn Average Units Open in Period				
Domestic Units				
Buffet - Franchised	94	92	95	95
Delco/Express - Franchised	63	68	64	69
Buffet - Company-owned	1	1	1	1
Total domestic Units	<u>158</u>	<u>161</u>	<u>160</u>	<u>165</u>

Total Pizza Inn domestic retail sales increased \$0.6 million, or 2.9%, for the three months ended March 26, 2017 when compared to the same period of the prior year. Pizza Inn domestic comparable store retail sales increased 0.1%, for the three months ended March 26, 2017 when compared to the same period of the prior year.

Total Pizza Inn domestic retail sales increased \$0.4 million, or 0.5%, for the nine months ended March 26, 2017 when compared to the same period of the prior year. Pizza Inn domestic comparable store retail sales decreased 0.1%, for the nine months ended March 26, 2017 when compared to the same period of the prior year.

The following chart summarizes Pizza Inn restaurant activity for the three and nine month periods ended March 26, 2017:

	Three Months Ended March 26, 2017					Nine Months Ended March 26, 2017				
	Beginning Units	Opened	Concept Change	Closed	Ending Units	Beginning Units	Opened	Concept Change	Closed	Ending Units
Domestic Units										
Buffet - Franchised	94	1	1	3	93	93	3	1	4	93
Delco/Express - Franchised	66	1	(1)	1	65	68	2	(1)	4	65
Buffet - Company-owned	1	-	-	-	1	1	-	-	-	1
Total domestic Units	<u>161</u>	<u>2</u>	<u>-</u>	<u>4</u>	<u>159</u>	<u>162</u>	<u>5</u>	<u>-</u>	<u>8</u>	<u>159</u>
International Units (all types)	60	-	-	-	60	60	-	-	-	60
Total Units	<u>221</u>	<u>2</u>	<u>-</u>	<u>4</u>	<u>219</u>	<u>222</u>	<u>5</u>	<u>-</u>	<u>8</u>	<u>219</u>

There was a net decrease of two domestic Pizza Inn units during the three months and three domestic Pizza Inn units during the nine months ended March 26, 2017. In addition there was a concept change from a Delco unit to a Buffet unit. We believe this represents a stabilizing of store count from the recent trend of modest domestic store closures. The number of international Pizza Inn units continues to remain steady.

Non-GAAP Financial Measures and Other Terms

The Company's financial statements are prepared in accordance with United States generally accepted accounting principles ("GAAP"). EBITDA, Adjusted EBITDA and restaurant operating cash flow are non-GAAP financial measures that the Company believes are useful to investors in understanding our operating performance. However, these non-GAAP financial measures should not be viewed as an alternative or substitute for the results reflected in the Company's GAAP financial statements.

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

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

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

Financial Results

The following is additional business segment information for the three months and nine month periods ended March 26, 2017 and March 27, 2016 (in thousands):

	Franchising and		Company-Owned		Corporate		Total	
	Food & Supply Distribution		Restaurants		Fiscal Quarter Ended		Fiscal Quarter Ended	
	March 26, 2017	March 27, 2016	March 26, 2017	March 27, 2016	March 26, 2017	March 27, 2016	March 26, 2017	March 27, 2016
Food and supply sales	8,696	8,482	-	-	-	-	8,696	8,482
Franchise revenues	1,346	1,274	-	-	-	-	1,346	1,274
Restaurant sales	-	-	4,039	5,506	-	-	4,039	5,506
Total revenues	10,042	9,756	4,039	5,506	-	-	14,081	15,262
Cost of sales	8,280	7,865	4,364	5,905	-	-	12,644	13,770
General and administrative expenses	385	417	808	843	948	625	2,141	1,885
Franchise expenses	893	924	-	-	-	-	893	924
Pre-opening expenses	-	-	29	115	-	-	29	115
Loss on sale of assets	-	-	-	-	345	-	345	-
Impairment of long-lived assets and other lease charges	-	-	(123)	(165)	-	-	(123)	(165)
Bad debt	-	-	-	-	72	(80)	72	(80)
Interest expense	-	-	-	-	37	1	37	1
Total costs and expenses	9,558	9,206	5,078	6,698	1,402	546	16,038	16,450
	484	550	(1,039)	(1,192)	(1,402)	(546)	(1,957)	(1,188)

	Franchising and		Company-Owned				Total	
	Food & Supply Distribution		Restaurants		Corporate		Fiscal Year-to-Date	
	March 26, 2017	March 27, 2016	March 26, 2017	March 27, 2016	March 26, 2017	March 27, 2016	March 26, 2017	March 27, 2016
REVENUES:								
Food and supply sales	26,960	25,906	-	-	-	-	26,960	25,906
Franchise revenues	4,204	3,989	-	-	-	-	4,204	3,989
Restaurant sales	-	-	13,165	15,214	-	-	13,165	15,214
Total revenues	31,164	29,895	13,165	15,214	-	-	44,329	45,109
COSTS AND EXPENSES:								
Cost of sales	25,503	24,098	14,395	15,161	-	-	39,898	39,259
General and administrative expenses	988	937	2,506	2,329	2,725	1,882	6,219	5,148
Franchise expenses	2,729	2,732	-	-	-	-	2,729	2,732
Pre-opening expenses	-	67	95	784	-	-	95	851
Loss on sale of assets	-	-	-	-	1,044	-	1,044	-
Impairment of long-lived assets and other lease charges	-	-	5,243	845	-	-	5,243	845
Bad debt	-	-	-	-	423	151	423	151
Interest expense	-	-	-	-	39	4	39	4
Total costs and expenses	29,220	27,834	22,239	19,119	4,231	2,037	55,690	48,990
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE TAXES	1,944	2,061	(9,074)	(3,905)	(4,231)	(2,037)	(11,361)	(3,881)

Revenues:

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

Total revenues for the three month period ended March 26, 2017 and for the same period in the prior fiscal year were \$14.1 million and \$15.3 million, respectively. Total revenues for the nine month period ended March 26, 2017 and for the same period in the prior fiscal year were \$44.3 million and \$45.1 million, respectively.

Food and Supply Sales

Food and supply sales by Norco include food and paper products and other distribution revenues. For the three month period ended March 26, 2017, food and supply sales increased to \$8.7 million compared to \$8.5 million the same period in the prior fiscal year due primarily to a \$0.7 million, or 2.0%, increase in total domestic retail sales. For the nine month period ended March 26, 2017, food and supply sales increased to \$27.0 million compared to \$25.9 million the same period in the prior fiscal year due primarily to a \$7.7 million, or 8.7%, increase in total domestic franchisee retail sales driven primarily by an increase in the number of Pie Five franchisee stores.

Franchise Revenue

Franchise revenue, which includes income from domestic and international royalties and license fees, increased by \$0.1 million and \$0.2 million for the three and nine month periods ended March 26, 2017, respectively, when compared to the same period in the prior fiscal year. These increases were the result of higher royalties resulting from increased Pie Five franchisee retail sales partially offset by a decrease in franchise development fees related to Pie Five.

Restaurant Sales

Restaurant sales, which consist of revenue generated by Company-owned restaurants, decreased 26.6%, or \$1.5 million, to \$4.0 million for the three month period ended March 26, 2017, compared to \$5.5 million for the comparable period in the prior year. Restaurant sales decreased 13.5%, or \$2.0 million, to \$13.2 million for the nine month period ended March 26, 2017, compared to \$15.2 million for the comparable period in the prior year. These decreases were primarily due to reduced store count and lower comparable store retail sales for Company-owned Pie Five units.

Costs and Expenses:

Cost of Sales - Total

Total cost of sales, which primarily includes food and supply costs, distribution fees, and labor and general and administrative expenses directly related to restaurant sales, decreased to \$12.6 million for the three month period ended March 26, 2017 compared to \$13.8 million in the three month period ended March 27, 2016. Cost of sales increased to \$39.9 million for the nine month period ended March 26, 2017 compared to \$39.3 million in the comparable period in the prior year. The increases in costs were primarily the result of increases in Norco sales offset by lower Company-owned restaurants costs.

Cost of Sales - Franchising and Food and Supply Distribution

Franchising and food and supply distribution cost of sales increased to \$8.3 million for the three month period ended March 26, 2017 compared to \$7.9 million in the three month period ended March 27, 2016. Cost of sales increased to \$25.5 million for the nine month period ended March 26, 2017 compared to \$24.1 million in the comparable period in the prior year. The increases in cost of sales for the segment were primarily the result of higher Norco sales attributable to higher domestic franchisee retail sales.

Cost of Sales - Company-Owned Restaurants

Company-owned restaurants cost of sales decreased to \$4.4 million for the three month period ended March 26, 2017 compared to \$5.9 million in the three month period ended March 27, 2016. Cost of sales decreased to \$14.4 million for the nine month period ended March 26, 2017 compared to \$15.2 million in the comparable period in the prior year. The decreases in cost of sales for the segment were primarily the result of decreased Company-owned store retail sales.

General and Administrative Expenses - Total

General and administrative expenses increased to \$2.1 million for the three month period ended March 26, 2017 compared to \$1.9 million for the quarter ended March 27, 2016 primarily due to increased payroll, legal and professional fees. General and administrative expenses increased to \$6.2 million for the nine month period ended March 26, 2017 compared to \$5.1 million for the nine months ended March 27, 2016 for similar reasons.

General and Administrative Expenses - Franchising and Food and Supply Distribution

General and administrative expenses for franchising and food and supply distribution remained consistent at \$0.4 million for the three month period ended March 26, 2017 compared to the quarter ended March 27, 2016. General and administrative expenses for franchising and food and supply distribution increased slightly to \$1.0 million for the nine month period ended March 26, 2017 compared to \$0.9 million for the nine months ended March 27, 2016.

General and Administrative Expenses - Company-Owned Restaurants

General and administrative expenses for Company-owned restaurants remained consistent at \$0.8 million for the three month period ended March 26, 2017 compared to the quarter ended March 27, 2016. General and administrative expenses for Company-owned restaurants increased slightly to \$2.5 million for the nine month period ended March 26, 2017 compared to \$2.3 million for the nine months ended March 27, 2016.

General and Administrative Expenses - Corporate

General and administrative expenses for corporate increased to \$0.9 million for the three month period ended March 26, 2017 compared to \$0.6 million for the quarter ended March 27, 2016. Increases included payroll, legal and professional fees. In addition, the prior year included credits for properties located in Utah. General and administrative expenses for corporate increased to \$2.7 million for the nine month period ended March 26, 2017 compared to \$1.9 million for the nine months ended March 27, 2016 for similar reasons.

Franchise Expenses

Franchise expenses include selling, general and administrative expenses directly related to the sale and continuing service of domestic and international franchises. These expenses remained consistent at \$0.9 million for the three month period ended March 26, 2017 compared to the same period of the prior year. These expenses also remained consistent at \$2.7 million for the nine month period ended March 26, 2017 compared to the same period of the prior year.

Pre-Opening Expenses

Pre-opening expenses decreased \$0.1 million and \$0.8 million for the three and nine month periods ended March 26, 2017 compared to the same periods of fiscal 2016. These decreases were due primarily to a fewer number of Company-owned Pie Five stores under development.

Impairment of Long-Lived Assets and Other Lease Charges

The Company reviews on a quarterly basis its long-lived assets for impairment and the estimated lease obligations for closed stores or abandoned sites. The Company determined there were recoveries to prior lease termination charges of \$0.1 million and \$0.2 million for the fiscal quarters ended March 26, 2017 and March 27, 2016 as a result of negotiated settlements with landlords. For the nine months ended March 26, 2017, the Company recognized impairment charges of \$4.7 million related to 14 underperforming Company-owned Pie Five locations, nine of which were closed during the third quarter. Additionally, the Company recognized lease termination expenses of \$0.5 million attributable to previously executed leases for 16 locations no longer deemed desirable for future development of Company-owned Pie Five units. For the nine months ended March 27, 2016, the Company recognized impairment and lease termination charges of \$0.8 million related to three underperforming Company-Owned Pie Five units.

Bad Debt Expense

The Company monitors franchisee retail sales and receivable balances and adjusts credit terms when necessary to minimize the Company's exposure to high risk accounts receivable. Bad debt expense increased to \$0.1 million for the three month period ended March 26, 2017 as compared to a credit of \$0.1 million in the comparable period in the prior fiscal year. Bad debt expense increased to \$0.4 million for the nine month period ended March 26, 2017 as compared to \$0.2 million in the comparable period in the prior fiscal year.

Interest Expense

Interest expense increased \$36 thousand and \$35 thousand for the three and nine month periods ended March 26, 2017 as compared to the comparable period in the prior fiscal year due to short-term borrowing of \$1.0 million during the second quarter of fiscal 2017 and issuance of \$3.0 million in senior convertible notes during the most recent fiscal quarter.

Provision for Income Tax

For the three months ended March 26, 2017, income tax expense of \$5 thousand represents an income tax benefit of \$0.5 million calculated at a rate consistent with the 34% statutory U.S. federal rate offset by an income tax expense of \$0.5 million related to a valuation allowance for deferred tax assets and state taxes of \$5 thousand. For the three months ended March 27, 2016, income tax expense was \$3 thousand.

For the nine months ended March 26, 2017, income tax expense represents an income tax benefit of \$3.9 million calculated at a rate consistent with the 34% statutory U.S. federal rate offset by an income tax expense of \$3.9 million related to recording a valuation allowance for deferred tax assets and state taxes of \$24 thousand. For the nine months ended March 27, 2016, income expense was \$2.6 million.

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. Based on the Company's review of this evidence at March 26, 2017, management determined that a full valuation allowance against all of the Company's deferred tax assets at March 26, 2017 was appropriate. There was approximately \$8.7 million of deferred tax assets at March 26, 2017.

Discontinued Operations

Discontinued operations includes income/loss from a leased building associated with a Company-owned restaurant closed in a prior year.

Liquidity and Capital Resources

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

Cash flows from operating activities generally reflect net income adjusted for certain non-cash items including depreciation and amortization, changes in deferred tax assets, share based compensation, and changes in working capital. Cash used by operating activities increased \$5.2 million to cash used of \$3.0 million for the nine months ended March 26, 2017 compared to cash provided of \$2.1 million for the nine months ended March 27, 2016.

Cash flows from investing activities reflects capital expenditures for the purchase of Company assets net of the proceeds of sales of any Company assets. The Company used cash of \$0.2 million for the nine month period ended March 26, 2017, primarily for a new Company-owned Pie Five restaurant partially offset by small sales of assets. This compares to cash used by investing activities of \$7.6 million during the same period in the prior fiscal year attributable to Company-owned Pie Five restaurants that opened during the period.

Cash flows from financing activities generally reflect changes in the Company's borrowings and stock activity during the period. Net cash provided by financing activities was \$4.7 million and \$0.8 million for the nine month periods ended March 26, 2017 and March 27, 2016, respectively, which reflected proceeds from issuance of convertible senior notes, stock options and borrowings in the current year versus proceeds from the sale of stock in the prior year.

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

On October 1, 2014, the Company entered into a new At Market Issuance Sales Agreement with MLV pursuant to which the Company could initially offer and sell shares of its common stock having an aggregate offering price of up to \$5,000,000 from time to time through MLV, acting as agent (the "2014 ATM Offering"). On February 13, 2015, the aggregate offering amount of the 2014 ATM Offering was increased to \$10,000,000. The 2014 ATM Offering is being undertaken pursuant to Rule 415 and a shelf Registration Statement on Form S-3 which was declared effective by the SEC on August 8, 2014. Through March 26, 2017, the Company had sold an aggregate of 825,763 shares in the 2014 ATM Offering, realizing aggregate gross proceeds of \$8.1 million.

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

On March 3, 2017, the Company approved a proposed rights offering to its existing shareholders and, in connection therewith, declared a dividend of subscription rights ("Rights") to holders of record of its common stock as of December 21, 2016, to purchase 4% Convertible Senior Notes due 2022, par \$100 ("Notes"). Shareholders were issued 0.2817% of a Right per share of the common stock held on the record date (i.e., one Right for each 355 shares); provided, however, that the number of

Rights was rounded to the nearest whole number and no fractional Rights were issued. Each whole Right entitled the holder to purchase one Note at the par value of \$100 each. The Notes are convertible into shares of common stock at a conversion price of \$2.00 per share (i.e., 50 shares of common stock per Note). The rights offering was completed on March 3, 2017. Shareholders exercised subscription rights to purchase all 30,000 of the Company's Notes offered at the par value of \$100 per convertible note, resulting in gross offering proceeds to the Company of \$3.0 million.

The Notes have been issued in book-entry form represented by a permanent global certificate deposited with The Depository Trust Company ("DTC"). Beneficial interests in the convertible notes will be shown on, and transfers will be effected through, records maintained by DTC. The convertible notes are not listed for trading on any exchange but are DTC-eligible for over-the-counter trading.

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 common share of 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 net proceeds of the rights offering are intended to fund continued restaurant development activity and to provide working capital for general corporate purposes.

Management believes that funding the Company's operations for the next 12 months will likely require obtaining additional capital, as well as utilizing cash on hand and cash from operations. Although capital could be provided through the 2014 ATM Offering, management believes that other available funding sources may be preferable in the best interests of the Company and its shareholders. The Company intends to proceed diligently to timely raise sufficient additional capital to adequately fund its operations.

Critical Accounting Policies and Estimates

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

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

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

Under the Company's distribution arrangements, third party distributors are responsible for maintaining system-wide distribution inventory. As a result, inventory consists primarily of food, paper products and supplies stored in and used by Company restaurants and is stated at lower of first-in, first-out ("FIFO") or market. 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.

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

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

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

The Company accounts for uncertain tax positions in accordance with ASC 740-10, which prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that it has taken or expects to take on a tax return. ASC 740-10 requires that a company recognize in its financial statements the impact of tax positions that meet a "more likely than not" threshold, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. As of March 26, 2017 and March 27, 2016, the Company had no uncertain tax positions.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not required for a smaller reporting company.

Item 4. Controls and Procedures

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

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

Not required for a smaller reporting company.

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

On May 23, 2007, the board of directors of the Company approved a stock purchase plan (the “2007 Stock Purchase Plan”) authorizing the purchase of up to 1,016,000 shares of the Company’s common stock in the open market or in privately negotiated transactions. On June 2, 2008, the Company’s board of directors amended the 2007 Stock Purchase Plan to increase the number of shares the Company may repurchase by 1,000,000 shares to a total of 2,016,000 shares. On April 22, 2009, the board of directors further amended the 2007 Stock Purchase Plan by increasing the aggregate number of shares the Company may repurchase by 1,000,000 shares to a total of 3,016,000 shares. The 2007 Stock Purchase Plan does not have an expiration date. There were no stock purchases in the three months ending March 26, 2017.

The Company’s ability to repurchase 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. Subsequent to March 26, 2017, the Company has not repurchased any outstanding shares but may make further repurchases under the 2007 Stock Purchase Plan. The Company may also repurchase shares of our common stock other than pursuant to the 2007 Stock Purchase Plan or other publicly announced plans or programs.

Item 3. Defaults upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

On May 8, 2017, the Company executed an Extended and Restated Promissory Note in favor of Newcastle extending the due date of its \$1.0 million 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 foregoing description is qualified in its entirety by reference to the Extended and Restated Promissory Note filed as Exhibit 4.1 hereto and incorporated herein by this reference.

Item 6. Exhibits

- 3.1 Amended and Restated Articles of Incorporation of Rave Restaurant Group, Inc. (incorporated by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K filed January 8, 2015).
- 3.2 Amended and Restated By-laws of Rave Restaurant Group, Inc. (incorporated by reference to Exhibit 3.2 to the registrant's Current Report on Form 8-K filed January 8, 2015).
- 4.1 Extended and Restated Promissory Note dated May 8, 2017, payable by Rave Restaurant Group, Inc. to Newcastle Partners, LP.
- 10.1 Letter agreement dated January 6, 2017, between Rave Restaurant Group, Inc. and Scott Crane (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed January 12, 2017).
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer.
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer.
- 32.1 Section 1350 Certification of Principal Executive Officer.
- 32.2 Section 1350 Certification of Principal Financial Officer.
- 101 Interactive data files pursuant to Rule 405 of Regulation S-T.

SIGNATURES

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

RAVE RESTAURANT GROUP, INC.
(Registrant)

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

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

Dated: May 10, 2017

EXTENDED AND RESTATED
PROMISSORY NOTE

\$1,000,000.00

Dallas, Texas

May 8, 2017

FOR VALUE RECEIVED, **RAVE RESTAURANT GROUP, INC.** ("Maker") promises to pay to the order of **NEWCASTLE PARTNERS, L.P.** ("Noteholder") the principal sum of **One Million and No/100 Dollars (\$1,000,000.00)**, together with interest on the principal balance as set forth below. All sums hereunder are payable at such place in Dallas County, Texas, as the Noteholder hereof may designate in writing.

Interest on the principal balance hereof from time to time remaining unpaid prior to maturity shall accrue at a rate of **ten percent (10%)** per annum

This Note shall be due and payable on the earlier of (a) **September 1, 2017**, or (b) the Maker's earlier receipt of at least \$2.0 million in additional debt or equity capital.

All past due principal and interest on this Note shall bear interest at the maximum rate provided under applicable law until paid. All sums called for, payable, or to be paid hereunder shall be paid in lawful money of the United States of America, which, at the time of payment, is legal tender for the payment of public and private debts.

The principal of this Note may be prepaid, in whole or in part, without penalty, provided that payment of all accrued interest shall be made at the time of any prepayment of principal permitted hereunder.

If this Note is not paid at its maturity, regardless of how such maturity may be brought about, then Noteholder may exercise any of its rights provided hereunder or any of its remedies at law or in equity. Failure to exercise any of such rights upon any default shall not constitute a waiver of the right to exercise any of them at any time. If, after default, this Note is placed in the hands of an attorney for collection, or if collected through judicial proceedings, Maker shall pay, in addition to the sums referred to above, a reasonable sum as a collection or attorneys' fee, and all other costs incurred by Holder in collection of the unpaid amounts due hereunder.

This Note shall be governed by and construed in accordance with Texas law and the laws of the United States applicable to transactions in Texas. It being the intention of the parties hereto to conform strictly to the applicable usury laws, all agreements between Maker and Noteholder, whether now existing or hereafter arising and whether written or oral, are hereby expressly limited so that in no event, whether by reason of acceleration of the maturity hereof or otherwise, shall the amount paid or agreed to be paid to the Noteholder for the use, forbearance or detention of money hereunder or otherwise exceed the maximum amount permissible under applicable law. If fulfillment of any provision hereof or of any mortgage, loan agreement or other document now or hereafter evidencing, securing or pertaining to the indebtedness evidenced hereby, at the time performance of such provision shall be due, would involve transcending the limit of validity prescribed by law, then *ipso facto*, the obligation to be fulfilled shall be reduced automatically to the limit of such validity. If Noteholder shall ever receive anything of value deemed interest under applicable law which would exceed interest at the highest lawful rate, an amount equal to any amount which would have been excessive interest shall be applied to the reduction of the principal amount owing hereunder and not to the payment of interest, or if such amount which would have been excessive interest exceeds the unpaid balance of principal hereof, such excess shall be refunded to Maker. All sums paid or agreed to be paid to Noteholder for the use, forbearance or detention of the indebtedness of Maker to the Noteholder shall, to the extent permitted by applicable law, be amortized, prorated, allocated and spread throughout the full stated term of such indebtedness so that the amount of interest on account of such indebtedness does not exceed the maximum permitted by applicable law. The provisions of this paragraph shall control all existing and future agreements between Maker and Noteholder.

Maker and all sureties, endorsers, guarantors, and any other party now or hereafter liable for the payment of this Note in whole or in part, hereby severally (i) waive demand, presentment for payment, notice of nonpayment, protest, notice of protest, and all other notice, filing of suit and diligence in collecting this Note, (ii) agree to the release of any party primarily or secondarily liable hereon, (iii) agree that Noteholder shall not be required first to institute suit or exhaust its remedies hereon against Maker or others liable or to become liable hereon or to enforce its right against them, and (iv) consent to any extension or postponement of time of payment of this Note and to any other indulgence with respect hereto without notice thereof to any of them.

If any term or provision of this Note or the application thereof to any person or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Note, or the application of such term or provision to person or circumstances, other than those as to which it is held invalid or unenforceable, shall, at the election of Noteholder, not be affected thereby, and each such other term and provision of this Note shall be valid and be enforced to the fullest extent permitted by law.

THIS NOTE SHALL BE DUE AND PAYABLE IN DALLAS COUNTY, TEXAS. MAKER CONSENTS TO JURISDICTION AND VENUE FOR ANY SUIT ON OR BY REASON OF THIS NOTE IN THE STATE COURTS LOCATED IN DALLAS COUNTY, TEXAS.

This Note is given in restatement, but not extinguishment or novation, of that certain Promissory Note dated December 22, 2016, executed and delivered by Maker and payable to the order of Noteholder in the original principal amount of \$1,000,000.

IN WITNESS WHEREOF, Maker has duly executed this Note as of the date and year first above written.

MAKER:

RAVE RESTAURANT GROUP, INC.

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

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

I, Scott Crane, certify that:

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

Date: May 10, 2017

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

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

I, Timothy E. Mullany, certify that:

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

Date: May 10, 2017

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

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

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

The accompanying Quarterly Report on Form 10-Q for the quarter ended March 26, 2017 (the “Form 10-Q”) of the Company fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Form 10-Q.

Date: May 10, 2017

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

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

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

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

The accompanying Quarterly Report on Form 10-Q for the quarter ended March 26, 2017 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Form 10-Q.

Date: May 10, 2017

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

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