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 December 25, 2022 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	**45-3189287**
(State or other jurisdiction of incorporation or organization)	**(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:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
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 January 23, 2023, 14,154,453 shares of the issuer's common stock were outstanding.

RAVE RESTAURANT GROUP, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended		Six Months Ended	
	December 25, 2022	**December 26, 2021**	**December 25, 2022**	**December 26, 2021**
REVENUES:	$ 2,866	$ 2,696	$ 5,871	$ 5,249
COSTS AND EXPENSES:				
General and administrative expenses	1,453	1,377	2,796	2,583
Franchise expenses	867	784	2,069	1,770
Impairment of long-lived assets and other lease charges	—	—	5	—
Bad debt expense	5	3	9	8
Interest expense	—	23	1	47
Depreciation and amortization expense	53	48	104	92
Total costs and expenses	2,378	2,235	4,984	4,500
INCOME BEFORE TAXES	488	461	887	749
Income tax expense	(140)	(4)	(232)	(7)
NET INCOME	$ 348	$ 457	$ 655	$ 742
INCOME PER SHARE OF COMMON STOCK - BASIC:	$ 0.02	$ 0.03	$ 0.04	$ 0.04
INCOME PER SHARE OF COMMON STOCK - DILUTED:	$ 0.02	$ 0.02	$ 0.04	$ 0.04
Weighted average common shares outstanding - basic	16,351	18,005	16,491	18,005
Weighted average common and potential dilutive common shares outstanding	16,351	18,803	16,491	18,803

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	December 25, 2022	June 26, 2022
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 3,429	$ 7,723
Accounts receivable, less allowance for bad debts of $32 and $27, respectively	1,276	1,981
Notes receivable, current	167	172
Property held for sale	9	—
Deferred contract charges, current	34	36
Prepaid expenses and other current assets	105	146
Total current assets	5,020	10,058
LONG-TERM ASSETS		
Property, plant and equipment, net	304	365
Operating lease right of use asset, net	1,447	1,664
Intangible assets definite-lived, net	312	232
Notes receivable, net of current portion	132	201
Deferred tax asset, net	5,590	5,772
Deferred contract charges, net of current portion	224	224
Total assets	$ 13,029	$ 18,516
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable - trade	$ 578	$ 669
Accrued expenses	487	1,082
Other current liabilities	1	81
Operating lease liability, current	498	490
Short term loan	—	30
Deferred revenues, current	292	538
Total current liabilities	1,856	2,890
LONG-TERM LIABILITIES		
Operating lease liability, net of current portion	1,172	1,421
Deferred revenues, net of current portion	740	793
Total liabilities	3,768	5,104
COMMITMENTS AND CONTINGENCIES (SEE NOTE D)		
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 17,511,430 shares, respectively	251	251
Additional paid-in capital	37,557	37,384
Retained earnings	1,481	826
Treasury stock at cost		
Shares in treasury: 10,935,605 and 7,578,628 respectively	(30,028)	(25,049)
Total shareholders' equity	9,261	13,412
Total liabilities and shareholders' equity	$ 13,029	$ 18,516

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Treasury Stock		Total
	Shares	Amount			Shares	Amount	
Balance, June 27, 2021	**25,090**	**$ 251**	**$ 37,215**	**$ (7,196)**	**(7,085)**	**$ (24,537)**	**$ 5,733**
Stock-based compensation expense	—	—	42	—	—	—	42
Net income	—	—	—	285	—	—	285
Balance, September 26, 2021	**25,090**	**$ 251**	**$ 37,257**	**$ (6,911)**	**(7,085)**	**$ (24,537)**	**$ 6,060**
Stock-based compensation expense	—	—	43	—	—	—	43
Net income	—	—	—	457	—	—	457
Balance, December 26, 2021	**25,090**	**$ 251**	**$ 37,300**	**$ (6,454)**	**(7,085)**	**$ (24,537)**	**$ 6,560**

	Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock		Total
	Shares	Amount			Shares	Amount	
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	**25,090**	**$ 251**	**$ 37,470**	**$ 1,133**	**(8,690)**	**$ (26,433)**	**$ 12,421**
Stock-based compensation expense	—	—	87	—	—	—	87
Purchase of treasury stock	—	—	—	—	(2,246)	(3,595)	(3,595)
Net income	—	—	—	348	—	—	348
Balance, December 25, 2022	**25,090**	**$ 251**	**$ 37,557**	**$ 1,481**	**(10,936)**	**$ (30,028)**	**$ 9,261**

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, 2022	**December 26, 2021**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 655	$ 742
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	173	85
Depreciation and amortization	70	72
Amortization of operating right of use assets	217	209
Amortization of intangible assets definite-lived	34	20
Amortization of debt issue costs	—	14
Allowance for bad debts	9	8
Deferred income tax	182	—
Changes in operating assets and liabilities:		
Accounts receivable	696	(74)
Notes receivable	14	46
Deferred contract charges	2	(12)
Prepaid expenses and other	41	110
Accounts payable - trade	(91)	(43)
Accrued expenses	(675)	(394)
Operating lease liability	(241)	(230)
Deferred revenues	(299)	(539)
Cash provided by operating activities	792	14
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments received on notes receivable	60	94
Purchase of intangible assets definite-lived	(114)	(34)
Purchase of property, plant and equipment	(23)	(12)
Cash (used in)/provided by investing activities	(77)	48
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchase of treasury stock	(4,979)	—
Payments on short term loan	(30)	(160)
Cash (used in) financing activities	(5,009)	(160)
Net (decrease) in cash and cash equivalents	(4,294)	(98)
Cash and cash equivalents, beginning of period	7,723	8,330
Cash and cash equivalents, end of period	$ 3,429	$ 8,232
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
CASH PAID FOR:		
Income taxes	$ 91	$ 8

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 26, 2022.

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 and six month periods ended December 25, 2022 and December 26, 2021 each contained 13 weeks and 26 weeks, respectively.

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 can 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. Area development exclusivity fees that include rights to sub-franchise are amortized as revenue over the term of the contract.

Advertising fund contributions for Pie Five and Pizza Inn 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.

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	
	December 25, 2022	December 26, 2021
Franchise royalties	$ 1,171	$ 1,095
Supplier and distributor incentive revenues	1,145	1,129
Franchise license fees	40	39
Area development exclusivity fees and foreign master license fees	5	5
Advertising funds contributions	453	367
Rental income	46	47
Other	6	14
	$ 2,866	$ 2,696

	Six Months Ended	
	December 25, 2022	December 26, 2021
Franchise royalties	$ 2,385	$ 2,178
Supplier and distributor incentive revenues	2,215	1,995
Franchise license fees	70	70
Area development exclusivity fees and foreign master license fees	9	9
Advertising funds contributions	919	744
Supplier convention funds	172	142
Rental income	93	93
Other	8	18
	$ 5,871	$ 5,249

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 ten 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 December 25, 2022, 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, leases that, at commencement, have a lease term of 12 months or less and do not include an option to purchase the underlying asset that the Company is reasonably certain to exercise). Accordingly, we recognize lease payments related to short-term leases in our income statements on a straight-line basis over the lease term. To the extent that there are variable lease payments, we recognize those payments in our Condensed Consolidated Statements of Income the period in which the obligation for those payments is incurred.

The components of total lease expense for the six months ended December 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):

	Six Months Ended December 25, 2022
Operating lease cost	$ 248
Rental income	(93)
Total lease expense, net of sublease income	$ 155

Supplemental cash flow information related to operating leases is included in the table below (in thousands):

	Six Months Ended December 25, 2022
Cash paid for amounts included in the measurement of lease liabilities	$ 276

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

	December 25, 2022
Weighted average remaining lease term	2.6 Years
Weighted average discount rate	4.0%

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

	Operating Leases
2023	$ 281
2024	511
2025	433
2026	382
Thereafter	191
Total operating lease payments	$ 1,798
Less: imputed interest	(128)
Total operating lease liability	$ 1,670

Note C - Stock Purchase Plan

On May 23, 2007, the Company's board of directors approved a stock purchase plan (the "2007 Stock Purchase Plan") authorizing the purchase on our behalf of up to 1,016,000 shares of our common stock in the open market or in privately negotiated transactions. On June 2, 2008, the Company's board of directors amended the 2007 Stock Purchase Plan to increase the number of shares of common stock the Company may repurchase by 1,000,000 shares to a total of 2,016,000 shares. On April 22, 2009, the Company's board of directors amended the 2007 Stock Purchase Plan again to increase the number of shares of common stock the Company may repurchase by 1,000,000 shares to a total of 3,016,000 shares. 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. The 2007 Stock Purchase Plan does not have an expiration date.

The following table furnishes information for purchases made pursuant to the 2007 Stock Purchase Plan during fiscal 2023:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number of Shares that May Yet Be Purchased Under the Plan
June 27, 2022 - July 31, 2022	891,350	$ 1.20	3,552,399	4,463,601
August 1, 2022 - August 28, 2022	219,541	1.35	3,771,940	4,244,060
August 29, 2022 - September 25, 2022	0	0	3,771,940	4,244,060
September 26, 2022 - October 30, 2022	0	0	3,771,940	4,244,060
October 31, 2022 - November 27, 2022	0	0	3,771,940	4,244,060
November 28, 2022 - December 25, 2022	2,246,086	1.60	6,018,026	1,997,974
Total	3,356,977	$ 1.48		

The Company's ability to purchase shares of our common stock is subject to various laws, regulations and policies as well as the rules and regulations of the Securities and Exchange Commission (the "SEC"). The Company may also purchase shares of our common stock other than pursuant to the 2007 Stock Purchase Plan or other publicly announced plans or programs.

On December 21, 2022, the Company entered into a Stock Purchase Agreement with Hallmark Financial Services, Inc. ("Hallmark") pursuant to which the Company purchased from certain direct or indirect subsidiaries of Hallmark an aggregate of 2,246,086 shares of the Company's common stock at a price of $1.60 per share, resulting in an aggregate purchase price of $3,593,738. The price per share represented the average closing price of the Company's common stock on the Nasdaq Capital Market for the preceding 15 trading days. The transaction was approved by the Audit Committee of the Company, which consists of all of the independent directors of the Company. The Chairman of the Company, Mark E. Schwarz, who is also the Executive Chairman and Chief Executive Officer of Hallmark, recused himself from all deliberations with respect to the Stock Purchase Agreement with Hallmark.

Note D - Commitments and Contingencies

On January 6, 2020, the Company's former Chief Executive Officer, Scott Crane, filed suit in the U.S. District Court for the Eastern District of Texas alleging various claims in connection with the Company's termination of his employment in July 2019. In general, the suit asserted that the Company terminated Mr. Crane for the purpose of depriving him of certain equity compensation that would otherwise have become due to him on October 15, 2019. The case proceeded to a jury trial, which resulted in a verdict in favor of Crane on his breach of contract claim. On February 9, 2022, the Court entered a $1.9 million judgment against the Company inclusive of attorney fees, court costs and pre-judgment interest. The Company has filed an appeal of the judgment to the Fifth Circuit Court of Appeals.

The Company is subject to other 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.

Note E - Stock-Based Compensation

Stock Options:

For the three and six months ended December 25, 2022, the Company recognized stock-based compensation expense related to stock options of $4 thousand and $8 thousand, respectively. For the three and six months ended December 26, 2021, the Company recognized stock-based compensation expense related to stock options of zero and zero, respectively. As of December 25, 2022, there was $8 thousand 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:

	Six Months Ended	
	December 25, 2022	**December 26, 2021**
	Shares	Shares
Outstanding at beginning of year	111,750	166,750
Granted	40,000	—
Exercised	—	—
Forfeited/Canceled/Expired	—	—
Outstanding at end of period	151,750	166,750
Exercisable at end of period	111,750	166,750

Restricted Stock Units:

For the three and six months ended December 25, 2022, the Company had stock-based compensation expense of $82 thousand and $165 thousand, respectively, related to RSUs. For the three and six months ended December 26, 2021, the Company had stock-based compensation expense of $42 thousand and $85 thousand, respectively, related to RSUs. As of December 25, 2022, there was $412 thousand unamortized stock-based compensation expense related to RSUs.

A summary of the status of restricted stock units as of December 25, 2022, and changes during the six months then ended is presented below:

Unvested at June 26, 2022	885,688
Granted	—
Issued	—
Forfeited	—
Unvested at December 25, 2022	885,688

Note F - 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		Six Months Ended	
	December 25, 2022	December 26, 2021	December 25, 2022	December 26, 2021
Net income available to common stockholders	$ 348	$ 457	$ 655	$ 742
BASIC:				
Weighted average common shares	16,351	18,005	16,491	18,005
Net income per common share	$ 0.02	$ 0.03	$ 0.04	$ 0.04
DILUTED:				
Weighted average common shares	16,351	18,005	16,491	18,005
Convertible notes	—	798	—	798
Dilutive stock options	—	—	—	—
Weighted average common shares outstanding	16,351	18,803	16,491	18,803
Net income per common share	$ 0.02	$ 0.02	$ 0.04	$ 0.04

For the three and six months ended December 25, 2022, exercisable options to purchase 111,750 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 and six months ended December 26, 2021, exercisable options to purchase 166,750 shares of common stock at exercise prices ranging from $3.11 to $13.11 were excluded from the computation of diluted EPS because they had an intrinsic value of zero.

Note G - Income Taxes

For the three and six months ended December 25, 2022, the Company recorded an income tax expense of $140 thousand and $232 thousand, respectively. For the three and six months ended December 26, 2021, the Company recorded an income tax expense of $4 thousand and $7 thousand, respectively. For the three months ended December 25, 2022, the federal and state tax expense were $100 thousand and $40 thousand, respectively. For the six months ended December 25, 2022, the federal and state tax expense were $182 thousand and $50 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 H - Segment Reporting

The Company has three 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, (2) Pie Five Franchising and (3) Company-Owned Restaurants. These segments are a result of differences in the nature of the products and services sold. Corporate administration costs, which include, but are not limited to, general accounting, human resources, legal and credit and collections, are partially allocated to the three operating segments. Other revenue consists of nonrecurring items.

The Pizza Inn and Pie Five Franchising segments establish franchisees, licensees and territorial rights. Revenue for these segments are derived from franchise royalties, franchise fees, sale of area development and foreign master license rights, incentive payments from third party suppliers and distributors, advertising funds, and supplier convention funds. 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 December 25, 2022, 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 sales and operating revenues, depreciation and amortization expense, income from continuing operations before taxes, capital expenditures and assets for the Company's reportable segments as of the three and six months ended December 25, 2022 and December 26, 2021 (in thousands):

	Three Months Ended		Six Months Ended	
	December 25, 2022	December 26, 2021	December 25, 2022	December 26, 2021
Net sales and operating revenues:				
Pizza Inn Franchising	$ 2,351	$ 2,154	$ 4,820	$ 4,188
Pie Five Franchising	470	496	958	968
Company-Owned Restaurants	—	—	—	—
Corporate administration and other	45	46	93	93
Consolidated revenues	$ 2,866	$ 2,696	$ 5,871	$ 5,249
Depreciation and amortization:				
Corporate administration and other	$ 53	$ 48	$ 104	$ 92
Depreciation and amortization	$ 53	$ 48	$ 104	$ 92
Income before taxes:				
Pizza Inn Franchising	$ 1,695	$ 1,583	$ 3,206	$ 2,858
Pie Five Franchising	259	283	503	528
Company-Owned Restaurants	—	(1)	—	(2)
Combined	1,954	1,865	3,709	3,384
Corporate administration and other	(1,466)	(1,404)	(2,822)	(2,635)
Income before taxes	$ 488	$ 461	$ 887	$ 749
Geographic information (revenues):				
United States	$ 2,799	$ 2,620	$ 5,728	$ 5,096
Foreign countries	67	76	143	153
Consolidated revenues	$ 2,866	$ 2,696	$ 5,871	$ 5,249

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, 2022 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, 2022. 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 December 25, 2022, franchised and licensed units consisted of the following:

Three Months Ended December 25, 2022
(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	125	$ 23,633	31	$ 4,853	156	$ 28,486
International Franchised	33		—		33	

Six Months Ended December 25, 2022
(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	125	$ 47,612	31	$ 10,100	156	$ 57,712
International Franchised	33		—		33	

The domestic units were located in 18 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 decreased $0.01 per share to $0.02 per share for the three months ended December 25, 2022, compared to the comparable period in the prior fiscal year. The Company had net income of $0.3 million for the three months ended December 25, 2022 compared to net income of $0.5 million in the comparable period in the prior fiscal year, on revenues of $2.9 million for the three months ended December 25, 2022 compared to $2.7 million in the comparable period in the prior fiscal year. The increase in revenue was primarily due to increases in franchise royalties, supplier and distributer incentives, and advertising fund contributions. The $0.1 million decrease in net income for the three months ended December 25, 2022, compared to the comparable period of the prior year was primarily the result of a $0.1 million increase in income tax expense.

Basic net income per share of $0.04 per share was unchanged for the six months ended December 25, 2022, compared to the comparable period in the prior fiscal year. The Company had net income of $0.7 million for the six months ended December 25, 2022 compared to net income of $0.7 million in the comparable period in the prior fiscal year, on revenues of $5.9 million for the six months ended December 25, 2022 compared to $5.3 million in the comparable period in the prior fiscal year. The increase in revenue was primarily due to increases in franchise royalties, supplier and distribution incentives, and advertising fund contributions. The $0.1 million decrease in net income for the six months ended December 25, 2022 compared to the comparable period of the prior year was primarily the result of the $0.6 million increase in revenues partially offset by a $0.5 million increase in expenses and a $0.2 million increase in income tax expense.

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. We cannot predict how long the pandemic will continue or whether it will recur, what additional restrictions may be enacted, if individuals will be comfortable frequenting our Buffet Units and Pie Five Units, or to what extent off-premises will continue. Any of these changes could materially adversely affect the Company's future financial performance. However, 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.
- "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.
- "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 December 25, 2022 increased $0.1 million compared to the same period of the prior fiscal year. Year-to-date Adjusted EBITDA increased $0.2 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		Six Months Ended	
	December 25, 2022	December 26, 2021	December 25, 2022	December 26, 2021
Net income	$ 348	$ 457	$ 655	$ 742
Interest expense	—	23	1	47
Income taxes	140	4	232	7
Depreciation and amortization	53	48	104	92
EBITDA	$ 541	$ 532	$ 992	$ 888
Stock-based compensation expense	87	43	173	85
Severance	—	—	—	33
Impairment of long-lived assets and other lease charges	—	—	5	—
Franchisee default and closed store revenue	(13)	(11)	(13)	(12)
Closed and non-operating store costs	—	1	—	2
Adjusted EBITDA	$ 615	$ 565	$ 1,157	$ 996

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		Six Months Ended	
	December 25, 2022	December 26, 2021	December 25, 2022	December 26, 2021
Pizza Inn Retail Sales - Total Domestic Units	(in thousands, except unit data)		(in thousands, except unit data)	
Domestic Units				
Buffet Units - Franchised	$ 22,223	$ 19,433	$ 44,664	$ 38,078
Delco/Express Units - Franchised	1,342	1,524	2,824	3,166
PIE Units - Licensed	68	58	124	118
Total Domestic Retail Sales	$ 23,633	$ 21,015	$ 47,612	$ 41,362
Pizza Inn Comparable Store Retail Sales - Total Domestic	$ 22,531	$ $ 20,783	$ 45,042	$ 40,799
Pizza Inn Average Units Open in Period				
Domestic Units				
Buffet Units - Franchised	72	70	73	71
Delco/Express Units - Franchised	46	49	46	51
PIE Units - Licensed	8	9	9	10
Total Domestic Units	126	128	128	132

Pizza Inn total domestic retail sales increased by $2.6 million, or 12.5%, for the three months ended December 25, 2022 when compared to the same period of the prior year. The increase in domestic retail sales was primarily the result of the diminished impact of COVID-19 and increased customer engagement. Pizza Inn domestic comparable store retail sales increased by $1.7 million, or 8.4%, for the same reason. For the six months ended December 25, 2022, the improvements in domestic retail sales and comparable store retail sales were primarily due to the diminished impact of COVID-19 and increased customer engagement.

The following chart summarizes Pizza Inn restaurant activity for the three and six months ended December 25, 2022:

	Three Months Ended December 25, 2022				
	Beginning Units	Opened	Concept Change	Closed	Ending Units
Domestic Units					
Buffet Units - Franchised	72	1	—	—	73
Delco/Express Units - Franchised	47	—	—	3	44
PIE Units - Licensed	9	—	—	1	8
Total Domestic Units	128	1	—	4	125
International Units (all types)	33	—	—	—	33
Total Units	161	1	—	4	158

	Six Months Ended December 25, 2022				
	Beginning Units	Opened	Concept Change	Closed	Ending Units
Domestic Units					
Buffet Units - Franchised	72	1	—	—	73
Delco/Express Units - Franchised	47	—	—	3	44
PIE Units - Licensed	9	—	—	1	8
Total Domestic Units	128	1	—	4	125
International Units (all types)	31	2	—	—	33
Total Units	159	3	—	4	158

There was a net decrease of three units in the total domestic Pizza Inn unit count during the three and six months ended December 25, 2022. For the three and six months ended December 25, 2022, the number of international Pizza Inn units remained stable and increased by two units, respectively. 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		Six Months Ended	
	December 25, 2022	December 26, 2021	December 25, 2022	December 26, 2021
	(in thousands, except unit data)		(in thousands, except unit data)	
Pie Five Retail Sales - Total Units				
Domestic Units - Franchised	$ 4,857	$ 4,977	$ 10,100	$ 10,037
Domestic Units - Company-owned	—	—	—	—
Total Domestic Retail Sales	$ 4,857	$ 4,977	$ 10,100	$ 10,037
Pie Five Comparable Store Retail Sales - Total	$ 4,622	$ 4,347	$ 9,615	$ 8,982
Pie Five Average Units Open in Period				
Domestic Units - Franchised	31	34	31	34
Domestic Units - Company-owned	—	—	—	—
Total Domestic Units	31	34	31	34

Pie Five system-wide retail sales decreased $0.1 million, or 2.5%, for the three months ended December 25, 2022 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 34 to 31. Comparable store retail sales increased $0.3 million, or 6.3%, during the second quarter of fiscal 2023 compared to the same period of the prior year. For the three months ended December 25, 2022, the decrease in domestic retail sales were primarily the result of the decrease in store count offset by an increase in comparable store retail sales, primarily resulting from the diminished impact of COVID-19 and increased customer engagement. For the six months ended December 25, 2022, the improvements in domestic retail sales and comparable store retail sales were primarily due to the diminished impact of COVID-19 and increased customer engagement.

The following chart summarizes Pie Five restaurant activity for the three and six months ended December 25, 2022:

	Three Months Ended December 25, 2022				
	Beginning Units	**Opened**	**Transfer**	**Closed**	**Ending Units**
Domestic - Franchised	31	—	—	—	31
Domestic - Company-owned	—	—	—	—	—
Total Domestic Units	31	—	—	—	31

	Six Months Ended December 25, 2022				
	Beginning Units	**Opened**	**Transfer**	**Closed**	**Ending Units**
Domestic - Franchised	31	—	—	—	31
Domestic - Company-owned	—	—	—	—	—
Total Domestic Units	31	—	—	—	31

The Pie Five units remained stable during the six months ended December 25, 2022. We believe that Pie Five units will eventually increase 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 and six months ended December 25, 2022 and December 26, 2021 (in thousands):

Three Months Ended December 25, 2022 and December 26, 2021

	Pizza Inn Franchising		Pie Five Franchising		Company-Owned Restaurants		Corporate		Total	
	Fiscal Quarter Ended		Fiscal Quarter Ended		Fiscal Quarter Ended		Fiscal Quarter Ended		Fiscal Quarter Ended	
	December 25, 2022	December 26, 2021	December 25, 2022	December 26, 2021	December 25, 2022	December 26, 2021	December 25, 2022	December 26, 2021	December 25, 2022	December 26, 2021
REVENUES:										
Franchise and license revenues	$ 2,351	$ 2,154	$ 462	$ 483	$ —	$ —	$ —	$ —	$ 2,813	$ 2,637
Rental income	—	—	—	—	—	—	46	46	46	46
Interest income and other	—	—	8	13	—	—	(1)	—	7	13
Total revenues	2,351	2,154	470	496	—	—	45	46	2,866	2,696
COSTS AND EXPENSES:										
General and administrative expenses	—	—	—	—	—	1	1,453	1,376	1,453	1,377
Franchise expenses	656	571	211	213	—	—	—	—	867	784
Bad debt expense	—	—	—	—	—	—	5	3	5	3
Interest expense	—	—	—	—	—	—	—	23	—	23
Depreciation and amortization expense	—	—	—	—	—	—	53	48	53	48
Total costs and expenses	656	571	211	213	—	1	1,511	1,450	2,378	2,235
INCOME/(LOSS) BEFORE TAXES	$ 1,695	$ 1,583	$ 259	$ 283	$ —	$ (1)	$ (1,466)	$ (1,404)	$ 488	$ 461

Six Months Ended December 25, 2022 and December 26, 2021

	Pizza Inn Franchising		Pie Five Franchising		Company-Owned Stores		Corporate		Total	
	Fiscal Year-to-Date		Fiscal Year-to-Date		Fiscal Year-to-Date		Fiscal Year-to-Date		Fiscal Year-to-Date	
	December 25, 2022	December 26, 2021	December 25, 2022	December 26, 2021	December 25, 2022	December 26, 2021	December 25, 2022	December 26, 2021	December 25, 2022	December 26, 2021
REVENUES:										
Franchise and license revenues	$ 4,820	$ 4,188	$ 950	$ 951	$ —	$ —	$ —	$ —	$ 5,770	$ 5,139
Rental Income	—	—	—	—	—	—	93	93	93	93
Interest income and other	—	—	8	17	—	—	—	—	8	17
Total revenues	4,820	4,188	958	968	—	—	93	93	5,871	5,249
COSTS AND EXPENSES:										
General and administrative expenses	—	—	—	—	—	2	2,796	2,581	2,796	2,583
Franchise expenses	1,614	1,330	455	440	—	—	—	—	2,069	1,770
Impairment of long-lived assets and other lease charges	—	—	—	—	—	—	5	—	5	—
Bad debt expense	—	—	—	—	—	—	9	8	9	8
Interest expense	—	—	—	—	—	—	1	47	1	47
Depreciation and amortization expense	—	—	—	—	—	—	104	92	104	92
Total costs and expenses	1,614	1,330	455	440	—	2	2,915	2,728	4,984	4,500
INCOME/(LOSS) BEFORE TAXES	$ 3,206	$ 2,858	$ 503	$ 528	$ —	$ (2)	$ (2,822)	$ (2,635)	$ 887	$ 749

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 December 25, 2022 and for the same period in the prior fiscal year were $2.9 million and $2.7 million, respectively. The increase in total revenues was driven by increases in Pizza Inn franchise and license fees.

Total revenues for the six month period ended December 25, 2022 and for the same period in the prior fiscal year were $5.9 million and $5.2 million, respectively. The increase in total revenues was driven by increases in Pizza Inn franchise and license fees.

Pizza Inn Franchise and License

Pizza Inn franchise revenues increased to $2.4 million for the three month period ended December 25, 2022 from $2.2 million for to the same period of the prior fiscal year. Pizza Inn franchise revenues increased to $4.8 million for the six month period ended December 25, 2022 from $4.2 million for the same period of the prior fiscal year. The increases were primarily driven by increases in supplier incentives, domestic royalties and advertising fund revenues.

Pie Five Franchise and License

Pie Five franchise revenues remained relatively stable at $0.5 million for the three month period ended December 25, 2022 as compared to the same period of the prior fiscal year. Pie Five franchise revenues remained relatively stable at $1.0 million for the six month period ended December 25, 2022 as compared to the same period of the prior fiscal year.

General and Administrative Expenses

Total general and administrative expenses increased $0.1 million to $1.5 million for the three month period ended December 25, 2022 compared to $1.4 million for the same period of the prior fiscal year. Total general and administrative expenses increased $0.2 million to $2.8 million for the six month period ended December 25, 2022 compared to $2.6 million for the same period of the prior fiscal year. The increases in total general and administrative expenses during both the three and six month periods were primarily the result of increased 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 increased to $0.9 million for the three month period ended December 25, 2022 compared to $0.8 million for the same period of the prior fiscal year. Total franchise expenses increased to $2.1 million for the six month period ended December 25, 2022 compared to $1.8 million for the same period of the prior fiscal year. The increase was primarily due to an increase in payroll and related, advertising, and travel costs.

Impairment of Long-lived Assets and Other Lease Charges

Impairment of long-lived assets and other lease charges was zero for the three month period ended December 25, 2022 compared to zero for the same period of the prior fiscal year. Impairment of long-lived assets and other lease charges was $5 thousand for the six month period ended December 25, 2022 compared to zero for the same period of the prior fiscal year. The increase was primarily due to impaired beverage equipment.

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 December 25, 2022, bad debt expense was $5 thousand compared to bad debt expense of $3 thousand for the same period in the prior fiscal year. Bad debt expense for the six month period ended December 25, 2022, increased $1 thousand to $9 thousand compared to the comparable period in the prior fiscal year.

Interest Expense

Interest expense decreased $23 thousand to zero for the three month period ended December 25, 2022 compared to the same fiscal period of the prior year. Interest expense decreased $46 thousand to $1 thousand for the six month period ended December 25, 2022 compared to the same fiscal period of the prior year. In both cases, the decrease was primarily the result of the payment of all outstanding convertible notes during the third quarter of fiscal 2022.

Amortization and Depreciation Expense

Amortization and depreciation expense increased slightly for the three and six months ended December 25, 2022, compared to the same periods of the prior year. In both cases, the increase was primarily the result of higher amortization of intangible assets.

Provision for Income Taxes

For the three and six months ended December 25, 2022, the Company recorded an income tax expense of $140 thousand and $232 thousand, respectively. For the three and six months ended December 26, 2021, the Company recorded an income tax expense of $4 thousand and $7 thousand, respectively. For the six months ended December 25, 2022, the federal and state tax expense were $182 thousand and $50 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.

Liquidity and Capital Resources

During the six month period ended December 25, 2022, 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 $792 thousand for the six month period ended December 25, 2022 compared to cash provided by operating activities of $14 thousand for the six month period ended December 26, 2021. The primary driver of increased operating cash flow during the six month period ended December 25, 2022 was increased 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 six month period ended December 25, 2022 was $77 thousand compared to cash provided by investing activities of $48 thousand for the six months ended December 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 $5.0 million for the six month period ended December 25, 2022 compared to net cash used by financing activities of $0.2 million for the six month period ended December 26, 2021. Net cash used by financing activities for the six months ended December 25, 2022 was primarily attributable to repurchases of the Company's 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.

Convertible Notes

On March 3, 2017, the Company completed a registered shareholder rights offering of its 4% Convertible Senior Notes Due 2022 (“Notes”). Shareholders exercised subscription rights to purchase all 30,000 of the Notes at the par value of $100 per Note, resulting in gross offering proceeds to the Company of $3.0 million.

The Notes bore interest at the rate of 4% per annum on the principal or par value of $100 per note, payable annually in arrears on February 15 of each year, commencing February 15, 2018. Interest was payable in cash or, at the Company’s discretion, in shares of Company common stock. The Notes were secured by a pledge of all outstanding equity securities of our two primary direct operating subsidiaries. The Notes matured on February 15, 2022, at which time all principal and unpaid interest was paid in cash. Therefore, as of December 25, 2022, there were no Notes outstanding.

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 bad debts to allow for any amounts which may be unrecoverable based upon an analysis of the Company's prior collection experience, customer creditworthiness and current economic trends. Actual realization of accounts receivable could differ materially from the Company's estimates.

The Company reviews long-lived assets for impairment when events or circumstances indicate that the carrying value of such assets may not be fully recoverable. Impairment is evaluated based on the sum of undiscounted estimated future cash flows expected to result from use of 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 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 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 December 25, 2022 and December 26, 2021, 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

On January 6, 2020, the Company’s former Chief Executive Officer, Scott Crane, filed suit in the U.S. District Court for the Eastern District of Texas alleging various claims in connection with the Company’s termination of his employment in July 2019. In general, the suit asserted that the Company terminated Mr. Crane for the purpose of depriving him of certain equity compensation that would otherwise have become due to him on October 15, 2019. The case proceeded to a jury trial, which resulted in a verdict in favor of Crane on his breach of contract claim. On February 9, 2022, the Court entered a $1.9 million judgment against the Company inclusive of attorney fees, court costs and pre-judgment interest. The Company has filed an appeal of the judgment to the Fifth Circuit Court of Appeals.

The Company is subject to other 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 Use of Proceeds

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 board of directors of the Company again amended the 2007 Stock Purchase Plan by increasing the aggregate number of shares of common stock the Company may repurchase under the plan to a total of 3,016,000 shares. On June 28, 2022, the Company’s board of directors again amended the 2007 Stock Purchase Plan 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 six months ended December 25, 2022, the Company repurchased 3,356,977 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 December 25, 2022, 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

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).
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/ 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: February 2, 2023

Exhibit 31.1

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: February 2, 2023

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

Exhibit 31.2

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: February 2, 2023	By:	/s/ Clinton D. Fendley
		Clinton D. Fendley
		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, 2022 (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 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.

Exhibit 32.2

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, 2022 (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 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.