

UNITED STATES 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 September 24, 2023 or
- Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____.

Commission File Number: 0-12919

RAVE RESTAURANT GROUP, INC.

(Exact name of registrant as specified in its charter)

Missouri
(State or 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)
(Zip Code)

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

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.01 par value	RAVE	Nasdaq Capital Market

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit 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 definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

As of October 30, 2023, 14,586,566 shares of the issuer's common stock were outstanding.

PART I. FINANCIAL INFORMATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended	
	September 24, 2023	September 25, 2022
REVENUES	\$ 3,089	\$ 3,005
COSTS AND EXPENSES:		
General and administrative expenses	1,319	1,343
Franchise expenses	1,172	1,202
Impairment of long-lived assets and other lease charges	—	5
Bad debt expense	25	4
Interest expense	—	1
Depreciation and amortization expense	55	51
Total costs and expenses	<u>2,571</u>	<u>2,606</u>
INCOME BEFORE TAXES	518	399
Income tax expense	(132)	(92)
NET INCOME	<u>386</u>	<u>307</u>
INCOME PER SHARE OF COMMON STOCK - BASIC:	<u>\$ 0.03</u>	<u>\$ 0.02</u>
INCOME PER SHARE OF COMMON STOCK - DILUTED:	<u>\$ 0.03</u>	<u>\$ 0.02</u>
Weighted average common shares outstanding - basic	<u>14,154</u>	<u>16,632</u>
Weighted average common shares outstanding - diluted	<u>14,762</u>	<u>16,632</u>

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	<u>September 24, 2023</u>	<u>June 25, 2023</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,944	\$ 5,328
Accounts receivable, less allowance for bad debts of \$12 and \$58, respectively	1,072	1,145
Notes receivable, current	122	105
Assets held for sale	34	19
Deferred contract charges, current	31	33
Prepaid expenses and other current assets	388	204
Total current assets	<u>7,591</u>	<u>6,834</u>
LONG-TERM ASSETS		
Property and equipment, net	231	258
Operating lease right of use assets, net	1,115	1,227
Intangible assets definite-lived, net	312	328
Notes receivable, net of current portion	44	28
Deferred tax asset, net	5,234	5,342
Deferred contract charges, net of current portion	202	220
Total assets	<u>\$ 14,729</u>	<u>\$ 14,237</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable - trade	\$ 583	\$ 502
Accrued expenses	1,172	891
Operating lease liabilities, current	446	463
Deferred revenues, current	222	342
Total current liabilities	<u>2,423</u>	<u>2,198</u>
LONG-TERM LIABILITIES		
Operating lease liabilities, net of current portion	848	958
Deferred revenues, net of current portion	602	690
Total liabilities	<u>3,873</u>	<u>3,846</u>
COMMITMENTS AND CONTINGENCIES (SEE NOTE C)		
SHAREHOLDERS' EQUITY		
Common stock, \$0.01 par value; authorized 26,000,000 shares; issued 25,090,058 and 25,090,058 shares, respectively; outstanding 14,154,453 and 14,154,453 shares, respectively	251	251
Additional paid-in capital	37,808	37,729
Retained earnings	2,825	2,439
Treasury stock, at cost		
Shares in treasury: 10,935,605 and 10,935,605 respectively	(30,028)	(30,028)
Total shareholders' equity	<u>10,856</u>	<u>10,391</u>
Total liabilities and shareholders' equity	<u>\$ 14,729</u>	<u>\$ 14,237</u>

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	<u>Common Stock</u>				<u>Treasury Stock</u>		
	<u>Shares</u>	<u>Amount</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Shares</u>	<u>Amount</u>	<u>Total</u>
Balance, June 26, 2022	25,090	\$ 251	\$ 37,384	\$ 826	(7,579)	\$ (25,049)	\$ 13,412
Stock-based compensation expense	—	—	86	—	—	—	86
Purchase of treasury stock	—	—	—	—	(1,111)	(1,384)	(1,384)
Net income	—	—	—	307	—	—	307
Balance, September 25, 2022	<u>25,090</u>	<u>\$ 251</u>	<u>\$ 37,470</u>	<u>\$ 1,133</u>	<u>(8,690)</u>	<u>\$ (26,433)</u>	<u>\$ 12,421</u>
	<u>Common Stock</u>				<u>Treasury Stock</u>		
	<u>Shares</u>	<u>Amount</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Shares</u>	<u>Amount</u>	<u>Total</u>
Balance, June 25, 2023	25,090	\$ 251	\$ 37,729	\$ 2,439	(10,936)	\$ (30,028)	\$ 10,391
Stock-based compensation expense	—	—	79	—	—	—	79
Net income	—	—	—	386	—	—	386
Balance, September 24, 2023	<u>25,090</u>	<u>\$ 251</u>	<u>\$ 37,808</u>	<u>\$ 2,825</u>	<u>(10,936)</u>	<u>\$ (30,028)</u>	<u>\$ 10,856</u>

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	September 24, 2023	September 25, 2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 386	\$ 307
Adjustments to reconcile net income to cash provided by operating activities:		
Impairment of long-lived assets and other lease charges	—	5
Stock-based compensation expense	79	86
Depreciation and amortization	34	35
Amortization of operating right of use assets	112	108
Amortization of intangible assets definite-lived	21	16
Allowance for bad debts	25	4
Deferred income tax	108	—
Changes in operating assets and liabilities:		
Accounts receivable	48	491
Notes receivable	(48)	5
Deferred contract charges	20	9
Prepaid expenses and other assets	(184)	38
Accounts payable - trade	81	20
Accrued expenses	281	284
Operating lease liabilities	(127)	(120)
Deferred revenues	(208)	(153)
Cash provided by operating activities	628	1,135
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments received on notes receivable	15	30
Purchase of intangible assets definite-lived	(5)	(39)
Purchase of property and equipment	(22)	(14)
Cash used in investing activities	(12)	(23)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchase of treasury stock	—	(1,384)
Payments on short term loan	—	(30)
Cash used in financing activities	—	(1,414)
Net increase/(decrease) in cash and cash equivalents	616	(302)
Cash and cash equivalents, beginning of period	5,328	7,723
Cash and cash equivalents, end of period	<u>\$ 5,944</u>	<u>\$ 7,421</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
CASH (REFUNDED)/PAID FOR:		
Income taxes	<u>\$ (5)</u>	<u>\$ 9</u>

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

RAVE RESTAURANT GROUP, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Rave Restaurant Group, Inc., through its subsidiaries (collectively, the “Company” or “we,” “us” or “our”), franchises pizza buffet (“Buffet Units”), delivery/carry-out (“Delco Units”) and express (“Express Units”) restaurants under the trademark “Pizza Inn” and franchises fast casual pizza restaurants (“Pie Five Units”) under the trademarks “Pie Five Pizza Company” or “Pie Five”. The Company also licenses Pizza Inn Express, or PIE, kiosks (“PIE Units”) under the trademark “Pizza Inn”. We facilitate food, equipment, and supply distribution to our domestic and international system of restaurants through agreements with third party distributors. The accompanying condensed consolidated financial statements of Rave Restaurant Group, Inc. 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 25, 2023.

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.

Note A - Summary of Significant Accounting Policies

Principles of Consolidation

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

Cash and Cash Equivalents

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

Fiscal Quarters

The three month periods ended September 24, 2023 and September 25, 2022 each contained 13 weeks.

Use of Management Estimates

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

Revenue Recognition

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

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

Franchise Revenues

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

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

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

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

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

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

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

Rental Income

The Company subleases some of its restaurant space to third parties. The Company's two subleases have terms that end in 2023 and 2025. The sublease agreements are noncancelable through the end of the term and both parties have substantive rights to terminate the lease when the term is complete. Sublease agreements are not capitalized and are recorded as rental income in the period that rent is received.

Total revenues consist of the following (in thousands):

	Three Months Ended	
	September 24, 2023	September 25, 2022
Franchise royalties	\$ 1,225	\$ 1,214
Supplier and distributor incentive revenues	1,100	1,070
Franchise license fees	101	30
Area development exclusivity fees and foreign master license fees	4	4
Advertising funds contributions	422	466
Supplier convention funds	187	172
Rental income	46	47
Other	4	2
	<u>\$ 3,089</u>	<u>\$ 3,005</u>

Stock-Based Compensation

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

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

Note B - Leases

The Company determines if an arrangement is a lease at inception of the arrangement. To the extent that it can be determined that an arrangement represents a lease, it is classified as either an operating lease or a finance lease. The Company does not currently have any finance leases. The Company capitalizes operating leases on the Condensed Consolidated Balance Sheets through a right of use asset and a corresponding lease liability. Right of use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Short-term leases that have an initial term of one year or less are not capitalized. The Company does not presently have any short-term leases.

Operating lease right of use assets and liabilities are recognized at the commencement date of an arrangement based on the present value of lease payments over the lease term. In addition to the present value of lease payments, the operating lease right of use asset also includes any lease payments made to the lessor prior to lease commencement less any lease incentives and initial direct costs incurred. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term.

Nature of Leases

The Company leases certain office space, restaurant space, and information technology equipment under non-cancelable leases to support its operations. A more detailed description of significant lease types is included below.

Office Agreements

The Company rents office space from third parties for its corporate location. Office agreements are typically structured with non-cancelable terms of one to 10 years. The Company has concluded that its office agreements represent operating leases with a lease term that equals the primary non-cancelable contract term. Upon completion of the primary term, both parties have substantive rights to terminate the lease. As a result, enforceable rights and obligations do not exist under the rental agreement subsequent to the primary term.

Restaurant Space Agreements

The Company rents restaurant space from third parties for its Company-owned restaurants. Restaurant space agreements are typically structured with non-cancelable terms of one to 10 years. The Company has concluded that its restaurant agreements represent operating leases with a lease term that equals the primary non-cancelable contract term. Upon completion of the primary term, both parties have substantive rights to terminate the lease. As a result, enforceable rights and obligations do not exist under the rental agreements subsequent to the primary term.

The Company subleases some of its restaurant space to third parties. The Company's two subleases have terms that end in 2023 and 2025. The sublease agreements are noncancelable through the end of the term and both parties have substantive rights to terminate the lease when the term is complete. Sublease agreements are not capitalized and are recorded as rental income in the period that rent is received.

As of September 24, 2023 and June 25, 2023, the Company had no Company-owned restaurants.

Information Technology Equipment

The Company rents information technology equipment, primarily printers and copiers, from a third party for its corporate office location. Information technology equipment agreements are typically structured with non-cancelable terms of one to five years. The Company has concluded that its information technology equipment commitments are operating leases.

Discount Rate

Leases typically do not provide an implicit interest rate. Accordingly, the Company is required to use its incremental borrowing rate in determining the present value of lease payments based on the information available at the lease commencement date. The Company's incremental borrowing rate reflects the estimated rate of interest that it would pay to borrow on a collateralized basis over a similar term for an amount equal to the lease payments in a similar economic environment. The Company uses the implicit rate in the limited circumstances in which that rate is readily determinable.

Lease Guarantees

The Company has guaranteed the financial responsibilities of certain franchised store leases. These guaranteed leases are not considered operating leases because the Company does not have the right to control the underlying asset. If the franchisee abandons the lease and fails to meet the lease's financial obligations, the lessor may assign the lease to the Company for the remainder of the term. If the Company does not expect to assign the abandoned lease to a new franchisee within 12 months, the lease will be considered an operating lease and a right-of-use asset, and lease liability will be recognized.

Practical Expedients and Accounting Policy Elections

Certain lease agreements include lease and non-lease components. For all existing asset classes with multiple component types, the Company has utilized the practical expedient that exempts it from separating lease components from non-lease components. Accordingly, the Company accounts for the lease and non-lease components in an arrangement as a single lease component.

In addition, for all existing asset classes, the Company has made an accounting policy election not to apply the lease recognition requirements to short-term leases (that is, a lease that, at commencement, have a lease term of 12 months or less and does not include an option to purchase the underlying asset that the Company is reasonably certain to exercise). Accordingly, we recognize lease payments related to our short-term leases in our income statements on a straight-line basis over the lease term which has not changed from our prior recognition. To the extent that there are variable lease payments, we recognize those payments in our income statements in the period in which the obligation for those payments is incurred.

The components of total lease expense for the three months ended September 24, 2023 and September 25, 2022, the majority of which is included in general and administrative expense in the accompanying Condensed Consolidated Statements of Income, are as follows (in thousands):

	<u>Three Months Ended</u> <u>September 24, 2023</u>	<u>Three Months Ended</u> <u>September 25, 2022</u>
Operating lease cost	\$ 123	\$ 124
Sublease income	(47)	(47)
Total lease expense, net of sublease income	<u>\$ 76</u>	<u>\$ 77</u>

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

	<u>September 24, 2023</u>	<u>September 25, 2022</u>
Weighted average remaining lease term	1.8 Years	2.8 Years
Weighted average discount rate	4.0%	4.0%

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

	<u>Operating Leases</u>
2024	\$ 370
2025	433
2026	382
2027	191
Total operating lease payments	<u>\$ 1,376</u>
Less: imputed interest	(82)
Total operating lease liability	<u>\$ 1,294</u>

Note C - Commitments and Contingencies

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

Note D - Stock-Based CompensationStock Options:

For the three months ended September 24, 2023 and September 25, 2022, the Company recognized stock-based compensation expense related to stock options of zero and \$4 thousand, respectively. As of September 24, 2023, there was no unamortized stock-based compensation expense related to stock options.

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

	<u>Three Months Ended</u>	
	<u>September 24,</u> <u>2023</u>	<u>September 25,</u> <u>2022</u>
	<u>Shares</u>	<u>Shares</u>
Outstanding at beginning of year	151,750	111,750
Granted	—	40,000
Exercised	—	—
Forfeited/Canceled/Expired	(8,664)	—
Outstanding at end of period	<u>143,086</u>	<u>151,750</u>
Exercisable at end of period	<u>143,086</u>	<u>111,750</u>

Restricted Stock Units:

For the three months ended September 24, 2023 and September 25, 2022, the Company had stock-based compensation expense related to RSUs of \$79 thousand and \$82 thousand, respectively. As of September 24, 2023, there was \$138 thousand unamortized stock-based compensation expense related to RSUs.

As of September 24, 2023 and September 25, 2022, the RSUs will be amortized during the next one and 13 months, respectively. A summary of the status of restricted stock units as of September 24, 2023, and changes during the three months then ended is presented below:

	Three Months Ended	
	September 24, 2023	September 25, 2022
Unvested at beginning of year	885,687	885,687
Performance Adjustment	(25,223)	—
Granted	—	—
Issued	—	—
Forfeited	—	—
Unvested at end of period	<u>860,464</u>	<u>885,687</u>

Note E - 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	
	September 24, 2023	September 25, 2022
Net income available to common shareholders	\$ 386	\$ 307
BASIC:		
Weighted average common shares	14,154	16,632
Net income per common share	\$ 0.03	\$ 0.02
DILUTED:		
Weighted average common shares	14,154	16,632
Dilutive RSU	589	—
Dilutive stock options	19	—
Weighted average common shares outstanding	14,762	16,632
Net income per common share	\$ 0.03	\$ 0.02

For the three months ended September 24, 2023, exercisable options to purchase 103,086 shares of common stock at exercise prices from \$3.95 to \$13.11 were excluded from the computation of diluted EPS because they had an intrinsic value of zero. For the three months ended September 24, 2023, 90,625 RSUs were excluded from the computation of diluted EPS because performance criteria is not probable at period end.

For the three months ended September 25, 2022, exercisable options to purchase 111,750 shares of common stock at exercise prices ranging from \$3.95 to \$13.11 were excluded from the computation of diluted EPS because they had an intrinsic value of zero. For the three months ended September 25, 2022, zero RSUs were excluded from the computation of diluted EPS.

Note F - Income Taxes

For the three months ended September 24, 2023, the Company recorded an income tax expense of \$132 thousand. For the three months ended September 25, 2022, the Company recorded an income tax expense of \$92 thousand. For the three months ended September 24, 2023, the federal and state tax expense were \$108 thousand and \$24 thousand, respectively. For the three months ended September 25, 2022, the federal and state tax expense were \$82 thousand and \$10 thousand, respectively.

The Company continually reviews the realizability of its deferred tax assets, including an analysis of factors such as future taxable income, reversal of existing taxable temporary differences, and tax planning strategies. In assessing the need for the valuation allowance, the Company considers both positive and negative evidence related to the likelihood of realization of deferred tax assets.

Note G - Segment Reporting

The Company has two reportable operating segments as determined by management using the “management approach” as defined by ASC 280 *Disclosures about Segments of an Enterprise and Related Information*: (1) Pizza Inn Franchising and (2) Pie Five Franchising. These segments are a result of differences in the nature of the products and services sold. Corporate administration costs, which include, but are not limited to, general accounting, human resources, legal and credit and collections, are partially allocated to the three operating segments. Other revenue consists of nonrecurring items.

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

The Company-Owned Restaurants segment includes sales and operating results for all Company-owned restaurants. Assets for this segment include equipment, furniture and fixtures for the Company-owned restaurants. As of September 24, 2023, the Company did not operate any Company-owned restaurants.

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

Summarized in the following tables are net operating revenues, depreciation and amortization expense, and income before taxes for the Company's reportable segments as of the three months ended September 24, 2023 and September 25, 2022 (in thousands):

	Three Months Ended	
	September 24, 2023	September 25, 2022
Net sales and operating revenues:		
Pizza Inn Franchising	\$ 2,604	\$ 2,469
Pie Five Franchising	438	488
Corporate administration and other	47	48
Consolidated revenues	<u>\$ 3,089</u>	<u>\$ 3,005</u>
Depreciation and amortization:		
Corporate administration and other	\$ 55	\$ 51
Depreciation and amortization	<u>\$ 55</u>	<u>\$ 51</u>
Income before taxes:		
Pizza Inn Franchising	\$ 1,661	\$ 1,511
Pie Five Franchising	209	244
Combined	1,870	1,755
Corporate administration and other	(1,352)	(1,356)
Income before taxes	<u>\$ 518</u>	<u>\$ 399</u>
Geographic information (revenues):		
United States	\$ 3,036	\$ 2,929
Foreign countries	53	76
Consolidated revenues	<u>\$ 3,089</u>	<u>\$ 3,005</u>

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 25, 2023 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 25, 2023. 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”), franchises pizza buffet (“Buffet Units”), delivery/carry-out (“Delco Units”) and express (“Express Units”) restaurants under the trademark “Pizza Inn” and franchises fast casual pizza restaurants (“Pie Five Units”) under the trademarks “Pie Five Pizza Company” or “Pie Five”. The Company also licenses Pizza Inn Express, or PIE, kiosks (“PIE Units”) under the trademark “Pizza Inn”. We facilitate food, equipment and supply distribution to our domestic and international system of restaurants through agreements with third party distributors. At September 24, 2023, franchised and licensed units consisted of the following:

Three Months Ended September 24, 2023

(in thousands, except unit data)

	Pizza Inn		Pie Five		All Concepts	
	Ending Units	Retail Sales	Ending Units	Retail Sales	Ending Units	Retail Sales
Domestic Franchised/Licensed	111	\$ 26,030	26	\$ 4,767	137	\$ 30,797
International Franchised	22		—		22	

The domestic units were located in 17 states predominantly situated in the southern half of the United States. The international units were located in seven foreign countries.

Basic net income per share increased \$0.01 per share to \$0.03 per share for the three months ended September 24, 2023, compared to the comparable period in the prior fiscal year. The Company had net income of \$0.4 million for the three months ended September 24, 2023 compared to net income of \$0.3 million in the comparable period in the prior fiscal year, on revenues of \$3.1 million for the three months ended September 24, 2023 compared to \$3.0 million in the comparable period in the prior fiscal year. The increase in revenue was primarily due to increases in default and closed store revenues, franchise royalties, and supplier and distributor incentives.

COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the outbreak of novel coronavirus (COVID-19) as a pandemic, and the disease spread rapidly throughout the United States and the world. Federal, state, and local responses to the COVID-19 pandemic, as well as our internal efforts to protect customers, franchisees, and employees, severely disrupted our business operations. Further, the COVID-19 pandemic precipitated significant job losses and a national economic downturn that impacted the demand for restaurant food service.

Although most of our domestic restaurants continued to operate under these conditions, we have experienced temporary closures from time to time during the pandemic. During much of the COVID-19 pandemic, we experienced dramatically reduced aggregate in-store retail sales at Buffet Units and Pie Five Units, modestly offset by increased aggregate carry-out and delivery sales. The decreased aggregate retail sales correspondingly decreased supplier rebates and franchise royalties payable to the Company.

In most cases, in-store dining has now resumed subject to seating capacity limitations, social distancing protocols, and/or enhanced cleaning and disinfecting practices. As a result, the adverse impacts of the COVID-19 pandemic have diminished in recent periods. Nonetheless, an outbreak or perceived outbreak of COVID-19 connected to restaurant dining could cause negative publicity directed at any of our brands and cause customers to avoid our restaurants. Therefore, despite the official end of the pandemic, the ultimate impact of COVID-19 on our future results of operations and liquidity cannot presently be predicted.

Non-GAAP Financial Measures and Other Terms

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

We consider EBITDA and Adjusted EBITDA to be important supplemental measures of operating performance that are commonly used by securities analysts, investors, and other parties interested in our industry. We believe that EBITDA is helpful to investors in evaluating our results of operations without the impact of expenses affected by financing methods, accounting methods and the tax environment. We believe that Adjusted EBITDA provides additional useful information to investors by excluding non-operational or non-recurring expenses to provide a measure of operating performance that is more comparable from period to period. 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 these meanings 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-based compensation expense, severance, gain/loss on sale of assets, costs related to impairment and other lease charges, franchisee default and closed store revenue/expense, and closed and non-operating store costs.
- "Retail sales" represents the restaurant sales reported by our franchisees and Company-owned restaurants, which may be segmented by brand or domestic/international locations.
- "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) impairment and other lease charges, and (4) 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.
- "Franchisee default and closed store revenue/expense" represents the net of accelerated revenues and costs attributable to defaulted area development agreements and closed franchised stores.

EBITDA and Adjusted EBITDA

Adjusted EBITDA for the fiscal quarter ended September 24, 2023 increased \$0.1 million compared to the same period of the prior fiscal year. The following table sets forth a reconciliation of net income to EBITDA and Adjusted EBITDA for the periods shown (in thousands):

RAVE RESTAURANT GROUP, INC.
ADJUSTED EBITDA
(In thousands)

	Three Months Ended	
	September 24, 2023	September 25, 2022
Net income	\$ 386	\$ 307
Interest expense	—	1
Income taxes	132	92
Depreciation and amortization	55	51
EBITDA	\$ 573	\$ 451
Stock-based compensation expense	79	86
Impairment of long-lived assets and other lease charges	—	5
Franchisee default and closed store revenue	(64)	—
Adjusted EBITDA	\$ 588	\$ 542

Pizza Inn Brand Summary

The following tables summarize certain key indicators for the Pizza Inn franchised and licensed domestic units that management believes are useful in evaluating performance:

	Three Months Ended	
	September 24, 2023	September 25, 2022
(in thousands, except unit data)		
Pizza Inn Retail Sales - Total Domestic Units		
Domestic Units		
Buffet Units - Franchised	\$ 25,011	\$ 22,441
Delco/Express Units - Franchised	999	1,482
PIE Units - Licensed	20	56
Total Domestic Retail Sales	\$ 26,030	\$ 23,979
Pizza Inn Comparable Store Retail Sales - Total Domestic	24,596	23,028
Pizza Inn Average Units Open in Period		
Domestic Units		
Buffet Units - Franchised	75	72
Delco/Express Units - Franchised	37	47
PIE Units - Licensed	4	9
Total Domestic Units	116	128

Pizza Inn total domestic retail sales increased by \$2.1 million, or 8.6%, for the three months ended September 24, 2023 when compared to the same period of the prior year. The increase in domestic retail sales was primarily the result of increased buffet units versus the year ago period and increased customer engagement. Pizza Inn domestic comparable store retail sales increased by \$1.6 million, or 6.8%, due to increased customer engagement.

The following chart summarizes Pizza Inn restaurant activity for the three months ended September 24, 2023:

	Three Months Ended September 24, 2023				
	Beginning Units	Opened	Concept Change	Closed	Ending Units
Domestic Units:					
Buffet Units - Franchised	77	—	—	3	74
Delco/Express Units - Franchised	41	—	—	8	33
PIE Units - Licensed	5	—	—	1	4
Total Domestic Units	123	—	—	12	111
International Units (all types)	34	—	—	12	22
Total Units	157	—	—	24	133

The domestic Pizza Inn units decreased by 12 units during the three months ended September 24, 2023. For the three months ended September 24, 2023, the number of international Pizza Inn units decreased by 12 units due to the termination of the Company's master licensee in Saudi Arabia. The Company believes the number of both domestic and international Pizza Inn units will increase modestly in future periods.

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	
	September 24, 2023	September 25, 2022
(in thousands, except unit data)		
Pie Five Retail Sales - Total Units		
Total Domestic Retail Sales	\$ 4,767	\$ 5,243
Pie Five Comparable Store Retail Sales - Total	\$ 4,717	\$ 4,660
Pie Five Average Units Open in Period		
Total Domestic Units	27	31

Pie Five domestic total retail sales decreased \$0.5 million, or 9.1%, for the three months ended September 24, 2023 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 decreased from 31 to 27. Comparable store retail sales increased \$0.1 million, or 1.2%, during the first quarter of fiscal 2024 compared to the same period of the prior year. For the three months ended September 24, 2023, the decline in domestic retail sales is due to decreased domestic units. For the three months ended September 24, 2023, the increase in domestic comparable store retail sales is due to increased customer engagement.

The following chart summarizes Pie Five restaurant activity for the three months ended September 24, 2023:

	Three Months Ended September 24, 2023				
	Beginning Units	Opened	Transfer	Closed	Ending Units
Total Domestic Units	27	—	—	1	26

The Pie Five units decreased by one unit during the three months ended September 24, 2023. We believe that Pie Five units will decrease modestly in future periods.

Financial Results

The Company defines its operating segments as Pizza Inn Franchising, Pie Five Franchising and Company-Owned Restaurants. The following is additional business segment information for the three months ended September 24, 2023 and September 25, 2022 (in thousands):

	Pizza Inn Franchising		Pie Five Franchising		Company-Owned Restaurants		Corporate		Total	
	Fiscal Quarter Ended September 24, 2023	September 25, 2022	Fiscal Quarter Ended September 24, 2023	September 25, 2022	Fiscal Quarter Ended September 24, 2023	September 25, 2022	Fiscal Quarter Ended September 24, 2023	September 25, 2022	Fiscal Quarter Ended September 24, 2023	September 25, 2022
REVENUES:										
Franchise and license revenues	\$ 2,604	\$ 2,469	\$ 435	\$ 488	\$ —	\$ —	\$ —	\$ —	\$ 3,039	\$ 2,957
Rental income	—	—	—	—	—	—	47	47	47	47
Interest income and other	—	—	3	—	—	—	—	1	3	1
Total revenues	2,604	2,469	438	488	—	—	47	48	3,089	3,005
COSTS AND EXPENSES:										
General and administrative expenses	—	—	—	—	—	—	1,319	1,343	1,319	1,343
Franchise expenses	943	958	229	244	—	—	—	—	1,172	1,202
Impairment of long-lived assets and other lease charges	—	—	—	—	—	—	—	5	—	5
Bad debt expense	—	—	—	—	—	—	25	4	25	4
Interest expense	—	—	—	—	—	—	—	1	—	1
Depreciation and amortization expense	—	—	—	—	—	—	55	51	55	51
Total costs and expenses	943	958	229	244	—	—	1,399	1,404	2,571	2,606
INCOME/(LOSS) BEFORE TAXES										
	<u>\$ 1,661</u>	<u>\$ 1,511</u>	<u>\$ 209</u>	<u>\$ 244</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (1,352)</u>	<u>\$ (1,356)</u>	<u>\$ 518</u>	<u>\$ 399</u>

Revenues:

Revenues are derived from franchise royalties, franchise fees and supplier and distributor incentives, advertising funds, area development exclusivity fees and foreign master license fees, supplier convention funds, sublease rental income, interest and other income, and sales by Company-owned restaurants. The volume of supplier incentive revenues is dependent on the level of chain-wide retail sales, which are impacted by changes in comparable store sales and restaurant count, as well as the products sold to franchisees through third-party food distributors. Total revenues for the three month period ended September 24, 2023 and for the same period in the prior fiscal year were \$3.1 million and \$3.0 million, respectively.

Pizza Inn Franchise and License

Pizza Inn franchise revenues increased by \$0.1 million to \$2.6 million for the three month period ended September 24, 2023 as compared to the same period in the prior fiscal year. The 5.5% increase was driven by increases in supplier incentives, domestic royalties and advertising fund revenues.

Pie Five Franchise and License

Pie Five franchise revenues decreased by \$0.1 million to \$0.4 million for the three month period ended September 24, 2023 as compared to the same period in the prior fiscal year. The 10.2% decrease was driven by decreases in supplier incentives, domestic royalties and advertising fund revenues.

General and Administrative Expenses

Total general and administrative expenses remained relatively stable at \$1.3 million for the three month period ended September 24, 2023 as compared to the same period of the prior fiscal year. The 1.8% decrease in total general and administrative expenses during the three month period was primarily the result of decreased corporate expenses.

Franchise Expenses

Franchise expenses include general and administrative expenses directly related to the sale and continuing service of domestic and international franchises. Total franchise expenses remained relatively stable at \$1.2 million for the three month period ended September 24, 2023 as compared to the same period of the prior fiscal year. The 2.5% decrease was primarily due to a decrease in advertising and recruiting fees.

Impairment of Long-lived Assets and Other Lease Charges

Impairment of long-lived assets and other lease charges were zero for the three months ended September 24, 2023 compared to \$5 thousand for the same fiscal period of the prior year. The decrease was primarily due to impaired beverage equipment in the prior period.

Bad Debt Expense

The Company monitors franchisee receivable balances and adjusts credit terms when necessary to minimize the Company's exposure to high risk accounts receivable. For the three month period ended September 24, 2023, bad debt expense was \$25 thousand compared to the bad debt expense of \$4 thousand for the same period in the prior fiscal year due to international receivables.

Interest Expense

Interest expense was zero for the three months ended September 24, 2023 compared to \$1 thousand for the same fiscal period of the prior year.

Amortization and Depreciation Expense

Amortization and depreciation expense increased \$4 thousand to \$55 thousand for the three months ended September 24, 2023, compared to \$51 thousand in the same periods of the prior year. The increase was primarily the result of higher amortization of intangible assets.

Provision for Income Taxes

For the three months ended September 24, 2023 and September 25, 2022, the Company recorded an income tax expense of \$132 thousand and \$92 thousand, respectively, both of which are mostly attributable to current federal taxes. The change is due to increased income before taxes.

The Company continually reviews the realizability of its deferred tax assets, including an analysis of factors such as future taxable income, reversal of existing taxable temporary differences, and tax planning strategies. In assessing the need for the valuation allowance, the Company considers both positive and negative evidence related to the likelihood of realization of deferred tax assets.

Liquidity and Capital Resources

During the three month period ended September 24, 2023, the Company's primary source of liquidity was proceeds from operating activities.

Cash flows from operating activities generally reflect net income adjusted for certain non-cash items including depreciation and amortization, changes in deferred taxes, share based compensation, and changes in working capital. Cash provided by operating activities was \$0.7 million for the three month period ended September 24, 2023 compared to cash provided by operating activities of \$1.1 million for the three month period ended September 25, 2022. The primary driver of decreased operating cash flow during the three month period ended September 24, 2023 was decreased collections of accounts receivable related to the employee retention credit.

Cash flows from investing activities reflect net proceeds from the sale of assets and capital expenditures for the purchase of Company assets. Cash used in investing activities during the three month period ended September 24, 2023 was \$12 thousand compared to cash used in investing activities of \$23 thousand for the three months ended September 25, 2022.

Cash flows used in financing activities generally reflect changes in the Company's stock and debt activity during the period. Net cash used by financing activities was zero for the three month period ended September 24, 2023 compared to net cash used by financing activities of \$1.4 million for the three month period ended September 25, 2022. Net cash used by financing activities for the three months ended September 25, 2022 was primarily attributable to repurchases of the Company's common stock.

Management believes the cash on hand combined with net cash provided by operations will be sufficient to fund operations for the next 12 months and beyond.

Employee Retention Credit

On December 27, 2020, the Consolidated Appropriations Act of 2021 (the "CAA") was signed into law. The CAA expanded eligibility for an employee retention credit for companies impacted by the COVID-19 pandemic with fewer than five hundred employees and at least a twenty percent decline in gross receipts compared to the same quarter in 2019, to encourage retention of employees. This payroll tax credit was a refundable tax credit against certain federal employment taxes. For the fiscal year ended June 26, 2022, the Company recorded \$0.7 million of other income for the employee retention credit, \$0.6 million of which was collected in the first quarter of fiscal 2023.

Critical Accounting Policies and Estimates

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

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

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

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

Franchise revenue consists of income from license fees, royalties, area development and foreign master license agreements, advertising fund revenues, supplier incentive and convention contribution revenues. Franchise fees, area development and foreign master license agreement fees are amortized into revenue on a straight-line basis over the term of the related contract agreement. Royalties and advertising fund revenues, which are based on a percentage of franchise retail sales, are recognized as income as retail sales occur. Supplier incentive revenues are recognized as earned, typically as the underlying commodities are shipped.

The Company continually reviews the realizability of its deferred tax assets, including an analysis of factors such as future taxable income, reversal of existing taxable temporary differences, and tax planning strategies. The Company assesses whether a valuation allowance should be established against its deferred tax assets based on consideration of all available evidence, using a “more likely than not” standard. In assessing the need for the 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 operating performance.

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 September 24, 2023 and September 25, 2022, 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 various claims and contingencies related to employment agreements, franchise disputes, lawsuits, taxes, food product purchase contracts and other matters arising out of the normal course of business. Management believes that any such claims and actions currently pending are either covered by insurance or would not have a material adverse effect on the Company's annual results of operations or financial condition if decided in a manner that is unfavorable to the Company.

Item 1A. Risk Factors

Not required for a smaller reporting company.

Item 2. Unregistered Sales of Equity Securities, Use of Proceeds, and Issuer Purchases of Equity Securities

On May 23, 2007, the Company's board of directors approved a stock purchase plan (the "2007 Stock Purchase Plan") authorizing the purchase on our behalf of up to 1,016,000 shares of our common stock in the open market or in privately negotiated transactions. On June 2, 2008, the Company's board of directors amended the 2007 Stock Purchase Plan to increase the number of shares of common stock the Company may repurchase by 1,000,000 shares to a total of 2,016,000 shares. On April 22, 2009, the Company's board of directors amended the 2007 Stock Purchase Plan again to increase the number of shares of common stock the Company may repurchase by 1,000,000 shares to a total of 3,016,000 shares. On June 28, 2022, the Company's board of directors amended the 2007 Stock Purchase Plan again to increase the number of shares of common stock the Company may repurchase by 5,000,000 shares to a total of 8,016,000 shares. During the three months ended September 24, 2023, the Company repurchased zero outstanding shares of its common stock leaving 1,997,974 shares that may yet be repurchased under the 2007 Stock Purchase Plan.

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 SEC. Subsequent to September 24, 2023, 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 the Company's 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

None.

Item 6. Exhibits

1. The financial statements filed as part of this report are listed in the Index to Consolidated Financial Statements and Supplementary Data appearing on page F-1 of this report on Form 10-K.
2. Any financial statement schedule filed as part of this report is listed in the Index to Consolidated Financial Statements and Supplementary Data appearing on page F-1 of this report on Form 10-K.
3. Exhibits:

[3.1](#) Amended and Restated Articles of Incorporation of Rave Restaurant Group, Inc. (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 Bylaws 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](#) Description of Registrant's Securities. (filed as Exhibit 4.4 to Form 10-K for the fiscal year ended June 27, 2021 and incorporated herein by reference).

[10.1](#) 2015 Long Term Incentive Plan of the Company (filed as Exhibit 10.1 to Form 8-K filed November 20, 2014 and incorporated herein by reference).*

[10.2](#) Form of Stock Option Grant Agreement under the Company's 2015 Long Term Incentive Plan (filed as Exhibit 10.2 to Form 8-K filed November 20, 2014 and incorporated herein by reference).*

[10.3](#) Form of Restricted Stock Unit Award Agreement under the Company's 2015 Long-Term Incentive Plan (filed as Exhibit 10.1 to Form 10-Q for the fiscal quarter ended December 27, 2015 and incorporated herein by reference).*

[10.4](#) Lease Agreement dated November 1, 2016, between A&H Properties Partnership and Rave Restaurant Group, Inc. (filed as Exhibit 10.4 to Form 10-K for the year ended June 30, 2019 and incorporated herein by reference).*

[10.5](#) First Amendment to Lease and Expansion dated July 1, 2017, between A&H Properties Partnership and Rave Restaurant Group, Inc. (filed as Exhibit 10.5 to Form 10-K for the year ended June 30, 2019 and incorporated herein by reference).*

[10.6](#) Second Amendment to Lease Agreement effective June 1, 2020, between A&H Properties Partnership and Rave Restaurant Group, Inc. (filed as Exhibit 10.6 to Form 10-K for the fiscal year ended June 27, 2021 and incorporated herein by reference).

[10.7](#) Letter agreement dated October 18, 2019, between Rave Restaurant Group, Inc. and Brandon Solano (filed as Exhibit 10.1 to Form 8-K filed October 21, 2019 and incorporated herein by reference).*

[10.8](#) Letter agreement dated November 4, 2019, between Rave Restaurant Group, Inc. and Mike Burns (filed as Exhibit 10.1 to Form 8-K filed November 15, 2019 and incorporated herein by reference).*

[10.9](#) Letter agreement dated June 16, 2021, between Rave Restaurant Group, Inc. and Clinton Fendley (filed as Exhibit 10.1 to Form 8-K filed June 17, 2021 and incorporated herein by reference).*

[31.1](#) Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer.

[31.2](#) Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer.

[32.1](#) Section 1350 Certification of Principal Executive Officer.

[32.2](#) Section 1350 Certification of Principal Financial Officer.

101 Interactive data files pursuant to Rule 405 of Regulation S-T.

*Management contract or compensatory plan or agreement.

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/ Brandon L. Solano
Brandon L. Solano
Chief Executive Officer
(principal executive officer)

By: /s/ Clinton D. Fendley
Clinton D. Fendley
Chief Financial Officer
(principal financial officer)

Dated: November 2, 2023

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

I, Brandon L. Solano, 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: November 2, 2023

By: /s/ Brandon L. Solano
Brandon L. Solano
Chief Executive Officer
(principal executive officer)

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

I, Clinton D. Fendley, 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: November 2, 2023

By: /s/ Clinton D. Fendley
Clinton D. Fendley
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 September 24, 2023 (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: November 2, 2023

By: /s/ Brandon L. Solano
Brandon L. Solano
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 September 24, 2023 (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: November 2, 2023

By: /s/ Clinton D. Fendley

Clinton D. Fendley
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.
