

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 March 24, 2024 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 April 25, 2024, 14,586,566 shares of the issuer's common stock were outstanding.

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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)

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>March 24, 2024</u>	<u>March 26, 2023</u>	<u>March 24, 2024</u>	<u>March 26, 2023</u>
REVENUES	\$ 2,962	\$ 2,970	\$ 8,795	\$ 8,841
COSTS AND EXPENSES				
General and administrative expenses	1,272	1,486	3,932	4,282
Franchise expenses	812	964	2,828	3,033
Impairment of long-lived assets and other lease charges	—	—	—	5
Provision for credit losses	11	28	46	37
Interest (income) expense	(45)	—	(93)	1
Depreciation and amortization expense	58	54	170	158
Total costs and expenses	<u>2,108</u>	<u>2,532</u>	<u>6,883</u>	<u>7,516</u>
INCOME BEFORE TAXES	854	438	1,912	1,325
Income tax expense	(200)	(115)	(319)	(347)
NET INCOME	<u>\$ 654</u>	<u>\$ 323</u>	<u>\$ 1,593</u>	<u>\$ 978</u>
INCOME PER SHARE OF COMMON STOCK - BASIC	<u>\$ 0.04</u>	<u>\$ 0.02</u>	<u>\$ 0.11</u>	<u>\$ 0.06</u>
INCOME PER SHARE OF COMMON STOCK - DILUTED	<u>\$ 0.04</u>	<u>\$ 0.02</u>	<u>\$ 0.11</u>	<u>\$ 0.06</u>
Weighted average common shares outstanding - basic	<u>14,587</u>	<u>14,154</u>	<u>14,395</u>	<u>15,712</u>
Weighted average common shares outstanding - diluted	<u>14,737</u>	<u>14,154</u>	<u>14,546</u>	<u>15,712</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>March 24,</u> <u>2024</u>	<u>June 25,</u> <u>2023</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,318	\$ 5,328
Accounts receivable, less allowance for credit losses of \$33 and \$58, respectively	1,338	1,145
Notes receivable, current	65	105
Assets held for sale	35	19
Deferred contract charges, current	27	33
Prepaid expenses and other current assets	431	204
Total current assets	<u>8,214</u>	<u>6,834</u>
LONG-TERM ASSETS		
Property and equipment, net	202	258
Operating lease right of use assets, net	913	1,227
Intangible assets definite-lived, net	273	328
Notes receivable, net of current portion	53	28
Deferred tax asset, net	5,095	5,342
Deferred contract charges, net of current portion	206	220
Total assets	<u>\$ 14,956</u>	<u>\$ 14,237</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable - trade	\$ 652	\$ 502
Accrued expenses	674	891
Operating lease liabilities, current	421	463
Deferred revenues, current	192	342
Total current liabilities	<u>1,939</u>	<u>2,198</u>
LONG-TERM LIABILITIES		
Operating lease liabilities, net of current portion	644	958
Deferred revenues, net of current portion	573	690
Total liabilities	<u>3,156</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 25,522,171 and 25,090,058 shares, respectively; outstanding 14,586,566 and 14,154,453 shares, respectively	255	251
Additional paid-in capital	37,541	37,729
Retained earnings	4,032	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>11,800</u>	<u>10,391</u>
Total liabilities and shareholders' equity	<u>\$ 14,956</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>
Stock-based compensation expense	—	—	87	—	—	—	87
Purchase of treasury stock	—	—	—	—	(2,246)	(3,595)	(3,595)
Net income	—	—	—	348	—	—	348
Balance, December 25, 2022	<u>25,090</u>	<u>251</u>	<u>37,557</u>	<u>1,481</u>	<u>(10,936)</u>	<u>(30,028)</u>	<u>9,261</u>
Stock-based compensation expense	—	—	86	—	—	—	86
Net income	—	—	—	323	—	—	323
Balance, March 26, 2023	<u>25,090</u>	<u>251</u>	<u>\$ 37,643</u>	<u>\$ 1,804</u>	<u>(10,936)</u>	<u>\$ (30,028)</u>	<u>\$ 9,670</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>
Stock-based compensation expense	—	—	3	—	—	—	3
RSU vested and taxes paid on RSUs	432	4	(315)	—	—	—	(311)
Net income	—	—	—	553	—	—	553
Balance, December 24, 2023	<u>25,522</u>	<u>\$ 255</u>	<u>\$ 37,496</u>	<u>\$ 3,378</u>	<u>(10,936)</u>	<u>\$ (30,028)</u>	<u>\$ 11,101</u>
Stock-based compensation expense	—	—	45	—	—	—	45
Net income	—	—	—	654	—	—	654
Balance, March 24, 2024	<u>25,522</u>	<u>\$ 255</u>	<u>\$ 37,541</u>	<u>\$ 4,032</u>	<u>(10,936)</u>	<u>\$ (30,028)</u>	<u>\$ 11,800</u>

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Nine Months Ended	
	March 24, 2024	March 26, 2023
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 1,593	\$ 978
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	127	259
Depreciation and amortization	107	105
Amortization of operating right of use assets	314	327
Amortization of intangible assets definite-lived	63	53
Provision for credit losses	46	37
Deferred income tax	247	272
Changes in operating assets and liabilities:		
Accounts receivable	(239)	452
Notes receivable	(30)	22
Deferred contract charges	20	12
Prepaid expenses and other current assets	(227)	(35)
Accounts payable - trade	150	(204)
Accrued expenses	(217)	(415)
Operating lease liabilities	(356)	(364)
Deferred revenues	(267)	(271)
Cash provided by operating activities	1,331	1,233
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments received on notes receivable	45	90
Proceeds from sale of assets	1	5
Purchase of intangible assets definite-lived	(8)	(123)
Purchase of property and equipment	(68)	(52)
Cash used in investing activities	(30)	(80)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchase of treasury stock	—	(4,979)
Taxes paid on issuance of restricted stock units	(311)	—
Payments on short term loan	—	(30)
Cash used in financing activities	(311)	(5,009)
Net increase (decrease) in cash and cash equivalents	990	(3,856)
Cash and cash equivalents, beginning of period	5,328	7,723
Cash and cash equivalents, end of period	<u>\$ 6,318</u>	<u>\$ 3,867</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
CASH (REFUNDED) PAID FOR:		
Income taxes	<u>\$ (4)</u>	<u>\$ 90</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”) and ghost kitchens (“Pie Five Ghost Kitchen 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 and nine month periods ended March 24, 2024 and March 26, 2023 each contained 13 weeks and 39 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.

Recently Adopted Accounting Standards

In June 2016, the FASB issued ASU 2016-13, Financial Statements - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which requires companies to measure credit losses utilizing a methodology that reflects expected credit losses and requires a consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The new guidance was effective for the Company on June 26, 2023. There was no material impact on the Company’s consolidated financial statements and related disclosures as a result of adopting this standard.

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.

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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 a third party. The Company's sublease has terms that end in 2025. The sublease agreement is 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	
	March 24, 2024	March 26, 2023
Franchise royalties	\$ 1,166	\$ 1,295
Supplier and distributor incentive revenues	1,191	1,045
Franchise license fees	93	39
Area development exclusivity fees and foreign master license fees	4	5
Advertising funds contributions	450	528
Supplier convention funds	30	—
Rental income	23	47
Other	5	11
	<u>\$ 2,962</u>	<u>\$ 2,970</u>

	Nine Months Ended	
	March 24, 2024	March 26, 2023
Franchise royalties	\$ 3,563	\$ 3,680
Supplier and distributor incentive revenues	3,341	3,260
Franchise license fees	245	109
Area development exclusivity fees and foreign master license fees	11	13
Advertising funds contributions	1,297	1,448
Supplier convention funds	217	172
Rental income	108	140
Other	13	19
	<u>\$ 8,795</u>	<u>\$ 8,841</u>

Stock-Based Compensation

The Company accounts for stock options using the fair value recognition provisions of the authoritative guidance on stock-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 subleases some of its restaurant space to a third party. The Company's sublease has terms that end in 2025. The sublease agreement is 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.

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 and nine months ended March 24, 2024 and March 26, 2023, 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>March 24, 2024</u>	<u>Three Months Ended</u> <u>March 26, 2023</u>	<u>Nine Months Ended</u> <u>March 24, 2024</u>	<u>Nine Months Ended</u> <u>March 26, 2023</u>
Operating lease cost	\$ 104	\$ 124	\$ 343	\$ 371
Sublease income	(23)	(47)	(108)	(140)
Total lease expense, net of sublease income	<u>\$ 81</u>	<u>\$ 77</u>	<u>\$ 235</u>	<u>\$ 231</u>

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

	<u>March 24, 2024</u>	<u>March 26, 2023</u>
Weighted average remaining lease term	2.0 Years	2.3 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	\$ 118
2025	433
2026	382
2027	191
Total operating lease payments	\$ 1,124
Less: imputed interest	(59)
Total operating lease liability	<u>\$ 1,065</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 Compensation

Stock Options:

For the three and nine months ended March 24, 2024, the Company recognized stock-based compensation expense related to stock options of zero and zero, respectively. For the three and nine months ended March 26, 2023, the Company recognized stock-based compensation expense related to stock options of \$4 thousand and \$11 thousand, respectively. As of March 24, 2024, 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:

	Nine Months Ended	
	March 24, 2024	March 26, 2023
	Shares	Shares
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 and nine months ended March 24, 2024, the Company had stock-based compensation expense related to RSUs of \$45 thousand and \$127 thousand, respectively. For the three and nine months ended March 26, 2023, the Company had stock-based compensation expense related to RSUs of \$82 thousand and \$248 thousand, respectively. As of March 24, 2024, there was \$283 thousand unamortized stock-based compensation expense related to RSUs.

As of March 24, 2024, the RSUs will be amortized during the next seven months. A summary of the status of restricted stock units as of March 24, 2024 and March 26, 2023, and changes during the nine months then ended is presented below:

	Nine Months Ended	
	March 24, 2024	March 26, 2023
Unvested at beginning of year	885,688	885,688
Granted	131,460	—
Issued	(588,589)	—
Forfeited/Canceled	(126,684)	—
Unvested at March 24, 2024	<u>301,875</u>	<u>885,688</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		Nine Months Ended	
	March 24, 2024	March 26, 2023	March 24, 2024	March 26, 2023
Net income available to common stockholders	\$ 654	\$ 323	\$ 1,593	\$ 978
BASIC:				
Weighted average common shares	14,587	14,154	14,395	15,712
Net income per common share	\$ 0.04	\$ 0.02	\$ 0.11	\$ 0.06
DILUTED:				
Weighted average common shares	14,587	14,154	14,395	15,712
Dilutive stock options	150	—	151	—
Weighted average common shares outstanding	14,737	14,154	14,546	15,712
Net income per common share	\$ 0.04	\$ 0.02	\$ 0.11	\$ 0.06

For the three and nine months ended March 24, 2024, 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 and nine months ended March 24, 2024, 65,625 and 156,250 RSUs were excluded from the computation of diluted EPS because performance criteria is not probable at period end, respectively.

For the three and nine months ended March 26, 2023, 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 nine months ended March 26, 2023, zero and zero RSUs were excluded from the computation of diluted EPS because performance criteria is not probable at period end, respectively.

Note F - Income Taxes

Total income tax expense consists of the following (in thousands):

	Three Months Ended		Nine Months Ended	
	March 24, 2024	March 26, 2023	March 24, 2024	March 26, 2023
Federal tax expense	\$ 176	\$ 91	\$ 261	\$ 272
State tax expense	24	24	58	75
Total income tax expense	\$ 200	\$ 115	\$ 319	\$ 347

For the three and nine months ended March 24, 2024, the Company recorded an income tax expense of \$ thousand and \$ thousand, respectively. For the three and nine months ended March 26, 2023, the Company recorded an income tax expense of \$ thousand and \$ 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 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) Corporate administration and other. 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.

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.

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 and nine months ended March 24, 2024 and March 26, 2023 (in thousands):

	Three Months Ended		Nine Months Ended	
	March 24, 2024	March 26, 2023	March 24, 2024	March 26, 2023
Net sales and operating revenues:				
Pizza Inn Franchising	\$ 2,498	\$ 2,450	\$ 7,373	\$ 7,270
Pie Five Franchising	441	473	1,314	1,431
Corporate administration and other	23	47	108	140
Consolidated revenues	<u>\$ 2,962</u>	<u>\$ 2,970</u>	<u>\$ 8,795</u>	<u>\$ 8,841</u>
Depreciation and amortization:				
Corporate administration and other	\$ 58	\$ 54	\$ 170	\$ 158
Depreciation and amortization	<u>\$ 58</u>	<u>\$ 54</u>	<u>\$ 170</u>	<u>\$ 158</u>
Income before taxes:				
Pizza Inn Franchising	\$ 1,828	\$ 1,701	\$ 5,091	\$ 4,907
Pie Five Franchising	299	258	768	761
Combined	2,127	1,959	5,859	5,668
Corporate administration and other	(1,273)	(1,521)	(3,947)	(4,343)
Income before taxes	<u>\$ 854</u>	<u>\$ 438</u>	<u>\$ 1,912</u>	<u>\$ 1,325</u>
Geographic information (revenues):				
United States	\$ 2,908	\$ 2,910	\$ 8,643	\$ 8,638
Foreign countries	54	60	152	203
Consolidated revenues	<u>\$ 2,962</u>	<u>\$ 2,970</u>	<u>\$ 8,795</u>	<u>\$ 8,841</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, our Annual Report on Form 10-K for the year ended June 25, 2023, together with our Quarterly Reports on Form 10-Q for the periods ended September 24, and December 24, 2023, 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, as well as our Quarterly Reports on Form 10-Q for the periods ended September 24, and December 24, 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”), express (“Express Units”) restaurants and ghost kitchens (“Pizza Inn Ghost Kitchen Units”) under the trademark “Pizza Inn” and franchises fast casual pizza restaurants (“Pie Five Units”) and ghost kitchens (“Pie Five Ghost Kitchen 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 March 24, 2024, franchised and licensed units consisted of the following:

Three Months Ended March 24, 2024

(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	104	\$ 25,930	23	\$ 3,783	127	\$ 29,713
International Franchised	21	\$ 1,246	—	\$ —	21	\$ 1,246

Nine Months Ended March 24, 2024

(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	104	\$ 77,503	23	\$ 12,855	127	\$ 90,358
International Franchised	21	\$ 3,939	—	\$ —	21	\$ 3,939

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 \$0.02 per share to \$0.04 per share for the three months ended March 24, 2024, compared to the comparable period in the prior fiscal year. The Company had net income of \$0.7 million for the three months ended March 24, 2024 compared to net income of \$0.3 million in the comparable period in the prior fiscal year, on revenues of \$3.0 million for the three months ended March 24, 2024 compared to \$3.0 million in the comparable period in the prior fiscal year. The stability in revenue was primarily due to increases in supplier and distributor incentives, offset by a decrease in domestic royalties.

Basic net income per share increased \$0.05 per share to \$0.11 per share for the nine months ended March 24, 2024, compared to the comparable period in the prior fiscal year. The Company had net income of \$1.6 million for the nine months ended March 24, 2024 compared to net income of \$1.0 million in the comparable period in the prior fiscal year, on revenues of \$8.8 million for the nine months ended March 24, 2024 compared to \$8.8 million in the comparable period in the prior fiscal year. The revenue was consistent primarily due to increases in international default and closed store revenues, offset by a decrease in international royalties.

COVID-19 Pandemic

Although the adverse impacts of the COVID-19 pandemic have diminished in recent periods, 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, 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.
- "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 March 24, 2024 increased \$0.2 million compared to the same period of the prior fiscal year. Year-to-date Adjusted EBITDA increased \$0.3 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		Nine Months Ended	
	March 24, 2024	March 26, 2023	March 24, 2024	March 26, 2023
Net income	\$ 654	\$ 323	\$ 1,593	\$ 978
Interest (income) expense	(45)	—	(93)	1
Income taxes	200	115	319	347
Depreciation and amortization	58	54	170	158
EBITDA	<u>\$ 867</u>	<u>\$ 492</u>	<u>\$ 1,989</u>	<u>\$ 1,484</u>
Stock-based compensation expense	45	86	127	259
Impairment of long-lived assets and other lease charges	—	—	—	5
Franchisee default and closed store revenue	(70)	(10)	(152)	(23)
Adjusted EBITDA	<u>\$ 842</u>	<u>\$ 568</u>	<u>\$ 1,964</u>	<u>\$ 1,725</u>

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		Nine Months Ended	
	March 24, 2024	March 26, 2023	March 24, 2024	March 26, 2023
Pizza Inn Retail Sales - Total Domestic Units	(in thousands, except unit data)		(in thousands, except unit data)	
Buffet Units - Franchised	\$ 25,019	\$ 24,303	\$ 74,588	\$ 68,967
Delco/Express Units - Franchised	893	1,356	2,860	4,180
PIE Units - Licensed	16	30	53	154
Pizza Inn Ghost Kitchen Units - Franchised	2	—	2	—
Total Domestic Retail Sales	<u>\$ 25,930</u>	<u>\$ 25,689</u>	<u>\$ 77,503</u>	<u>\$ 73,301</u>
Pizza Inn Comparable Store Retail Sales - Total Domestic	\$ 24,679	\$ 25,148	\$ 73,678	\$ 70,989

Pizza Inn Average Units Open in Period

Buffet Units - Franchised	77	73	77	73
Delco/Express Units - Franchised	27	43	32	44
PIE Units - Licensed	4	8	4	9
Pizza Inn Ghost Kitchen Units - Franchised	1	—	1	—
Total Domestic Units	<u>109</u>	<u>124</u>	<u>114</u>	<u>126</u>

Pizza Inn total domestic retail sales increased by \$0.2 million, or 0.9%, for the three months ended March 24, 2024 when compared to the same period of the prior year. Compared to the same fiscal quarter of the prior year, average Buffet Units open in the period increased from 73 to 77. Comparable store retail sales decreased by \$0.5 million to \$24.7 million for the three month period ended March 24, 2024 as compared to the same period of the prior fiscal year. For the three months ended March 24, 2024, the increase in domestic retail sales were primarily the result of the increase in Buffet Units, offset by a decrease in comparable domestic store retail sales.

Pizza Inn total domestic retail sales increased by \$4.2 million, or 5.7%, for the nine months ended March 24, 2024 when compared to the same period of the prior year. Compared to the same fiscal period of the prior year, average Buffet Units open in the period increased from 73 to 77. Comparable store retail sales increased by \$2.7 million to \$73.7 million for the nine month period ended March 24, 2024 as compared to the same period of the prior fiscal year. For the nine months ended March 24, 2024, the increase in domestic retail sales were primarily the result of the increase in Buffet Units, supplemented by an increase in comparable domestic store retail sales.

The following chart summarizes Pizza Inn restaurant activity for the three and nine months ended March 24, 2024:

	Three Months Ended March 24, 2024					
	Beginning Units	Opened	Concept Change	Transfer	Closed	Ending Units
Buffet Units - Franchised	77	(1)	1	1	—	77
Delco/Express Units - Franchised	31	—	—	—	8	23
PIE Units - Licensed	4	—	—	—	1	3
Pizza Inn Ghost Kitchen Units - Franchised	—	1	—	—	—	1
Total Domestic Units	112	—	1	1	9	104
International Units (all types)	18	3	—	—	—	21
Total Units	130	3	1	1	9	125
	Nine Months Ended March 24, 2024					
	Beginning Units	Opened	Concept Change	Transfer	Closed	Ending Units
Buffet Units - Franchised	77	2	1	4	3	77
Delco/Express Units - Franchised	41	1	—	—	19	23
PIE Units - Licensed	5	—	—	—	2	3
Pizza Inn Ghost Kitchen Units - Franchised	—	1	—	—	—	1
Total Domestic Units	123	4	1	4	24	104
International Units (all types)	34	3	—	—	16	21
Total Units	157	7	1	4	40	125

There was a net decrease of eight and 19 units in the total domestic Pizza Inn unit count during the three and nine months ended March 24, 2024, respectively. There were one and four transfers in the total domestic Pizza Inn unit count during the three and nine months ended March 24, 2024, respectively. For the three and nine months ended March 24, 2024, the number of international Pizza Inn units increased by three and decreased by 13 units, respectively. There were zero transfers in the total international Pizza Inn unit count during the three and nine months ended March 24, 2024. 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 restaurants that management believes are useful in evaluating performance:

	Three Months Ended		Nine Months Ended	
	March 24, 2024	March 26, 2023	March 24, 2024	March 26, 2023
	(in thousands, except unit data)		(in thousands, except unit data)	
Pie Five Retail Sales - Total Units				
Pie Five Units - Franchised	\$ 3,778	\$ 4,998	\$ 12,850	\$ 15,098
Pie Five Ghost Kitchen Units - Franchised	5	—	5	—
Total Domestic Retail Sales	\$ 3,783	\$ 4,998	\$ 12,855	\$ 15,098
Pie Five Comparable Store Retail Sales - Total	\$ 3,778	\$ 4,037	\$ 12,778	\$ 12,948
Pie Five Average Units Open in Period				
Pie Five Units - Franchised	23	31	25	31
Pie Five Ghost Kitchen Units - Franchised	1	—	1	—
Total Domestic Units	24	31	26	31

Pie Five total domestic retail sales decreased \$1.2 million, or 24.3%, for the three months ended March 24, 2024 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 24. Comparable store retail sales decreased by \$0.3 million to \$3.8 million during the third quarter of fiscal 2024 compared to the same period of the prior year. For the three months ended March 24, 2024, the decrease in domestic retail sales were primarily the result of the decrease in store count, supplemented by a decrease in comparable store retail sales. For the nine months ended March 24, 2024, the decrease in domestic retail sales were primarily the result of the decrease in store count, supplemented by a decrease in comparable store retail sales.

The following chart summarizes Pie Five restaurant activity for the three and nine months ended March 24, 2024:

	Three Months Ended March 24, 2024					
	Beginning Units	Opened	Concept Change	Transfer	Closed	Ending Units
Pie Five Units - Franchised	23	—	—	2	1	22
Pie Five Ghost Kitchen Units - Franchised	1	—	—	—	—	1
Total Domestic Units	24	—	—	2	1	23

	Nine Months Ended March 24, 2024					
	Beginning Units	Opened	Concept Change	Transfer	Closed	Ending Units
Pie Five Units - Franchised	27	—	(1)	2	4	22
Pie Five Ghost Kitchen Units - Franchised	—	1	—	—	—	1
Total Domestic Units	27	1	(1)	2	4	23

There was a net decrease of one and four units in the total domestic Pie Five unit count during the three and nine months ended March 24, 2024, respectively. There was a net increase of zero and one Pie Five Ghost Kitchen Units during the three and nine months ended March 24, 2024, respectively. We believe that Pie Five units will decrease modestly in future periods.

Financial Results

The Company defines its operating segments as Pizza Inn Franchising and Pie Five Franchising. The following is additional business segment information for the three and nine months ended March 24, 2024 and March 26, 2023 (in thousands):

Three Months Ended March 24, 2024 and March 26, 2023

	Pizza Inn Franchising		Pie Five Franchising		Corporate		Total	
	Fiscal Quarter Ended March 24, 2024	Fiscal Quarter Ended March 26, 2023	Fiscal Quarter Ended March 24, 2024	Fiscal Quarter Ended March 26, 2023	Fiscal Quarter Ended March 24, 2024	Fiscal Quarter Ended March 26, 2023	Fiscal Quarter Ended March 24, 2024	Fiscal Quarter Ended March 26, 2023
REVENUES:								
Franchise and license revenues	\$ 2,498	\$ 2,450	\$ 436	\$ 462	\$ —	\$ —	\$ 2,934	\$ 2,912
Rental income	—	—	—	—	23	47	23	47
Other income	—	—	5	11	—	—	5	11
Total revenues	2,498	2,450	441	473	23	47	2,962	2,970
COSTS AND EXPENSES:								
General and administrative expenses	—	—	—	—	1,272	1,486	1,272	1,486
Franchise expenses	670	749	142	215	—	—	812	964
Provision for credit losses	—	—	—	—	11	28	11	28
Interest income	—	—	—	—	(45)	—	(45)	—
Depreciation and amortization expense	—	—	—	—	58	54	58	54
Total costs and expenses	670	749	142	215	1,296	1,568	2,108	2,532
INCOME/(LOSS) BEFORE TAXES								
	\$ 1,828	\$ 1,701	\$ 299	\$ 258	\$ (1,273)	\$ (1,521)	\$ 854	\$ 438

Nine Months Ended March 24, 2024 and March 26, 2023

	Pizza Inn Franchising		Pie Five Franchising		Corporate		Total	
	Fiscal Year-to-Date		Fiscal Year-to-Date		Fiscal Year-to-Date		Fiscal Year-to-Date	
	March 24, 2024	March 26, 2023	March 24, 2024	March 26, 2023	March 24, 2024	March 26, 2023	March 24, 2024	March 26, 2023
REVENUES:								
Franchise and license revenues	\$ 7,373	\$ 7,270	\$ 1,301	\$ 1,412	\$ —	\$ —	\$ 8,674	\$ 8,682
Rental income	—	—	—	—	108	140	108	140
Other income	—	—	13	19	—	—	13	19
Total revenues	7,373	7,270	1,314	1,431	108	140	8,795	8,841
COSTS AND EXPENSES:								
General and administrative expenses	—	—	—	—	3,932	4,282	3,932	4,282
Franchise expenses	2,282	2,363	546	670	—	—	2,828	3,033
Impairment of long-lived assets and other lease charges	—	—	—	—	—	5	—	5
Provision for credit losses	—	—	—	—	46	37	46	37
Interest (income) expense	—	—	—	—	(93)	1	(93)	1
Depreciation and amortization expense	—	—	—	—	170	158	170	158
Total costs and expenses	2,282	2,363	546	670	4,055	4,483	6,883	7,516
INCOME/(LOSS) BEFORE TAXES								
	\$ 5,091	\$ 4,907	\$ 768	\$ 761	\$ (3,947)	\$ (4,343)	\$ 1,912	\$ 1,325

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, and interest and other income. The volume of supplier incentive revenues is dependent on the level of chain-wide retail sales, which are impacted by changes in comparable store sales and restaurant count, as well as the products sold to franchisees through third-party food distributors.

Total revenues for the three month period ended March 24, 2024 and for the same period of the prior fiscal year were \$3.0 million and \$3.0 million, respectively.

Total revenues for the nine month period ended March 24, 2024 and for the same period of the prior fiscal year were \$8.8 million and \$8.8 million, respectively.

Pizza Inn Franchise and License

Pizza Inn franchise revenues remained relatively stable at \$2.5 million for the three month period ended March 24, 2024 as compared to the same period in the prior fiscal year. The 2.0% increase was driven by increases in supplier and distributor incentives, offset by decreases in domestic royalties. Pizza Inn franchise revenues increased by \$0.1 million to \$7.4 million for the nine month period ended March 24, 2024 as compared to the same period in the prior fiscal year. The 1.4% increase was driven by increases in supplier and distributor incentives.

Pie Five Franchise and License

Pie Five franchise revenues decreased by \$0.1 million to \$0.4 million for the three month period ended March 24, 2024 as compared to the same period of the prior fiscal year. The 5.6% decrease was driven by decreases in domestic royalties and advertising fund revenues, offset by increases in default and closed store revenues and supplier and distributor incentives. Pie Five franchise revenues decreased by \$0.1 million to \$1.3 million for the nine month period ended March 24, 2024 as compared to the same period of the prior fiscal year. The 7.9% decrease was driven by decreases in domestic royalties and advertising fund revenues, offset by increases in default and closed store revenues.

General and Administrative Expenses

Total general and administrative expenses decreased by \$0.2 million to \$1.3 million for the three month period ended March 24, 2024 as compared to the same period of the prior fiscal year. The 14.4% decrease in total general and administrative expenses during the three month period was primarily the result of decreased salaries. Total general and administrative expenses decreased by \$0.4 million to \$3.9 million for the nine month period ended March 24, 2024 as compared to the same period of the prior fiscal year. The 8.2% decrease in total general and administrative expenses during the nine month period was primarily for the same reason.

Franchise Expenses

Franchise expenses include general and administrative expenses directly related to the sale and continuing service of domestic and international franchises. Total franchise expenses decreased by \$0.2 million to \$0.8 million for the three month period ended March 24, 2024 as compared to the same period of the prior fiscal year. The 15.8% decrease was primarily due to a decrease in advertising fees. Total franchise expenses decreased by \$0.2 million to \$2.8 million for the nine month period ended March 24, 2024 as compared to the same period of the prior fiscal year. The 6.8% decrease was primarily due to a decrease in advertising fees.

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 March 24, 2024 compared to zero for the same period of the prior fiscal year. Impairment of long-lived assets and other lease charges was zero for the nine month period ended March 24, 2024 compared to \$5 thousand for the same period of the prior fiscal year. The decrease was primarily due to impaired beverage equipment in the prior period.

Provision for Credit Losses

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 March 24, 2024, provision for credit losses was \$11 thousand compared to provision for credit losses of \$28 thousand for the same period of the prior fiscal year. Provision for credit losses for the nine month period ended March 24, 2024, increased by \$9 thousand to \$46 thousand compared to the same period of the prior fiscal year.

Interest Expense

Interest expense was zero for the three and nine months ended March 24, 2024, compared to the same periods of the prior fiscal year.

Amortization and Depreciation Expense

Amortization and depreciation expense increased slightly for the three and nine months ended March 24, 2024, compared to the same periods of the prior year. In both cases, the increase was primarily the result of higher amortization of intangible assets from an increase in expenditures for developing a new prototype.

Provision for Income Taxes

Total income tax expense consists of the following (in thousands):

	Three Months Ended		Nine Months Ended	
	March 24, 2024	March 26, 2023	March 24, 2024	March 26, 2023
Federal tax expense	\$ 176	\$ 91	\$ 261	\$ 272
State tax expense	24	24	58	75
Total income tax expense	\$ 200	\$ 115	\$ 319	\$ 347

For the three and nine months ended March 24, 2024, the Company recorded an income tax expense of \$200 thousand and \$319 thousand, respectively. For the three and nine months ended March 26, 2023, the Company recorded an income tax expense of \$115 thousand and \$347 thousand, respectively. The increase for the three months ended as of March 24, 2024 was primarily due to a increase in federal taxes, driven by higher taxable income. The decrease for the nine months ended as of March 24, 2024 was primarily due to a decrease in state taxes and a discrete item recorded in the second quarter of fiscal 2024 related to the restricted stock issuances.

For the three and nine months ended March 24, 2024, the Company recorded a tax benefit related to RSUs issued of zero and \$149 thousand, respectively. For the three and nine months ended March 26, 2023, the Company recorded a tax benefit related to RSUs issued of zero and zero, 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 nine month period ended March 24, 2024, 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, stock-based compensation, and changes in working capital. Cash provided by operating activities was \$1.3 million for the nine month period ended March 24, 2024 compared to cash provided by operating activities of \$1.2 million for the nine month period ended March 26, 2023. The primary driver of increased operating cash flow during the nine month period ended March 24, 2024 was increased net income due to lower employee related expenses.

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 nine month period ended March 24, 2024 was \$0.05 million compared to cash used in investing activities of \$0.1 million for the nine months ended March 26, 2023.

Cash flows used in financing activities generally reflect changes in the Company's stock and debt activity during the period. Net cash used in financing activities was \$0.3 million for the nine month period ended March 24, 2024 compared to net cash used in financing activities of \$5.0 million for the nine month period ended March 26, 2023. Net cash used by financing activities for the nine months ended March 24, 2024 was primarily attributable to taxes paid on vested RSUs. Net cash used by financing activities for the nine months ended March 26, 2023 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.

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 credit losses 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 March 24, 2024 and March 26, 2023, 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

Not applicable.

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 March 25, 2024, between Rave Restaurant Group, Inc. and Jay Rooney (filed as Exhibit 10.1 to Form 8-K filed March 26, 2019 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/ Jay D. Rooney
Jay D. Rooney
Chief Financial Officer
(principal financial officer)

Dated: May 2, 2024

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: May 2, 2024

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, Jay D. Rooney, certify that:

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

Date: May 2, 2024

By: /s/ Jay D. Rooney
Jay D. Rooney
Chief Financial Officer
(principal financial officer)

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

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

The accompanying Quarterly Report on Form 10-Q for the quarter ended March 24, 2024 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Form 10-Q.

Date: May 2, 2024

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 March 24, 2024 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Form 10-Q.

Date: May 2, 2024

By: /s/ Jay D. Rooney
Jay D. Rooney
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.
