

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549

FORM 10-Q

(Mark One)

- Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended September 29, 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 October 31, 2024, 14,711,566 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)*

	<b>Three Months Ended</b>	
	<b>September 29, 2024</b>	<b>September 24, 2023</b>
<b>REVENUES</b>	\$ 3,050	\$ 3,087
<b>COSTS AND EXPENSES</b>		
General and administrative expenses	1,416	1,319
Franchise expenses	995	1,172
Provision (recovery) for credit losses	(17)	25
Interest income	(82)	(2)
Depreciation and amortization expense	43	55
Total costs and expenses	2,355	2,569
<b>INCOME BEFORE TAXES</b>	695	518
Income tax expense	169	132
<b>NET INCOME</b>	\$ 526	\$ 386
<b>INCOME PER SHARE OF COMMON STOCK</b>		
Basic	\$ 0.04	\$ 0.03
Diluted	\$ 0.04	\$ 0.03
<b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING</b>		
Basic	14,587	14,154
Diluted	14,799	14,762

*See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.*

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

	<u>September 29,</u> <u>2024</u>	<u>June 30,</u> <u>2024</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,383	\$ 2,886
Short-term investments	7,050	4,945
Accounts receivable, less allowance for credit losses of \$40 and \$57, respectively	1,365	1,411
Notes receivable, current	67	68
Assets held for sale	27	33
Deferred contract charges, current	24	26
Prepaid expenses and other current assets	340	167
Total current assets	<u>10,256</u>	<u>9,536</u>
<b>LONG-TERM ASSETS</b>		
Property and equipment, net	159	182
Operating lease right-of-use assets, net	720	817
Intangible assets definite-lived, net	232	252
Notes receivable, net of current portion	70	79
Deferred tax asset, net	4,613	4,756
Deferred contract charges, net of current portion	235	197
Total assets	<u>\$ 16,285</u>	<u>\$ 15,819</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable - trade	\$ 443	\$ 359
Accrued expenses	974	915
Operating lease liabilities, current	383	402
Deferred revenues, current	198	343
Total current liabilities	<u>1,998</u>	<u>2,019</u>
<b>LONG-TERM LIABILITIES</b>		
Operating lease liabilities, net of current portion	465	555
Deferred revenues, net of current portion	521	543
Total liabilities	<u>2,984</u>	<u>3,117</u>
<b>COMMITMENTS AND CONTINGENCIES (SEE NOTE C)</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Common stock, \$0.01 par value; authorized 26,000,000 shares; issued 25,522,171 and 25,522,171 shares, respectively; outstanding 14,586,566 and 14,586,566 shares, respectively	255	255
Additional paid-in capital	37,636	37,563
Retained earnings	5,438	4,912
Treasury stock, at cost		
Shares in treasury: 10,935,605 and 10,935,605 respectively	(30,028)	(30,028)
Total shareholders' equity	<u>13,301</u>	<u>12,702</u>
Total liabilities and shareholders' equity	<u>\$ 16,285</u>	<u>\$ 15,819</u>

*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	Retained Earnings	Treasury Stock		Total
	Shares	Amount			Shares	Amount	
<b>Balance, June 25, 2023</b>	<b>25,090</b>	<b>\$ 251</b>	<b>\$ 37,729</b>	<b>\$ 2,439</b>	<b>(10,936)</b>	<b>\$ (30,028)</b>	<b>\$ 10,391</b>
Stock-based compensation expense	—	—	79	—	—	—	79
Net income	—	—	—	386	—	—	386
<b>Balance, September 24, 2023</b>	<b>25,090</b>	<b>\$ 251</b>	<b>\$ 37,808</b>	<b>\$ 2,825</b>	<b>(10,936)</b>	<b>\$ (30,028)</b>	<b>\$ 10,856</b>

	Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock		Total
	Shares	Amount			Shares	Amount	
<b>Balance, June 30, 2024</b>	<b>25,522</b>	<b>\$ 255</b>	<b>\$ 37,563</b>	<b>\$ 4,912</b>	<b>(10,936)</b>	<b>\$ (30,028)</b>	<b>\$ 12,702</b>
Stock-based compensation expense	—	—	73	—	—	—	73
Net income	—	—	—	526	—	—	526
<b>Balance, September 29, 2024</b>	<b>25,522</b>	<b>\$ 255</b>	<b>\$ 37,636</b>	<b>\$ 5,438</b>	<b>(10,936)</b>	<b>\$ (30,028)</b>	<b>\$ 13,301</b>

*See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.*

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

	<b>Three months ended</b>	
	<b>September 29, 2024</b>	<b>September 24, 2023</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 526	\$ 386
Adjustments to reconcile net income to cash provided by operating activities:		
Amortization of discount on short-term investment	(66)	—
Stock-based compensation expense	73	79
Depreciation and amortization	23	34
Amortization of operating right-of-use assets	97	112
Amortization of definite-lived intangible assets	20	21
Non-cash lease expense	9	—
Provision (recovery) for credit losses	(17)	25
Deferred income tax	143	108
Changes in operating assets and liabilities:		
Accounts receivable	63	48
Notes receivable	—	(48)
Deferred contract charges	(36)	20
Prepaid expenses and other current assets	(173)	(184)
Accounts payable - trade	84	81
Accrued expenses	59	281
Operating lease liabilities	(118)	(127)
Deferred revenues	(167)	(208)
<b>Cash provided by operating activities</b>	<b>520</b>	<b>628</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of short-term investments	(5,039)	—
Maturities of short-term investments	3,000	—
Payments received on notes receivable	10	15
Proceeds from sale of assets	6	—
Purchase of definite-lived intangible assets	—	(5)
Purchase of property and equipment	—	(22)
<b>Cash used in investing activities</b>	<b>(2,023)</b>	<b>(12)</b>
Net (decrease)/increase in cash and cash equivalents	(1,503)	616
Cash and cash equivalents, beginning of period	2,886	5,328
Cash and cash equivalents, end of period	<u>\$ 1,383</u>	<u>\$ 5,944</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
<b>CASH PAID FOR:</b>		
Income taxes (net of refunds)	<u>\$ 50</u>	<u>\$ 5</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”), express restaurants (“Express Units”) 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. 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 30, 2024.

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.

**Short-Term Investments**

The Company holds short-term investments in treasury bills, classified as trading securities. Accordingly, interest income is recorded through the Condensed Consolidated Statements of Income, when earned. Management has elected to classify all treasury bills as short-term, regardless of their maturity dates, as these are readily available to fund current operations and can be liquidated at any time at the discretion of the Company. As of September 29, 2024 and June 30, 2024, the Company held treasury bills valued at \$7.1 million and \$4.9 million, respectively, which are included within short-term investments on the accompanying Condensed Consolidated Balance Sheets. For the three months ended September 29, 2024 and September 24, 2023, interest income recognized on the treasury bills was \$76 thousand and \$2 thousand, respectively.

**Fair Value Measurements**

Assets and liabilities carried at fair value are categorized based on the level of judgment associated with the inputs used to measure their fair value. Authoritative guidance for fair value measurements establishes a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into the following three levels:

- Level 1: Inputs are unadjusted quoted market prices in active markets for identical assets or liabilities at the measurement date.
- Level 2: Inputs (other than quoted prices included in Level 1) that are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date for the duration of the instrument’s anticipated life.
- Level 3: Inputs are unobservable and therefore reflect management’s best estimate of the assumptions that market participants would use in pricing the asset or liability.

The fair value of the Company’s investments in U.S. Treasury bills at September 29, 2024 and September 24, 2023, was determined using level 1 observable inputs. Management believes the carrying amounts of other financial instruments at September 29, 2024 and September 24, 2023, including cash, accounts receivable, accounts payable, and accrued expenses are representative of their fair values due to their short-term maturities.

The following table summarizes the Company's financial assets and financial liabilities measured at fair value at September 29, 2024:

<b>Fair Value Measurements</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
U.S. Treasury bills	\$ 7,050,421	\$ —	\$ —	\$ 7,050,421
	<u>\$ 7,050,421</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 7,050,421</u>

The Company did not have any financial assets or liabilities at September 24, 2023 that were measured at fair value. The Company has no financial assets or liabilities classified within Level 3 of the valuation hierarchy.

These items are classified in their entirety based on the lowest priority level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement of assets and liabilities within the levels of the fair value hierarchy.

#### **Accounts Receivable and Allowance for Credit Losses**

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 that may be unrecoverable based upon an analysis of the Company's prior collection experience, customer creditworthiness and current economic trends. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. Finance charges may be accrued at a rate of 18% per year, or up to the maximum amount allowed by law, on past due receivables. The interest income recorded from finance charges is immaterial.

The Company monitors franchisee receivable balances and adjusts credit terms when necessary to minimize the Company's exposure to high-risk accounts receivable. For the three month period ended September 29, 2024, recoveries for credit losses was \$17 thousand compared to provision for credit losses of \$25 thousand for the same period in the prior fiscal year. During the three month period ended September 29, 2024, the Company recorded a gain in provision for credit losses due to the recoveries of receivables that had been previously reserved.

Changes in the allowance for credit losses from continuing operations consisted of the following (in thousands):

	<b>September 29, 2024</b>	<b>September 24, 2023</b>
Beginning balance	\$ 57	\$ 58
Provision (recovery) for credit losses	(17)	25
Amounts written off	—	(72)
Ending balance	<u>\$ 40</u>	<u>\$ 11</u>

#### **Fiscal Quarters**

The three month periods ended September 29, 2024 and September 24, 2023 each contained 13 weeks.

#### **Use of Management Estimates**

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

#### **Recent Accounting Pronouncements**

In November 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU" or "standard") 2023-07, Segment Reporting: Improvements to Reportable Segment Disclosures (Topic 280), which requires companies to enhance disclosure of significant reportable segment expenses. The new guidance is effective for the Company after December 15, 2024. Management believes that adopting this standard will not have a material impact on the Company's consolidated financial statements and related disclosures as a result of adopting this standard.

In December 2023, FASB issued ASU 2023-09, Income Taxes: Improvements to Income Tax Disclosures (Topic 740), which requires companies to provide a more granular breakdown of the components that make up their effective tax rate and additional disclosures about the nature and effect of significant reconciling items. The new guidance is effective for the Company after December 15, 2024. Management believes that adopting this standard will not have a 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 fund contributions, and 6) supplier convention funds.

Franchise royalties, which are based on a percentage of net retail 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. In the event of a closed franchise or terminated development agreement, the remaining balance of unamortized license fees will be recognized in entirety as of the date of the closure or termination.

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 non-cancelable 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):

	<b>Three Months Ended</b>	
	<b>September 29, 2024</b>	<b>September 24, 2023</b>
Franchise royalties	\$ 1,121	\$ 1,225
Supplier and distributor incentive revenues	1,192	1,100
Franchise license fees	28	101
Area development exclusivity fees and foreign master license fees	3	4
Advertising fund contributions	464	422
Supplier convention funds	217	187
Rental income	23	46
Other	2	2
	<u>\$ 3,050</u>	<u>\$ 3,087</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 non-cancelable 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 months ended September 29, 2024 and September 24, 2023, where operating lease cost is included in general and administrative expense and sublease income is included in revenues in the accompanying Condensed Consolidated Statements of Income, are as follows (in thousands):

	<b>Three Months Ended</b>	<b>Three Months Ended</b>
	<b>September 29, 2024</b>	<b>September 24, 2023</b>
Operating lease cost	\$ 104	\$ 123
Sublease income	(23)	(47)
Total lease expense, net of sublease income	<u>\$ 81</u>	<u>\$ 76</u>

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

	<b>September 29, 2024</b>	<b>September 24, 2023</b>
Weighted average remaining lease term	1.6 Years	1.8 Years
Weighted average discount rate	4.0%	4.0%

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

	<b>Operating Leases</b>
2025	\$ 314
2026	382
2027	191
Total operating lease payments	\$ 887
Less: imputed interest	(39)
Total operating lease liability	<u>\$ 848</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 months ended September 29, 2024 and September 24, 2023, the Company recognized stock-based compensation expense related to stock options of zero. As of September 29, 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:

	<b>Three months ended</b>	
	<b>September 29, 2024</b>	<b>September 24, 2023</b>
	Shares	Shares
Outstanding at beginning of year	114,286	151,750
Granted	—	—
Exercised	—	—
Forfeited/Canceled/Expired	—	(8,664)
Outstanding at end of period	<u>114,286</u>	<u>143,086</u>
Exercisable at end of period	<u>114,286</u>	<u>143,086</u>

**Restricted Stock Units:**

For the three months ended September 29, 2024 and September 24, 2023, the Company had stock-based compensation expense related to RSUs of \$73 thousand and \$79 thousand, respectively. As of September 29, 2024, there was \$191 thousand unamortized stock-based compensation expense related to RSUs.

As of September 29, 2024 and September 24, 2023, the RSUs will be amortized during the next 25 and one months, respectively. A summary of the status of RSUs as of September 29, 2024, and changes during the three months then ended is presented below:

	<b>Three months ended</b>	
	<b>September 29, 2024</b>	<b>September 24, 2023</b>

	<u>Shares</u>	<u>Shares</u>
Unvested at beginning of year	269,063	885,687
Performance adjustment	30,771	(25,223)
Granted	—	—
Issued	—	—
Forfeited	—	—
Unvested at September 29, 2024	<u>299,834</u>	<u>860,464</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):

	<b>Three Months Ended</b>	
	<b>September 29, 2024</b>	<b>September 24, 2023</b>
Net income available to common shareholders	\$ 526	\$ 386
<b>BASIC:</b>		
Weighted average common shares	14,587	14,154
Net income per common share	\$ 0.04	\$ 0.03
<b>DILUTED:</b>		
Weighted average common shares	14,587	14,154
Dilutive stock options and restricted stock units	212	608
Weighted average common shares outstanding	14,799	14,762
Net income per common share	\$ 0.04	\$ 0.03

For the three months ended September 29, 2024, exercisable options to purchase 71,886 shares of common stock at exercise prices from \$3.95 to \$13.11 were excluded from the computation of diluted EPS because they had an intrinsic value of zero. For the three months ended September 29, 2024, 105,000 RSUs were excluded from the computation of diluted EPS because performance criteria is not probable at period end.

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

**Note F - Income Taxes**

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

	<b>Three months ended</b>	
	<b>September 29, 2024</b>	<b>September 24, 2023</b>
Federal tax expense	\$ 143	\$ 108
State tax expense	26	24
Total income tax expense	\$ 169	\$ 132

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 months ended September 29, 2024 and September 24, 2023 (in thousands):

	Three Months Ended	
	September 29, 2024	September 24, 2023
<b>Net sales and operating revenues:</b>		
Pizza Inn Franchising	\$ 2,720	\$ 2,604
Pie Five Franchising	307	436
Corporate administration and other	23	47
Consolidated revenues	<u>\$ 3,050</u>	<u>\$ 3,087</u>
<b>Depreciation and amortization:</b>		
Corporate administration and other	\$ 43	\$ 55
Depreciation and amortization	<u>\$ 43</u>	<u>\$ 55</u>
<b>Income before taxes:</b>		
Pizza Inn Franchising	\$ 1,831	\$ 1,661
Pie Five Franchising	201	209
Combined	<u>2,032</u>	<u>1,870</u>
Corporate administration and other	(1,337)	(1,352)
Income before taxes	<u>\$ 695</u>	<u>\$ 518</u>
<b>Geographic information (revenues):</b>		
United States	\$ 2,987	\$ 3,034
Foreign countries	63	53
Consolidated revenues	<u>\$ 3,050</u>	<u>\$ 3,087</u>

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

The following discussion should be read in conjunction with the consolidated financial statements and accompanying notes appearing elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended June 30, 2024 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 30, 2024. 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 restaurants (“Express Units”) 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 September 29, 2024, franchised and licensed units consisted of the following:

**Three Months Ended September 29, 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	102	\$ 25,370	20	\$ 2,978	122	\$ 28,348
International Franchised	26	\$ 1,774	—	\$ —	26	\$ 1,774

The domestic units were located in 15 states predominantly situated in the southern half of the United States. The international units were located in eight foreign countries.

**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.
- “Average units open” reflects the number of restaurants open during a reporting period weighted by the percentage of the days in a reporting period that each restaurant was open.
- “Non-operating store costs” represent gain or loss on asset disposal, store closure expenses, lease termination expenses and expenses related to abandoned store sites.
- “Franchisee default and closed store revenue/expense” represents the net of accelerated revenues and costs attributable to defaulted area development agreements and closed franchised stores.

**EBITDA and Adjusted EBITDA**

Adjusted EBITDA for the fiscal quarter ended September 29, 2024 increased \$0.1 million compared to the same period of the prior fiscal year. The following table sets forth a reconciliation of net income to EBITDA and Adjusted EBITDA for the periods shown (in thousands):

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

	<b>Three Months Ended</b>	
	<b>September 29, 2024</b>	<b>September 24, 2023</b>
Net income	\$ 526	\$ 386
Interest income	(82)	(2)
Income taxes	169	132
Depreciation and amortization	43	55
EBITDA	<u>\$ 656</u>	<u>\$ 571</u>
Stock-based compensation expense	73	79
Franchisee default and closed store revenue	(9)	(64)
Adjusted EBITDA	<u>\$ 720</u>	<u>\$ 586</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:

	<b>Three Months Ended</b>	
	<b>September 29, 2024</b>	<b>September 24, 2023</b>
<b>Pizza Inn Retail Sales - Total Domestic Units</b>	<i>(in thousands, except unit data)</i>	
Buffet Units - Franchised	\$ 24,499	\$ 25,011
Delco/Express Units - Franchised	859	999
PIE Units - Licensed	10	20
Pizza Inn Ghost Kitchen Units - Franchised	2	—
Total Domestic Retail Sales	<u>\$ 25,370</u>	<u>\$ 26,030</u>
<b>Pizza Inn Comparable Store Retail Sales - Total Domestic</b>	24,004	24,524
<b>Pizza Inn Average Units Open in Period</b>		
Buffet Units - Franchised	78	75
Delco/Express Units - Franchised	23	37
PIE Units - Licensed	2	4
Pizza Inn Ghost Kitchen	1	—
Total Domestic Units	<u>104</u>	<u>116</u>



Pizza Inn total domestic retail sales decreased by \$0.7 million, or 2.5%, for the three months ended September 29, 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 75 to 78. Comparable store retail sales decreased by \$0.5 million, or 2.1%, for the three month period ended September 29, 2024 as compared to the same period of the prior fiscal year. For the three months ended September 29, 2024, the decrease in domestic retail sales were primarily the result of the decrease in comparable domestic store retail sales, offset by an increase in Buffet Units.

The following chart summarizes Pizza Inn restaurant activity for the three months ended September 29, 2024:

	Three Months Ended September 29, 2024					Ending Units
	Beginning Units	Opened	Concept Change	Transfer	Closed	
Buffet Units - Franchised	78	—	—	—	1	77
Delco/Express Units - Franchised	23	—	—	—	—	23
PIE Units - Licensed	3	—	—	—	2	1
Pizza Inn Ghost Kitchen Units - Franchised	1	—	—	—	—	1
Total Domestic Units	105	—	—	—	3	102
International Units (all types)	24	2	—	—	—	26
Total Units	129	2	—	—	3	128

There was a net decrease of three units in the total domestic Pizza Inn unit count during the three months ended September 29, 2024. There were zero transfers in the total domestic Pizza Inn unit count during the three months ended September 29, 2024. For the three months ended September 29, 2024, the number of international Pizza Inn units increased by two units. There were zero transfers in the total international Pizza Inn unit count during the three months ended September 29, 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	
	September 29, 2024	September 24, 2023
<b>Pie Five Retail Sales - Total Units</b>		
<i>(in thousands, except unit data)</i>		
Pie Five Units - Franchised	\$ 2,885	\$ 4,767
Pie Five Ghost Kitchen Units - Franchised	93	—
Total Domestic Retail Sales	\$ 2,978	\$ 4,767
<b>Pie Five Comparable Store Retail Sales - Total</b>	\$ 2,883	\$ 3,156
<b>Pie Five Average Units Open in Period</b>		
Pie Five Units - Franchised	18	27
Pie Five Ghost Kitchen Units - Franchised	2	—
Total Domestic Units	20	27

Pie Five total domestic retail sales decreased by \$1.8 million, or 37.5%, for the three months ended September 29, 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 27 to 20. Comparable store retail sales decreased by \$0.3 million, or 8.7%, for the three month period ended September 29, 2024 as compared to the same period of the prior fiscal year. For the three months ended September 29, 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 months ended September 29, 2024:

Three Months Ended September 29, 2024

	<u>Beginning Units</u>	<u>Opened</u>	<u>Concept Change</u>	<u>Transfer</u>	<u>Closed</u>	<u>Ending Units</u>
Pie Five Units - Franchised	18	—	—	—	—	18
Pie Five Ghost Kitchen Units - Franchised	2	—	—	—	—	2
Total Domestic Units	20	—	—	—	—	20

The Pie Five units remained stable during the three months ended September 29, 2024. 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 months ended September 29, 2024 and September 24, 2023 (in thousands):

	<u>Pizza Inn Franchising</u>		<u>Pie Five Franchising</u>		<u>Corporate</u>		<u>Total</u>	
	<u>Fiscal Quarter Ended September 29, 2024</u>	<u>September 24, 2023</u>	<u>Fiscal Quarter Ended September 29, 2024</u>	<u>September 24, 2023</u>	<u>Fiscal Quarter Ended September 29, 2024</u>	<u>September 24, 2023</u>	<u>Fiscal Quarter Ended September 29, 2024</u>	<u>September 24, 2023</u>
<b>REVENUES:</b>								
Franchise and license revenues	\$ 2,720	\$ 2,604	\$ 306	\$ 435	\$ —	\$ —	\$ 3,026	\$ 3,039
Rental income	—	—	—	—	23	47	23	47
Other income	—	—	1	1	—	—	1	1
Total revenues	2,720	2,604	307	436	23	47	3,050	3,087
<b>COSTS AND EXPENSES:</b>								
General and administrative expenses	—	—	—	—	1,416	1,319	1,416	1,319
Franchise expenses	889	943	106	229	—	—	995	1,172
Provision (recovery) for credit losses	—	—	—	—	(17)	25	(17)	25
Interest income	—	—	—	(2)	(82)	—	(82)	(2)
Depreciation and amortization expense	—	—	—	—	43	55	43	55
Total costs and expenses	889	943	106	227	1,360	1,399	2,355	2,569
<b>INCOME/(LOSS) BEFORE TAXES</b>	<u>\$ 1,831</u>	<u>\$ 1,661</u>	<u>\$ 201</u>	<u>\$ 209</u>	<u>\$ (1,337)</u>	<u>\$ (1,352)</u>	<u>\$ 695</u>	<u>\$ 518</u>

*Revenues:*

Revenues are derived from franchise royalties, supplier and distributor incentives, franchise license fees, area development exclusivity fees and foreign master license fees, advertising funds, supplier convention funds, sublease rental income, 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 September 29, 2024 and for the same period in the prior fiscal year were \$3.1 million and \$3.1 million, respectively.

Pizza Inn Franchise and License

Pizza Inn franchise revenues increased by \$0.1 million to \$2.7 million for the three month period ended September 29, 2024 as compared to the same period in the prior fiscal year. The 4.5% 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 \$0.3 million for the three month period ended September 29, 2024 as compared to the same period in the prior fiscal year. The 29.7% decrease was driven by decreases in domestic royalties.

*Costs and Expenses:*

General and Administrative Expenses

Total general and administrative expenses increased by \$0.1 million to \$1.4 million for the three month period ended September 29, 2024 as compared to the same period of the prior fiscal year. The 7.4% increase was driven by increases in legal fees, primarily due to decreases in legal settlement recoveries.

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 \$1.0 million for the three month period ended September 29, 2024 as compared to the same period of the prior fiscal year. The 15.1% decrease was driven by decreases in advertising fees.

Provision (Recovery) 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 September 29, 2024, recoveries for credit losses was \$17 thousand compared to provision for credit losses of \$25 thousand for the same period in the prior fiscal year. During the three month period ended September 29, 2024, the Company recorded a gain in provision for credit losses due to the recoveries of receivables that had been previously reserved.

Interest Expense and Income

Interest expense was zero for the three months ended September 29, 2024 compared to zero for the same fiscal period of the prior year. Interest income increased by \$80 thousand to \$82 thousand for the three month period ended September 29, 2024 as compared to the same period in the prior fiscal year. The increase was primarily driven by interest received on U.S. Treasury bills.

Amortization and Depreciation Expense

Amortization and depreciation expense decreased by \$12 thousand to \$43 thousand for the three month period ended September 29, 2024 as compared to the same period in the prior fiscal year. The decrease was primarily the result of lower depreciation of equipment.

**Provision for Income Taxes**

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

	<b>Three months ended</b>	
	<b>September 29, 2024</b>	<b>September 24, 2023</b>
Federal tax expense	\$ 143	\$ 108
State tax expense	26	24
Total income tax expense	<u>\$ 169</u>	<u>\$ 132</u>

For the three months ended September 29, 2024 and September 24, 2023, the Company recorded an income tax expense of \$169 thousand and \$132 thousand, respectively. The increase was driven by increases in federal taxes, primarily due to higher taxable income.

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.

Basic net income per share increased \$0.01 per share to \$0.04 per share for the three months ended September 29, 2024, compared to the comparable period in the prior fiscal year. The Company had net income of \$0.5 million for the three months ended September 29, 2024 compared to net income of \$0.4 million in the comparable period in the prior fiscal year, on revenues of \$3.1 million for the three months ended September 29, 2024 compared to \$3.1 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.

**Liquidity and Capital Resources**

During the three month period ended September 29, 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 \$0.5 million for the three month period ended September 29, 2024 compared to cash provided by operating activities of \$0.6 million for the three month period ended September 24, 2023. The primary driver of decreased operating cash flow during the three month period ended September 29, 2024 was decreased accrued expenses related to payroll and related costs.

Cash flows from investing activities reflect purchases and maturities of short-term investments as well as net proceeds from the sale of assets and capital expenditures for the purchase of Company assets. Cash used in investing activities during the three month period ended September 29, 2024 was \$2.0 million compared to cash used in investing activities of \$12 thousand for the three months ended September 24, 2023. Net cash used by investing activities during the three month period ended September 29, 2024 was primarily attributable to increased purchases of U.S. treasury bills.

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 zero for the three month periods ended September 29, 2024 and September 24, 2023.

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. As of September 29, 2024, \$0.6 million has been received and \$0.1 million is still outstanding and included within accounts receivable on the accompanying Condensed Consolidated Balance Sheets.

**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. In the event of a closed franchise or defaulted development agreement, the remaining balance of unamortized license fees will be recognized in entirety as of the date of the closure or default. Royalties and advertising fund revenues, which are based on a percentage of franchise retail sales, are recognized as income as retail sales occur. Supplier incentive revenues are recognized as earned, typically as the underlying commodities are shipped.

The Company continually reviews the realizability of its deferred tax assets, including an analysis of factors such as future taxable income, reversal of existing taxable temporary differences, and tax planning strategies. The Company assesses whether a valuation allowance should be established against its deferred tax assets based on consideration of all available evidence, using a "more likely than not" standard. In assessing the need for the valuation allowance, the Company considers both positive and negative evidence related to the likelihood of realization of deferred tax assets. In making such assessment, more weight is given to evidence that can be objectively verified, including recent operating performance.

The Company accounts for uncertain tax positions in accordance with ASC 740-10, which prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that it has taken or expects to take on a tax return. ASC 740-10 requires that a company recognize in its financial statements the impact of tax positions that meet a "more likely than not" threshold, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. As of September 29, 2024 and June 30, 2024, 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 and Use of Proceeds**

Not applicable.

### **Item 3. Defaults upon Senior Securities**

Not applicable.

### **Item 4. Mine Safety Disclosures**

Not applicable.

### **Item 5. Other Information**

During the three months ended September 29, 2024, no director or officer adopted or terminated any Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement, as each term is defined in Item 408(a) of Regulation S-K.

**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).

[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 10.3 to Form 10-K/A filed on September 30, 2019 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, 2024 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.

104 Cover Page Interactive Data File (formatted as Inline XBRL).

\*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: November 7, 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: November 7, 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: November 7, 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 September 29, 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: November 7, 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.

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

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

The accompanying Quarterly Report on Form 10-Q for the quarter ended September 29, 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: November 7, 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.