

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 25, 2016

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

Commission File Number: 0-12919

RAVE RESTAURANT GROUP, INC.

(Exact name of registrant as specified in its charter)

Missouri
(State or other jurisdiction of
Incorporation or organization)

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

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

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

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

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

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

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

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

As of February 2, 2017, 10,656,551 shares of the issuer's common stock were outstanding.

RAVE RESTAURANT GROUP, INC.

Index

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements	Page
Condensed Consolidated Statements of Operations for the three months and six months ended December 25, 2016 and December 27, 2015 (unaudited)	4
Condensed Consolidated Balance Sheets at December 25, 2016 (unaudited) and June 26, 2016	5
Condensed Consolidated Statements of Cash Flows for the six months ended December 25, 2016 and December 27, 2015 (unaudited)	6
Supplemental Disclosure of Cash Flow Information for the six months ended December 25, 2016 and December 27, 2015 (unaudited)	6
Notes to Unaudited Condensed Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	11
Item 3. Quantitative and Qualitative Disclosures About Market Risk	19
Item 4. Controls and Procedures	19

PART II. OTHER INFORMATION

Item 1. Legal Proceedings	19
Item 1A. Risk Factors	20
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	20
Item 3. Defaults Upon Senior Securities	20
Item 4. Mine Safety Disclosures	20
Item 5. Other Information	20
Item 6. Exhibits	21
Signatures	22

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended		Six Months Ended	
	December 25, 2016	December 27, 2015	December 25, 2016	December 27, 2015
REVENUES:	\$ 14,792	\$ 15,311	\$ 30,248	\$ 29,847
COSTS AND EXPENSES:				
Cost of sales	13,372	13,139	27,254	25,489
General and administrative expenses	2,175	1,694	4,078	3,263
Franchise expenses	984	949	1,836	1,808
Pre-opening expenses	47	304	66	736
Loss on sale of assets	656	-	699	-
Impairment of long-lived assets and other lease charges	5,197	1,010	5,366	1,010
Bad debt	298	128	351	231
Interest expense	2	2	2	3
Total costs and expenses	<u>22,731</u>	<u>17,226</u>	<u>39,652</u>	<u>32,540</u>
LOSS FROM CONTINUING OPERATIONS BEFORE TAXES	(7,939)	(1,915)	(9,404)	(2,693)
Income tax expense	5	2,892	19	2,634
LOSS FROM CONTINUING OPERATIONS	(7,944)	(4,807)	(9,423)	(5,327)
Income (loss) from discontinued operations, net of taxes	19	(23)	2	(60)
NET LOSS	<u>\$ (7,925)</u>	<u>\$ (4,830)</u>	<u>\$ (9,421)</u>	<u>\$ (5,387)</u>
LOSS PER SHARE OF COMMON STOCK - BASIC:				
Loss from continuing operations	\$ (0.75)	\$ (0.47)	\$ (0.89)	\$ (0.52)
Income (loss) from discontinued operations	0.01	-	-	-
Net loss	<u>\$ (0.74)</u>	<u>\$ (0.47)</u>	<u>\$ (0.89)</u>	<u>\$ (0.52)</u>
LOSS PER SHARE OF COMMON STOCK - DILUTED:				
Loss from continuing operations	\$ (0.74)	\$ (0.45)	\$ (0.89)	\$ (0.50)
Income (loss) from discontinued operations	-	-	-	-
Net loss	<u>\$ (0.74)</u>	<u>\$ (0.45)</u>	<u>\$ (0.89)</u>	<u>\$ (0.50)</u>
Weighted average common shares outstanding - basic	<u>10,657</u>	<u>10,314</u>	<u>10,575</u>	<u>10,310</u>
Weighted average common and potential dilutive common shares outstanding	<u>10,681</u>	<u>10,770</u>	<u>10,638</u>	<u>10,859</u>

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

ASSETS	December 25, 2016 (unaudited)	June 26, 2016
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,098	1,104
Accounts receivable, less allowance for bad debts accounts of \$551 and \$198, respectively	2,430	2,780
Notes receivable	120	167
Inventories	199	197
Income tax receivable	194	194
Property held for sale	327	-
Prepaid expenses and other	264	430
Total current assets	4,632	4,872
LONG-TERM ASSETS		
Property, plant and equipment, net	5,839	12,979
Long-term notes receivable	328	382
Deposits and other	230	272
Total assets	\$ 11,029	\$ 18,505
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable - trade	\$ 4,495	3,815
Short-term debt	1,000	-
Accrued expenses	1,104	1,220
Deferred rent	120	160
Deferred revenues	128	304
Total current liabilities	6,847	5,499
LONG-TERM LIABILITIES		
Deferred rent, net of current portion	1,497	1,710
Deferred revenues, net of current portion	1,370	1,440
Other long-term liabilities	437	453
Total liabilities	10,151	9,102
COMMITMENTS AND CONTINGENCIES (See Note 2)		
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	26,671	25,778
Retained earnings (Accumulated Deficit)	(1,335)	8,086
Treasury stock at cost		
Shares in treasury: 7,119,400	(24,636)	(24,636)
Total shareholders' equity	878	9,403
	\$ 11,029	\$ 18,505

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

Six Months Ended
December 25, December 27,
2016 2015

CASH FLOWS FROM OPERATING ACTIVITIES:

Net loss	\$	(9,421)		\$	(5,387)
Adjustments to reconcile net loss to cash provided by (used in) operating activities:					
Depreciation and amortization		1,539			1,118
Impairment of long-lived assets		4,773			1,010
Stock compensation expense		90			90
Deferred income taxes		-			2,593
Loss on sale/disposal of assets		699			2
Provision for bad debt		351			231
Changes in operating assets and liabilities:					
Notes and accounts receivable		100			214
Inventories		(2)			(54)
Accounts payable - trade		680			1,257
Accrued expenses		(132)			(328)
Deferred rent		(253)			426
Deferred revenue		(246)			165
Prepaid expenses and other		182			136
Cash (used in) provided by operating activities		(1,640)			1,473

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from sale of assets		45		14
Capital expenditures		(217)		(6,471)
Cash used in investing activities		(172)		(6,457)

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from sale of stock		-		773
Proceeds from stock options		806		-
Net change in debt		1,000		-
Cash provided by financing activities		1,806		773

Net decrease in cash and cash equivalents		(6)		(4,211)
Cash and cash equivalents, beginning of period		1,104		5,958
Cash and cash equivalents, end of period	\$	1,098	\$	1,747

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

CASH PAYMENTS FOR:

Interest	\$	-		\$	1
Income taxes - net	\$	25	\$	5	

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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 six month periods ended December 25, 2016 and December 27, 2015, each contained 13 weeks and 26 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.

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) Commitments and Contingencies

On April 22, 2009, the Company's board of directors amended the stock purchase plan first adopted on May 23, 2007, and previously amended on June 2, 2008, to increase the number of shares of common stock the Company may repurchase to a total of 3,016,000 shares. As of December 25, 2016, 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.

(3) Stock-Based Compensation

Stock Options

For the three months ended December 25, 2016, and December 27, 2015, the Company recognized stock-based compensation expense related to stock options of \$25,000 and \$45,000, respectively. For the six month periods ended December 25, 2016, and December 27, 2015, the Company recognized stock-based compensation expense related to stock options of \$50,000 and \$90,000, respectively. As of December 25, 2016, 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:

	Six Months Ended	
	December 25, 2016	December 27, 2015
Outstanding at beginning of year	\$ 847,556	871,798
Granted	50,000	42,786
Exercised	(315,000)	-
Forfeited/Canceled/Expired	(80,000)	-
Outstanding at end of period	<u>502,556</u>	<u>914,584</u>
Exercisable at end of period	<u>365,406</u>	<u>551,028</u>

Restricted Stock Units

For the three months ended December 25, 2016 and December 27, 2015, the Company recognized stock-based compensation expense related to restricted stock units in the amount of \$20,000 and \$0, respectively. For the six months ended December 25, 2016 and December 27, 2015, the Company recognized stock-based compensation expense related to restricted stock units in the amount of \$40,000 and \$0, respectively. As of December 25, 2016, 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 December 25, 2016, and changes during the six months then ended is presented below:

Number of Restricted Stock Units

Unvested at June 26, 2016	\$ 79,620
Granted	236,310
Vested	-
Forfeited	(43,750)
Unvested at December 25, 2016	<u>272,180</u>

(4) **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).

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>December 25, 2016</u>	<u>December 27, 2015</u>	<u>December 25, 2016</u>	<u>December 27, 2015</u>
Loss from continuing operations	\$ (7,944)	\$ (4,807)	\$ (9,423)	\$ (5,327)
Income (loss) from discontinued operations	19	(23)	2	(60)
Net loss available to common stockholders	<u>\$ (7,925)</u>	<u>\$ (4,830)</u>	<u>\$ (9,421)</u>	<u>\$ (5,387)</u>
BASIC:				
Weighted average common shares	10,657	10,314	10,575	10,310
Loss from continuing operations per common share	\$ (0.75)	\$ (0.47)	\$ (0.89)	\$ (0.52)
Loss from discontinued operations per common share	0.01	-	-	-
Net loss per common share	<u>\$ (0.74)</u>	<u>\$ (0.47)</u>	<u>\$ (0.89)</u>	<u>\$ (0.52)</u>
DILUTED:				
Weighted average common shares	10,657	10,314	10,575	10,310
Stock options	24	456	63	549
Weighted average common shares outstanding	<u>10,681</u>	<u>10,770</u>	<u>10,638</u>	<u>10,859</u>
Loss from continuing operations per common share	\$ (0.74)	\$ (0.45)	\$ (0.89)	\$ (0.50)
Loss from discontinued operations per common share	-	-	-	-
Net loss per common share	<u>\$ (0.74)</u>	<u>\$ (0.45)</u>	<u>\$ (0.89)</u>	<u>\$ (0.50)</u>

For the three months ended December 25, 2016, options to purchase 331,250 shares of common stock at exercise prices ranging from \$2.71 to \$13.11 per share were excluded from the computation of diluted EPS because the options' exercise price exceeded the average market price of the common shares for the period.

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

(6) **Income Taxes**

For the three months ended December 25, 2016, income tax expense represents an income tax benefit of \$2.7 million calculated at a rate consistent with the 34% statutory U.S. federal rate offset by an income tax expense of \$2.7 million related to a valuation allowance for deferred tax assets of \$2.7 million and state taxes of \$5,000. For the three months ended December 27, 2015, income tax expense was \$2.9 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 continues to record a full valuation allowance against its net deferred tax assets. The Company assessed whether a valuation allowance should be established against its deferred tax assets based on consideration of all available evidence, using a "more likely than not" standard. In assessing the need for a valuation allowance, the Company considered both positive and negative evidence related to the likelihood of realization of deferred tax assets. In making such assessment, more weight was given to evidence that could be objectively verified, including recent cumulative losses. Future sources of taxable income were also considered in determining the amount of the recorded valuation allowance. Based on the Company's review of this evidence at December 25, 2016, management determined that a valuation allowance against all of the Company's deferred tax assets accruing during the second quarter of fiscal 2017 was appropriate. There was approximately \$8.2 million of deferred tax assets at December 25, 2016.

(7) **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 is due and payable on April 30, 2017. Newcastle is an affiliate of the Company's Chairman, Mark E. Schwarz.

(8) **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 six month periods ended December 25, 2016 and December 27, 2015 (in thousands). Operating income reported below excludes income tax provision and discontinued operations.

	Three Months Ended		Six Months Ended	
	December 25, 2016	December 27, 2015	December 25, 2016	December 27, 2015
Net sales and operating revenues:				
Franchising and food and supply distribution	\$ 10,565	\$ 10,227	\$ 21,122	\$ 20,139
Company-owned restaurants (1)	4,227	5,084	9,126	9,708
Consolidated revenues	<u>\$ 14,792</u>	<u>\$ 15,311</u>	<u>\$ 30,248</u>	<u>\$ 29,847</u>
Depreciation and amortization:				
Franchising and food and supply distribution	\$ 3	\$ 6	\$ 9	\$ 12
Company-owned restaurants (1)	639	575	1,326	1,018
Combined	642	581	1,335	1,030
Corporate administration and other	107	20	204	88
Depreciation and amortization	<u>\$ 749</u>	<u>\$ 601</u>	<u>\$ 1,539</u>	<u>\$ 1,118</u>
Loss from continuing operations before taxes:				
Franchising and food and supply distribution (2)	\$ 583	\$ 895	\$ 1,459	\$ 1,528
Company-owned restaurants (1) (2)	(1,271)	(1,057)	(2,668)	(1,720)
Combined	(688)	(162)	(1,209)	(192)
Impairment of long-lived assets and other lease charges	(5,197)	(1,010)	(5,366)	(1,010)
Corporate administration and other (2)	(2,054)	(743)	(2,829)	(1,491)
Loss from continuing operations before taxes	<u>\$ (7,939)</u>	<u>\$ (1,915)</u>	<u>\$ (9,404)</u>	<u>\$ (2,693)</u>
Geographic information (revenues):				
United States	\$ 14,686	\$ 15,122	\$ 29,947	\$ 29,457
Foreign countries	106	189	301	390
Consolidated total	<u>\$ 14,792</u>	<u>\$ 15,311</u>	<u>\$ 30,248</u>	<u>\$ 29,847</u>

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

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

The following discussion should be read in conjunction with the consolidated financial statements and accompanying notes appearing elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended June 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 six month periods ended December 25, 2016:

Three Months Ended December 25, 2016

(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	\$ 167	29	\$ 4,060	30	\$ 4,227
Domestic Franchised	160	21,460	70	10,161	230	31,621
Total Domestic Units	161	\$ 21,627	99	\$ 14,221	260	\$ 35,848
International Franchised	60		-		60	

Six Months Ended December 25, 2016

(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	\$ 359	29	\$ 8,767	30	\$ 9,126
Domestic Franchised	160	43,371	70	20,501	230	63,872
Total Domestic Units	161	\$ 43,730	99	\$ 29,268	260	\$ 72,998
International Franchised	60		-		60	

Domestic restaurants are located in 26 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 \$0.27 and \$0.29 per share, respectively, to a loss of \$0.74 per share for the three month period ended December 25, 2016, compared to a loss of \$0.47 and \$0.45 per share, respectively, in the comparable period in the prior fiscal year. The Company had a net loss of \$7.9 million for the three month period ended December 25, 2016, and net loss of \$4.8 million in the comparable period in the prior fiscal year, on revenues of \$14.8 million for the three month period ended December 25, 2016 compared to \$15.3 million in the comparable period in the prior fiscal year. Basic and diluted income per common share decreased \$0.37 and \$0.39 per share, respectively, to a loss of \$0.89 per share for the six month period ended December 25, 2016, compared to a loss of \$0.52 and \$0.50 per share, respectively, in the comparable period in the prior fiscal year. The Company had a net loss of \$9.4 million for the six month period ended December 25, 2016, and net loss of \$5.4 million in the comparable period in the prior fiscal year, on revenues of \$30.2 million for the six month period ended December 25, 2016 compared to \$29.8 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 \$3.7 million and \$0.7 million of losses from the sale of assets.

Adjusted EBITDA for the fiscal quarter ended December 25, 2016, decreased to a loss of \$1.2 million compared to a gain of \$61,000 for the same period of the prior fiscal year. Year-to-date adjusted EBITDA decreased to a \$1.4 million loss compared to a gain of \$0.3 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		Six Months Ended	
	December 25, 2016	December 27, 2015	December 25, 2016	December 27, 2015
Net loss	\$ (7,925)	\$ (4,830)	\$ (9,421)	\$ (5,387)
Interest expense	2	2	2	3
Income Taxes	5	2,892	19	2,634
Income Taxes--Discontinued Operations	-	(12)	(9)	(31)
Depreciation and amortization	749	601	1,539	1,118
EBITDA	\$ (7,169)	\$ (1,347)	\$ (7,870)	\$ (1,663)
Stock compensation expense	45	45	90	90
Pre-opening costs	47	304	66	736
Loss on sale/disposal of assets	656	-	699	-
Impairment charges, non-operating store costs and discontinued operations	5,242	1,059	5,652	1,126
Adjusted EBITDA	\$ (1,179)	\$ 61	\$ (1,363)	\$ 289

Pie Five Brand Summary

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

	Three Months Ended		Six Months Ended	
	December 25, 2016	December 27, 2015	December 25, 2016	December 27, 2015
	(in thousands, except unit data)		(in thousands, except unit data)	
Pie Five Retail Sales - Total Stores				
Domestic - Franchised	\$ 10,161	\$ 8,091	\$ 20,501	\$ 14,803
Domestic - Company-owned	4,060	4,876	8,767	9,269
Total domestic retail sales	\$ 14,221	\$ 12,967	\$ 29,268	\$ 24,072
Pie Five Comparable Store Retail Sales - Total	\$ 5,667	\$ 6,859	\$ 10,744	\$ 12,813

Pie Five Average Units Open in Period

Domestic - Franchised	67	42	63	37
Domestic - Company-owned	30	32	30	29
Total domestic Units	97	74	93	66

Pie Five system-wide retail sales increased \$1.3 million, or 9.7%, for the three month period ended December 25, 2016 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 74 to 97. Comparable store retail sales decreased by \$1.2 million, or 17.4%, during the second quarter of fiscal 2017 compared to the same period of the prior year.

Pie Five system-wide retail sales increased \$5.2 million, or 21.6%, for the six month period ended December 25, 2016 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 66 to 93. Comparable store retail sales decreased by \$2.1 million, or 16.1%, during the first six months fiscal 2017 compared to the same period of the prior year.

The following chart summarizes Pie Five restaurant activity for the three and six month periods ended December 25, 2016:

	Three Months Ended December 25, 2016				Six Months Ended December 25, 2016			
	Beginning Units	Opened	Closed	Ending Units	Beginning Units	Opened	Closed	Ending Units
Domestic - Franchised	62	8	-	70	57	14	1	70
Domestic - Company-owned	30	-	1	29	31	-	2	29
Total domestic Units	92	8	1	99	88	14	3	99

We believe that the net addition of seven Pie Five Units during the second quarter of fiscal 2017 reflects the continued but moderating growth in the opening of Pie Five Units as franchised stores open pursuant to previously executed franchise development agreements.

Pie Five - Company-Owned Restaurants

(in thousands, except store weeks and average data)

	Three Months Ended		Six Months Ended	
	December 25, 2016	December 27, 2015	December 25, 2016	December 27, 2015
Store weeks	386	414	786	741
Average weekly sales	10,517	11,725	11,151	12,418
Average number of units	30	32	30	29
Restaurant sales (excluding partial weeks)	4,060	4,854	8,765	9,202
Restaurant sales	4,060	4,876	8,767	9,269
Restaurant operating cash flow	(56)	241	(20)	868
Allocated marketing and advertising expenses	(204)	(243)	(438)	(463)
Depreciation/amortization expense	(628)	(568)	(1,304)	(998)
Pre-opening costs	(47)	(264)	(66)	(688)
Operations management and extraordinary expenses	(213)	(172)	(440)	(336)
Impairment, other lease charges and non-operating store costs	(5,121)	(1,010)	(5,506)	(1,010)
Loss from continuing operations before taxes	(6,269)	(2,016)	(7,774)	(2,627)

Average weekly sales for Company-owned Pie Five restaurants decreased \$1,208, or 10.3%, to \$10,517 for the three month period ended December 25, 2016 compared to \$11,725 for the same period of prior year. Company-owned Pie Five restaurant operating cash flow decreased by \$0.3 million during the second quarter of fiscal 2017 compared to the same period of prior year. Loss from continuing operations before taxes for Company-owned Pie Five stores increased \$4.3 million to a loss of \$6.3 million for the three months ended December 25, 2016 compared to a loss of \$2.0 million the same period of the prior year.

Average weekly sales for Company-owned Pie Five restaurants decreased \$1,267, or 10.2%, to \$11,151 for the six month period ended December 25, 2016 compared to \$12,418 for the same period of prior year. Company-owned Pie Five restaurant operating cash flow decreased \$0.9 million to near break-even for the first six months of fiscal 2017 compared to \$0.9 million the same period of prior year. Loss from continuing operations before taxes for Company-owned Pie Five stores increased \$5.2 million to a loss of \$7.8 million for the first six months of fiscal 2017 compared to a loss of \$2.6 million for the same period of the prior year.

Pizza Inn Brand Summary

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

	Three Months Ended		Six Months Ended	
	December 25, 2016	December 27, 2015	December 25, 2016	December 27, 2015
	(in thousands, except unit data)		(in thousands, except unit data)	
Pizza Inn Retail Sales - Total Domestic Stores				
Domestic Units				
Buffet - Franchised	\$ 19,802	\$ 19,486	\$ 40,009	\$ 39,755
Delco/Express - Franchised	1,658	1,842	3,362	3,801
Buffet - Company-owned	167	208	359	439
Total domestic retail sales	<u>\$ 21,627</u>	<u>\$ 21,536</u>	<u>\$ 43,730</u>	<u>\$ 43,995</u>

Pizza Inn Comparable Store Retail Sales - Total Domestic \$ 20,288 \$ 20,538 \$ 41,062 \$ 41,269

Pizza Inn Average Units Open in Period

Domestic Units				
Buffet - Franchised	95	96	95	97
Delco/Express - Franchised	64	69	11	70
Buffet - Company-owned	1	1	53	1
Total domestic Units	<u>160</u>	<u>166</u>	<u>159</u>	<u>168</u>

Total Pizza Inn domestic retail sales increased \$0.1 million, or 0.4%, for the three months ended December 25, 2016 when compared to the same period of the prior year. Pizza Inn domestic comparable store retail sales decreased 1.2%, for the three months ended December 25, 2016 when compared to the same period of the prior year.

Total Pizza Inn domestic retail sales decreased \$0.3 million, or 0.6%, for the six months ended December 25, 2016 when compared to the same period of the prior year. Pizza Inn domestic comparable store retail sales decreased 0.5%, for the six months ended December 25, 2016 when compared to the same period of the prior year.

The following chart summarizes Pizza Inn restaurant activity for the three and six month periods ended December 25, 2016:

	Three Months Ended December 25, 2016				Six Months Ended December 25, 2016			
	Beginning Units	Opened	Closed	Ending Units	Beginning Units	Opened	Closed	Ending Units
Domestic Units								
Buffet - Franchised	94	1	1	94	93	2	1	94
Delco/Express - Franchised	67	1	2	66	68	1	3	66
Buffet - Company-owned	1	-	-	1	1	-	-	1
Total domestic Units	<u>162</u>	<u>2</u>	<u>3</u>	<u>161</u>	<u>162</u>	<u>3</u>	<u>4</u>	<u>161</u>
International Units (all types)	60	-	-	60	60	-	-	60
Total Units	<u>222</u>	<u>2</u>	<u>3</u>	<u>221</u>	<u>222</u>	<u>3</u>	<u>4</u>	<u>221</u>

There was a net decrease of one domestic Pizza Inn units during the three and six months ended December 25, 2016. 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"). However, the Company also presents and discusses certain non-GAAP financial measures that it believes are useful to investors as measures of operating performance. Management may also use such non-GAAP financial measures in evaluating the effectiveness of business strategies and for planning and budgeting purposes. However, these non-GAAP financial measures should not be viewed as an alternative or substitute for the results reflected in the Company's GAAP financial statements.

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

- "EBITDA" represents earnings before interest, taxes, depreciation and amortization.
- "Adjusted EBITDA" represents earnings before interest, taxes, depreciation and amortization, stock compensation expense, pre-opening expense, 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 restaurant, including: (1) marketing and promotional expenses, (2) accrued rent, and (3) manager salaries, employee payroll and related training costs..

Financial Results

Revenues:

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

Total revenues for the three month period ended December 25, 2016 and for the same period in the prior fiscal year were \$14.8 million and \$15.3 million, respectively. Total revenues for the six month period ended December 25, 2016 and for the same period in the prior fiscal year were \$30.2 million and \$29.8 million, respectively. Revenue consisted of the following:

	Three Months Ended		Six Months Ended	
	December 25, 2016	December 27, 2015	December 25, 2016	December 27, 2015
Food and supply sales	\$ 9,120	\$ 8,785	\$ 18,264	\$ 17,424
Franchise revenue	1,445	1,442	2,858	2,715
Restaurant sales	4,227	5,084	9,126	9,708
Total revenue	\$ 14,792	\$ 15,311	\$ 30,248	\$ 29,847

Food and Supply Sales

Food and supply sales by Norco include food and paper products and other distribution revenues. For the three month period ended December 25, 2016, food and supply sales increased to \$9.1 million compared to \$8.8 million the same period in the prior fiscal year due primarily to a \$1.3 million, or 3.9%, increase in total domestic retail sales. For the six month period ended December 25, 2016, food and supply sales increased to \$18.3 million compared to \$17.4 million the same period in the prior fiscal year due primarily to a \$4.9 million, or 7.2%, increase in total domestic retail sales driven 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 \$3,000 and \$143,000 for the three and six month periods ended December 25, 2016, 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 and were partially offset by a decrease in franchise fees related to Pie Five.

Restaurant Sales

Restaurant sales, which consist of revenue generated by Company-owned restaurants, decreased 16.9%, or \$0.9 million, to \$4.2 million for the three month period ended December 25, 2016, compared to \$5.1 million for the comparable period in the prior year. Restaurant sales decreased 6.0%, or \$0.6 million, to \$9.1 million for the six month period ended December 25, 2016, compared to \$9.7 million for the comparable period in the prior year. These decreases were primarily due to store closings and lower comparable store retail sales.

Costs and Expenses:

Cost of Sales

Cost of sales, which primarily includes food and supply costs, distribution fees, and labor and general and administrative expenses directly related to restaurant sales, increased to \$13.4 million for the three month period ended December 25, 2016 compared to \$13.1 million in the three month period ended December 27, 2015. Cost of sales increased to \$27.3 million for the six month period ended December 25, 2016 compared to \$25.5 million in the comparable period in the prior year. The increases in costs were primarily the result of increased food and supply sales by Norco.

General and Administrative Expenses

General and administrative expenses increased to \$2.2 million for the three month period ended December 25, 2016 compared to \$1.7 million for the quarter ended December 27, 2015, primarily due to recruiting fees for new CEO and increased legal fees. General and administrative expenses increased to \$4.1 million for the six month period ended December 25, 2016 compared to \$3.3 million for the six months ended December 27, 2015.

Franchise Expenses

Franchise expenses include selling, general and administrative expenses directly related to the sale and continuing service of domestic and international franchises. These expenses increased marginally for the three and six month periods ended December 25, 2016 compared to the same periods of the prior year.

Pre-Opening Expenses

Pre-opening expenses decreased \$0.3 million and \$0.7 million for the three and six month periods ended December 25, 2016 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 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. The Company has tested its long-lived assets for impairment and recognized pre-tax, non-cash impairment charges of \$4.8 million related to the carrying value of 14 Pie Five restaurants and one Pizza Inn restaurant and \$0.4 million in other lease termination expenses for the three month period ended December 25, 2016.

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 \$0.3 million for the three month period ended December 25, 2016 as compared to \$0.1 million in the comparable period in the prior fiscal year. Bad debt expense increased to \$0.4 million for the six month period ended December 25, 2016 as compared to \$0.2 million in the comparable period in the prior fiscal year.

Interest Expense

Interest expense remained consistent at \$2,000 for the three month period ended December 25, 2016 as compared to the comparable period in the prior fiscal year. Interest expense decreased \$1,000 for the six month period ended December 25, 2016 as compared to the comparable period in the prior fiscal year.

Provision for Income Tax

For the three months ended December 25, 2016, income tax expense represents an income tax benefit of \$2.7 million calculated at a rate consistent with the 34% statutory U.S. federal rate offset by an income tax expense of \$2.7 million related to a valuation allowance for deferred tax assets of \$2.7 million and state taxes of \$5,000. For the three and six month periods ended December 27, 2015, income tax expense was \$2.9 million and \$2.6 million, respectively, as the result of taking a \$3.5 million valuation allowance for deferred tax assets.

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 continues to record a full valuation allowance against its net deferred tax assets. 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 any recorded valuation allowance. Based on the Company's review of this evidence at December 25, 2016, management determined that a valuation allowance against all of the Company's deferred tax assets accruing during the second quarter of fiscal 2017 was appropriate. There was an aggregate of \$8.2 million of deferred tax assets at December 25, 2016.

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 provided by operating activities decreased \$3.1 million to cash used of \$1.6 million for the six months ended December 25, 2016 compared to cash provided of \$1.5 million for the six months ended December 27, 2015.

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 \$0.1 million for the six month period ended December 25, 2016, 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 \$6.5 million during the same period in the prior fiscal year attributable to Company-owned Pie Five restaurants that opened during the period.

Cash flows from financing activities generally reflect changes in the Company's borrowings and stock activity during the period. Net cash provided by financing activities was \$1.8 million and \$0.7 million for the six month periods ended December 25, 2016 and December 27, 2015, respectively, which reflected proceeds from 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 December 25, 2016, 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 is due and payable on April 30, 2017. Newcastle is an affiliate of the Company's Chairman, Mark E. Schwarz.

On December 22, 2016, the board of directors of 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 entitles the holder to purchase one Note at the par value of \$100 each. The Notes will be 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 subscription rights are presently exercisable through February 13, 2017, which date may be extended up to 30 days at the discretion of the Company. The rights offering is subject to exercise of Rights for a minimum of \$1,000,000 and a maximum of \$3,000,000 in principal amount of the Notes. The net proceeds of the rights offering are intended to be used to repay the loan from Newcastle, to fund continued restaurant development activity and to provide working capital for general corporate purposes.

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

Critical Accounting Policies and Estimates

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

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

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

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 December 25, 2016 and December 27, 2015, the Company had no uncertain tax positions.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not required for a smaller reporting company.

Item 4. Controls and Procedures

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

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

Not required for a smaller reporting company.

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

On May 23, 2007, the board of directors of the Company approved a stock purchase plan (the "2007 Stock Purchase Plan") authorizing the purchase of up to 1,016,000 shares of the Company's common stock in the open market or in privately negotiated transactions. On June 2, 2008, the Company's board of directors amended the 2007 Stock Purchase Plan to increase the number of shares the Company may repurchase by 1,000,000 shares to a total of 2,016,000 shares. On April 22, 2009, the board of directors further amended the 2007 Stock Purchase Plan by increasing the aggregate number of shares the Company may repurchase by 1,000,000 shares to a total of 3,016,000 shares. The 2007 Stock Purchase Plan does not have an expiration date. There were no stock purchases in the three months ending December 25, 2016.

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 December 25, 2016, 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

Not applicable.

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).
- 10.1 Promissory Note dated December 22, 2016, payable by Rave Restaurant Group, Inc. to Newcastle Partners, LP (incorporated by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K filed December 22, 2016).
- 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: February 8, 2017

Exhibit 31.1

**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: February 8, 2017

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

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

I, Timothy E. Mullany, certify that:

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

Date: February 8, 2017

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

Exhibit 32.1

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

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

The accompanying Quarterly Report on Form 10-Q for the quarter ended December 25, 2016 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Form 10-Q.

Date: February 8, 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 December 25, 2016 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Form 10-Q.

Date: February 8, 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.