

# SECURITIES & EXCHANGE COMMISSION EDGAR FILING

## Rocky Mountain Chocolate Factory, Inc.

**Form: 10-Q**

**Date Filed: 2018-10-15**

Corporate Issuer CIK: 1616262

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 August 31, 2018

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: 001-36865



**Rocky Mountain Chocolate Factory, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
Incorporation or organization)

**47-1535633**

(I.R.S. Employer Identification No.)

**265 Turner Drive, Durango, CO 81303**

(Address of principal executive offices, including zip code)

**(970) 259-0554**

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes  No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer (Do not check if a smaller reporting company)	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 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

On October 1, 2018, the registrant had outstanding 5,948,660 shares of its common stock, \$.001 par value.

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARIES

FORM 10-Q

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**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(unaudited)

	Three Months Ended August 31,		Six Months Ended August 31,	
	2018	2017	2018	2017
<b>Revenues</b>				
Sales	\$ 5,736,319	\$ 6,063,381	\$ 12,318,368	\$ 13,270,320
Franchise and royalty fees	2,063,769	2,203,310	3,847,805	4,342,818
Total Revenue	7,800,088	8,266,691	16,166,173	17,613,138
<b>Costs and Expenses</b>				
Cost of sales	3,883,884	3,852,471	8,549,126	8,867,436
Franchise costs	582,798	558,407	1,076,048	1,073,199
Sales and marketing	565,212	566,031	1,153,462	1,192,383
General and administrative	813,388	976,647	1,727,835	2,105,353
Retail operating	498,856	616,927	1,061,328	1,189,751
Depreciation and amortization, exclusive of depreciation and amortization expense of \$138,212, \$127,882, \$274,717 and \$253,497, respectively, included in cost of sales	296,737	194,990	597,737	389,924
Restructuring and acquisition related charges	118,793	-	176,981	-
Total costs and expenses	6,759,668	6,765,473	14,342,517	14,818,046
<b>Income from Operations</b>	1,040,420	1,501,218	1,823,656	2,795,092
<b>Other Income (Expense)</b>				
Interest Expense	(19,418)	(32,088)	(42,057)	(67,277)
Interest Income	4,627	6,213	9,204	13,431
Other income (expense), net	(14,791)	(25,875)	(32,853)	(53,846)
<b>Income Before Income Taxes</b>	1,025,629	1,475,343	1,790,803	2,741,246
<b>Income Tax Provision</b>	274,814	547,059	463,044	999,290
<b>Consolidated Net Income</b>	\$ 750,815	\$ 928,284	\$ 1,327,759	\$ 1,741,956
<b>Basic Earnings per Common Share</b>	\$ .13	\$ 0.16	\$ .22	\$ 0.30
<b>Diluted Earnings per Common Share</b>	\$ .13	\$ 0.16	\$ .22	\$ 0.29
<b>Weighted Average Common Shares Outstanding - Basic</b>	5,923,351	5,876,727	5,914,383	5,865,549
<b>Dilutive Effect of Employee Stock Awards</b>	59,479	104,776	68,536	114,071
<b>Weighted Average Common Shares Outstanding - Diluted</b>	5,982,830	5,981,503	5,982,919	5,979,620

The accompanying notes are an integral part of these consolidated financial statements.

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

	August 31, 2018 (unaudited)	February 28, 2018
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 5,173,235	\$ 6,072,984
Accounts receivable, less allowance for doubtful accounts of \$520,262 and \$479,472, respectively	3,458,476	3,897,334
Notes receivable, current portion, less current portion of the valuation allowance of \$12,500 and \$9,000, respectively	73,025	105,540
Refundable income taxes	85,178	342,863
Inventories, less reserve for slow moving inventory of \$364,248 and \$357,706, respectively	6,009,845	4,842,474
Other	464,477	310,173
<b>Total current assets</b>	<b>15,264,236</b>	<b>15,571,368</b>
<b>Property and Equipment, Net</b>	<b>5,855,990</b>	<b>6,166,240</b>
<b>Other Assets</b>		
Notes receivable, less current portion and valuation allowance of \$14,000 and \$17,500, respectively	199,642	235,983
Goodwill, net	1,046,944	1,046,944
Franchise rights, net	4,056,424	4,433,927
Intangible assets, net	542,307	587,377
Deferred income taxes	494,555	835,463
Other	70,116	63,333
<b>Total other assets</b>	<b>6,409,988</b>	<b>7,203,027</b>
<b>Total Assets</b>	<b>\$ 27,530,214</b>	<b>\$ 28,940,635</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities</b>		
Current maturities of long term debt	\$ 1,378,601	\$ 1,352,993
Accounts payable	1,351,295	1,647,991
Accrued salaries and wages	648,005	644,005
Gift card liabilities	688,572	3,057,131
Other accrued expenses	184,310	325,034
Dividend payable	713,839	708,652
Deferred revenue	291,676	471,910
<b>Total current liabilities</b>	<b>5,256,298</b>	<b>8,207,616</b>
<b>Long-Term Debt, Less Current Maturities</b>	<b>480,372</b>	<b>1,176,416</b>
<b>Deferred Revenue, Less Current Portion</b>	<b>1,125,017</b>	<b>-</b>
<b>Commitments and Contingencies</b>		
<b>Stockholders' Equity</b>		
Preferred stock, \$.001 par value per share; 250,000 authorized; -0- shares issued and outstanding Series A Junior Participating Preferred Stock, authorized 50,000 shares	-	-
Undesignated series, authorized 200,000 shares	-	-
Common stock, \$.001 par value, 46,000,000 shares authorized, 5,948,660 shares and 5,903,436 shares issued and outstanding, respectively	5,949	5,903
Additional paid-in capital	6,411,829	6,131,147
Retained earnings	14,250,749	13,419,553
<b>Total stockholders' equity</b>	<b>20,668,527</b>	<b>19,556,603</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 27,530,214</b>	<b>\$ 28,940,635</b>

The accompanying notes are an integral part of these consolidated financial statements.

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(unaudited)

	Six Months Ended August 31,	
	2018	2017
<b>Cash Flows From Operating Activities</b>		
Net Income	\$ 1,327,759	\$ 1,741,956
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	872,454	643,421
Provision for obsolete inventory	57,614	43,660
Provision for loss on accounts and notes receivable	40,800	58,800
Asset impairment and store closure losses	67,822	-
Loss on sale or disposal of property and equipment	26,020	17,912
Expense recorded for stock compensation	280,728	324,480
Deferred income taxes	38,814	61,987
Changes in operating assets and liabilities:		
Accounts receivable	421,162	756,766
Refundable income taxes	257,685	(125,447)
Inventories	(1,579,686)	(1,421,625)
Other current assets	(154,537)	(131,457)
Accounts payable	58,005	56,151
Accrued liabilities	(254,540)	76,776
Deferred income	(71,671)	85,270
Net cash provided by operating activities	1,388,429	2,188,650
<b>Cash Flows from Investing Activities</b>		
Addition to notes receivable	-	(14,292)
Proceeds received on notes receivable	55,612	135,733
Purchase of intangible assets	-	(8,508)
Proceeds from (cost of) sale or distribution of assets	4,023	(9,576)
Purchases of property and equipment	(246,455)	(283,988)
(Increase) decrease in other assets	(13,717)	7,697
Net cash used in investing activities	(200,537)	(172,934)
<b>Cash Flows from Financing Activities</b>		
Payments on long-term debt	(670,336)	(645,564)
Dividends paid	(1,417,305)	(1,405,050)
Net cash used in financing activities	(2,087,641)	(2,050,614)
<b>Net Decrease in Cash and Cash Equivalents</b>	(899,749)	(34,898)
<b>Cash and Cash Equivalents, Beginning of Period</b>	6,072,984	5,779,195
<b>Cash and Cash Equivalents, End of Period</b>	\$ 5,173,235	\$ 5,744,297

The accompanying notes are an integral part of these consolidated financial statements.

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARIES  
NOTES TO INTERIM (UNAUDITED) CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Nature of Operations

The accompanying consolidated financial statements include the accounts of Rocky Mountain Chocolate Factory, Inc., a Delaware corporation, its wholly-owned subsidiaries, Rocky Mountain Chocolate Factory, Inc., a Colorado corporation ("RMCF"), Aspen Leaf Yogurt, LLC, a Colorado limited liability company ("ALY"), U-Swirl International, Inc., a Nevada corporation ("U-Swirl"), and its 46%-owned subsidiary, U-Swirl, Inc., a Nevada corporation ("SWRL") of which, RMCF had financial control until February 29, 2016 (collectively, the "Company"). All intercompany balances and transactions have been eliminated in consolidation.

The Company is an international franchisor, confectionery manufacturer and retail operator. Founded in 1981, the Company is headquartered in Durango, Colorado and manufactures an extensive line of premium chocolate candies and other confectionery products. U-Swirl franchises and operates soft-serve frozen yogurt cafés. The Company also sells its candy outside of its system of retail stores and licenses the use of its brand with certain consumer products.

In January 2013, through its wholly-owned subsidiaries, including ALY, the Company entered into two agreements to sell all of the assets of its ALY frozen yogurt stores, along with its interest in the self-serve frozen yogurt franchises and retail units branded as "Yogurtini" which the Company also acquired in January 2013, to SWRL, in exchange for a 60% controlling equity interest in SWRL, which has been subsequently diluted down to 46% as of August 31, 2018 following various issuances of common stock of SWRL. Until February 29, 2016, U-Swirl was a wholly-owned subsidiary of SWRL, and was the operating subsidiary for all of SWRL's operations. The SWRL Board of Directors is composed solely of Board members also serving on the Company's Board of Directors.

In fiscal year ("FY") 2014, SWRL acquired the franchise rights and certain other assets of self-serve frozen yogurt concepts under the names "CherryBerry," "Yogli Mogli Frozen Yogurt" and "Fuzzy Peach Frozen Yogurt." In connection with these acquisitions, we entered into a credit facility with Wells Fargo Bank, N.A. used to finance the acquisitions by SWRL, and in turn, we entered into a loan and security agreement with SWRL to cover the purchase price and other costs associated with the acquisitions (the "SWRL Loan Agreement"). Borrowings under the SWRL Loan Agreement were secured by all of the assets of SWRL, including all of the outstanding stock of its wholly-owned subsidiary, U-Swirl. As a result of certain defaults under the SWRL Loan Agreement, we issued a demand for payment of all obligations under the SWRL Loan Agreement. SWRL was unable to repay the obligations under the SWRL Loan Agreement, and as a result, we foreclosed on all of the outstanding stock of U-Swirl on February 29, 2016 in full satisfaction of the amounts owed under the SWRL Loan Agreement. This resulted in U-Swirl becoming our wholly-owned subsidiary as of February 29, 2016, and concurrently we ceased to have financial control of SWRL as of February 29, 2016. As of August 31, 2018, SWRL had no operating assets.

U-Swirl operates self-serve frozen yogurt cafés under the names "U-Swirl," "Yogurtini," "CherryBerry," "Yogli Mogli Frozen Yogurt," "Fuzzy Peach Frozen Yogurt," "Let's Yo!" and "Aspen Leaf Yogurt".

The Company's revenues are currently derived from three principal sources: sales to franchisees and others of chocolates and other confectionery products manufactured by the Company; the collection of initial franchise fees and royalties from franchisees' sales of both confectionery products and frozen yogurt; and sales at Company-owned stores of chocolates, frozen yogurt, and other confectionery products.

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARIES  
NOTES TO INTERIM (UNAUDITED) CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes the number of stores operating under the Rocky Mountain Chocolate Factory brand and frozen yogurt cafés as of August 31, 2018:

	Sold, Not Yet Open	Open	Total
<b>Rocky Mountain Chocolate Factory</b>			
Company-owned stores	-	3	3
Franchise stores - Domestic stores and kiosks	7	182	189
International license stores	1	67	68
Cold Stone Creamery - co-branded	9	89	98
<b>U-Swirl (Including all associated brands)</b>			
Company-owned stores	-	1	1
Company-owned stores - co-branded	-	3	3
Franchise stores - Domestic stores*	*	95	95
Franchise stores - Domestic - co-branded*	*	11	11
International license stores	-	1	1
<b>Total</b>	<b>17</b>	<b>452</b>	<b>469</b>

\*U-Swirl cafés and the brands franchised by U-Swirl have historically utilized a development area sales model. The result is that many areas are under development, and the rights to open cafés within the development areas have been established, but there is no assurance that any individual development area will result in a determinable number of café openings.

#### Basis of Presentation

The accompanying consolidated financial statements have been prepared by the Company, without audit, and reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial reporting and Securities and Exchange Commission regulations. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the consolidated financial statements reflect all adjustments (of a normal and recurring nature) which are necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. The results of operations for the six months ended August 31, 2018 are not necessarily indicative of the results to be expected for the entire fiscal year.

These consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended February 28, 2018.

#### Subsequent Events

Management evaluated all activity of the Company through the issue date of the financial statements and concluded that no subsequent events have occurred that would require recognition or disclosure in the financial statements.

#### Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 significantly changes the impairment model for most financial assets and certain other instruments. ASU 2016-13 will require immediate recognition of estimated credit losses expected to occur over the remaining life of many financial assets, which will generally result in earlier recognition of allowances for credit losses on loans and other financial instruments. ASU 2016-13 is effective for the Company's fiscal year beginning March 1, 2020 and subsequent interim periods. The Company is currently evaluating the impact the adoption of ASU 2016-13 will have on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires the recognition of lease assets and lease liabilities on the balance sheet by lessees for those leases currently classified as operating leases under ASC 840 "Leases." These amendments also require qualitative disclosures along with specific quantitative disclosures. These amendments are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. The Company can elect to record a cumulative-effect adjustment as of the beginning of the year of adoption or apply a modified retrospective transition approach. The Company expects that substantially all of its operating lease commitments will be subject to the new guidance and will be recognized as operating lease liabilities and right-of-use assets upon adoption. The Company anticipates ASU 2016-02 will have a material impact on the consolidated balance sheet. The impact of ASU 2016-02 is non-cash in nature, as such, it will not affect the Company's cash flows. The Company is currently evaluating the impact of ASU 2016-02 on the consolidated statements of income.



ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARIES  
NOTES TO INTERIM (UNAUDITED) CONSOLIDATED FINANCIAL STATEMENTS

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers ("ASC 606"). This guidance, as amended by subsequent ASUs on the topic, supersedes current guidance on revenue recognition in Topic 605, Revenue Recognition. ASC 606 provides that revenues are to be recognized when control of promised goods or services is transferred to a customer in an amount that reflects the consideration expected to be received for those goods or services. This new standard does not impact the Company's recognition of revenue from sales of confectionary items to our franchisees and others, or in Company-owned stores as those sales are recognized at the time of the underlying sale and are presented net of sales taxes and discounts. The standard also did not change the recognition of royalties and marketing fees from franchised or licensed locations, which are based on a percent of sales and recognized at the time the sales occur. The standard changed the timing in which the Company recognizes initial fees from franchisees and licensees for new franchise locations and renewals that impact the term of the franchise agreement. The Company's policy for recognizing initial franchise and renewal fees through February 28, 2018, was to recognize initial franchise fees upon new store opening and renewals that impact the term of the franchise agreement upon renewal. In accordance with the new guidance, the initial franchise services are not distinct from the continuing rights or services offered during the term of the franchise agreement, and will be treated as a single performance obligation. Beginning March 1, 2018, initial franchise fees are being recognized as the Company satisfies the performance obligation over the term of the franchise agreement, which is generally 10-15 years.

The Company adopted ASC 606 as of March 1, 2018, using the modified retrospective method. This method allows the new standard to be applied retrospectively through a cumulative catch up adjustment recognized upon adoption. As a result, comparative information in the Company's financial statements has not been restated and continues to be reported under the accounting standards in effect for those periods. See Note 12 to these financial statements for additional details regarding the adjustments recorded upon adoption of this standard.

#### NOTE 2 – EARNINGS PER SHARE

Basic earnings per share is calculated using the weighted-average number of common shares outstanding. Diluted earnings per share reflects the potential dilution that could occur from common shares issuable through the settlement of restricted stock units. Restricted stock units become dilutive within the period granted and remain dilutive until the units vest and are issued as common stock.

#### NOTE 3 – INVENTORIES

Inventories consist of the following:

	August 31, 2018	February 28, 2018
Ingredients and supplies	\$ 2,828,131	\$ 2,764,727
Finished candy	3,487,938	2,371,610
U-Swirl, Inc. food and packaging	58,024	63,843
Reserve for slow moving inventory	(364,248)	(357,706)
Total inventories	\$ 6,009,845	\$ 4,842,474

#### NOTE 4 – PROPERTY AND EQUIPMENT, NET

Property and equipment at August 31, 2018 and February 28, 2018 consists of the following:

	August 31, 2018	February 28, 2018
Land	\$ 513,618	\$ 513,618
Building	4,803,445	4,905,103
Machinery and equipment	10,180,006	10,686,631
Furniture and fixtures	890,766	1,067,788
Leasehold improvements	1,187,856	1,568,260
Transportation equipment	422,458	434,091
Asset impairment	(77,891)	(62,891)
	17,920,258	19,112,600
Less accumulated depreciation	(12,064,268)	(12,946,360)
Property and equipment, net	\$ 5,855,990	\$ 6,166,240

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARIES  
NOTES TO INTERIM (UNAUDITED) CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 – STOCKHOLDERS' EQUITY

Cash Dividend

The Company paid a quarterly cash dividend of \$0.12 per common share on March 16, 2018 to stockholders of record on March 6, 2018. The Company paid a quarterly cash dividend of \$0.12 per share of common stock on June 15, 2018 to stockholders of record on June 5, 2018. The Company declared a quarterly cash dividend of \$0.12 per share of common stock on August 16, 2018, which was paid on September 14, 2018 to stockholders of record on September 4, 2018.

Future declaration of dividends will depend on, among other things, the Company's results of operations, capital requirements, financial condition and on such other factors as the Board of Directors may in its discretion consider relevant and in the best long-term interest of the Company's stockholders. The Company is subject to various financial covenants related to its line of credit and other long-term debt, however, those covenants do not restrict the Board of Director's discretion on the future declaration of cash dividends.

Stock Repurchases

On July 15, 2014, the Company publicly announced a plan to repurchase up to \$3.0 million of its common stock in the open market or in private transactions, whenever deemed appropriate by management. On January 13, 2015, the Company announced a plan to purchase up to an additional \$2,058,000 of its common stock under the repurchase plan, and on May 21, 2015, the Company announced a further increase to the repurchase plan by authorizing the purchase of up to an additional \$2,090,000 of its common stock under the repurchase plan. The Company did not repurchase any shares during the three and six months ended August 31, 2018. As of August 31, 2018, approximately \$638,000 remains available under the repurchase plan for further stock repurchases.

Stock-Based Compensation

At August 31, 2018, the Company has stock-based compensation plans for employees and non-employee directors that authorize the granting of stock awards, including stock options, restricted stock and restricted stock units.

The Company recognized \$124,921 and \$280,728 of stock-based compensation expense during the three- and six-month periods ended August 31, 2018, respectively, compared to \$190,065 and \$324,480 during the three- and six-month periods ended August 31, 2017, respectively. Compensation costs related to stock-based compensation are generally amortized over the vesting period of the stock awards.

The following table summarizes restricted stock unit activity during the six months ended August 31, 2018 and 2017:

	Six Months Ended August 31,	
	2018	2017
Outstanding non-vested restricted stock units as of February 28:	77,594	123,658
Granted	-	-
Vested	(43,224)	(44,064)
Cancelled/forfeited	(200)	(1,360)
Outstanding non-vested restricted stock units as of August 31:	34,170	78,234
Weighted average grant date fair value	\$ 12.05	\$ 12.17
Weighted average remaining vesting period (in years)	0.88	1.76

The Company issued 2,000 fully vested, unrestricted shares of common stock to non-employee directors during the six months ended August 31, 2018 compared to no shares issued during the six months ended August 31, 2017. In connection with these non-employee director stock issuances, the Company recognized \$24,480 and \$0 of stock-based compensation expense during the six months ended August 31, 2018 and 2017, respectively.

During the three months ended August 31, 2017, the Company issued 5,000 shares of unrestricted common stock under the Company's equity incentive plan to an independent contractor providing information technology consulting services to the Company. These shares were issued as a part of the compensation for services rendered to the Company by the contractor. In connection with this stock award, the Company recognized \$59,100 in expense during the three months ended August 31, 2017. No comparable shares were issued and no comparable expense was recorded in the three months ended August 31, 2018.

During the three- and six-month periods ended August 31, 2018, the Company recognized \$124,921 and \$256,248, respectively, of stock-based compensation expense related to restricted stock unit grants. The restricted stock unit grants generally vest between 17% and 20% annually over a period of five to six years. During the six-month periods ended August 31, 2018 and 2017, 43,224 and 44,064 restricted stock units vested and were issued as common stock, respectively. Total unrecognized compensation expense of non-vested, non-forfeited restricted stock units granted as of August 31, 2018 was \$361,905, which is expected to be recognized over the weighted-average period of 0.9 years.

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARIES  
NOTES TO INTERIM (UNAUDITED) CONSOLIDATED FINANCIAL STATEMENTS

The Company has no outstanding stock options as of August 31, 2018.

NOTE 6 – SUPPLEMENTAL CASH FLOW INFORMATION

	Six Months Ended August 31,	
	2018	2017
Cash paid for:		
Interest, net	\$ 33,006	\$ 53,345
Income taxes	166,545	1,062,750
Non-cash Operating Activities		
Accrued Inventory	96,454	325,922
Non-cash Financing Activities		
Dividend payable	\$ 713,839	\$ 708,412

NOTE 7 – OPERATING SEGMENTS

The Company classifies its business interests into five reportable segments: Franchising, Manufacturing, Retail Stores, U-Swirl operations and Other. The accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 1 to these consolidated financial statements and Note 1 to the Company's consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended February 28, 2018. The Company evaluates performance and allocates resources based on operating contribution, which excludes unallocated corporate general and administrative costs and income tax expense or benefit. The Company's reportable segments are strategic businesses that utilize common merchandising, distribution and marketing functions, as well as common information systems and corporate administration. All inter-segment sales prices are market based. Each segment is managed separately because of the differences in required infrastructure and the difference in products and services:

Three Months Ended August 31, 2018	Franchising	Manufacturing	Retail	U-Swirl	Other	Total
Total revenues	\$ 1,470,486	\$ 5,032,787	\$ 298,359	\$ 1,250,905	\$ -	\$ 8,052,537
Intersegment revenues	(1,732)	(250,717)	-	-	-	(252,449)
Revenue from external customers	1,468,754	4,782,070	298,359	1,250,905	-	7,800,088
Segment profit (loss)	693,383	1,070,613	(120,262)	229,818	(847,923)	1,025,629
Total assets	1,199,536	13,332,652	1,011,649	5,920,971	6,065,406	27,530,214
Capital expenditures	6	61,152	1,734	9,966	43,025	115,883
Total depreciation & amortization	\$ 11,631	\$ 142,697	\$ 11,179	\$ 241,033	\$ 28,409	\$ 434,949

Three Months Ended August 31, 2017	Franchising	Manufacturing	Retail	U-Swirl	Other	Total
Total revenues	\$ 1,492,673	\$ 5,211,974	\$ 484,963	\$ 1,408,678	\$ -	\$ 8,598,288
Intersegment revenues	(1,109)	(330,488)	-	-	-	(331,597)
Revenue from external customers	1,491,564	4,881,486	484,963	1,408,678	-	8,266,691
Segment profit (loss)	667,702	1,309,468	32,498	413,642	(947,967)	1,475,343
Total assets	1,236,795	13,014,273	1,166,435	9,055,699	4,981,613	29,454,815
Capital expenditures	5,636	169,538	12,736	3,208	16,144	207,262
Total depreciation & amortization	\$ 11,554	\$ 132,144	\$ 3,832	\$ 143,188	\$ 32,154	\$ 322,872

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Six Months Ended August 31, 2018	Franchising	Manufacturing	Retail	U-Swirl	Other	Total
Total revenues	\$ 2,783,691	\$ 10,903,302	\$ 659,794	\$ 2,384,159	\$ -	\$ 16,730,946
Intersegment revenues	(2,767)	(562,006)	-	-	-	(564,773)
Revenue from external customers	2,780,924	10,341,296	659,794	2,384,159	-	16,166,173
Segment profit (loss)	1,182,654	2,239,948	(198,756)	364,973	(1,798,016)	1,790,803
Total assets	1,199,536	13,332,652	1,011,649	5,920,971	6,065,406	27,530,214
Capital expenditures	3,535	172,917	3,805	13,304	52,894	246,455
Total depreciation & amortization	\$ 23,556	\$ 283,724	\$ 23,854	\$ 485,084	\$ 56,236	\$ 872,454

Six Months Ended August 31, 2017	Franchising	Manufacturing	Retail	U-Swirl	Other	Total
Total revenues	\$ 3,099,159	\$ 11,710,184	\$ 846,990	\$ 2,603,987	\$ -	\$ 18,260,320
Intersegment revenues	(2,415)	(644,767)	-	-	-	(647,182)
Revenue from external customers	3,096,744	11,065,417	846,990	2,603,987	-	17,613,138
Segment profit (loss)	1,430,391	2,696,507	(3,933)	653,838	(2,035,557)	2,741,246
Total assets	1,236,795	13,014,273	1,166,435	9,055,699	4,981,613	29,454,815
Capital expenditures	5,636	218,598	16,336	5,824	37,594	283,988
Total depreciation & amortization	\$ 22,946	\$ 262,006	\$ 7,658	\$ 286,278	\$ 64,533	\$ 643,421

Revenue from one customer of the Company's Manufacturing segment represented approximately \$1.4 million, or 8.8 percent, of the Company's revenues from external customers during the six months ended August 31, 2018, compared to \$2.2 million, or 12.3 percent, of the Company's revenues from external customers during the six months ended August 31, 2017.

NOTE 8 – GOODWILL AND INTANGIBLE ASSETS

Intangible assets consist of the following:

	Amortization Period (in years)	August 31, 2018		February 28, 2018	
		Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
<b>Intangible assets subject to amortization</b>					
Store design	10	\$ 220,778	\$ 213,403	\$ 220,778	\$ 212,653
Packaging licenses	3 - 5	120,830	120,830	120,830	120,830
Packaging design	10	430,973	430,973	430,973	430,973
Trademark/Non-competition agreements	5 - 20	715,339	180,407	715,339	136,087
Franchise rights	20	5,979,637	1,923,213	5,979,637	1,545,710
<b>Total</b>		<b>7,467,557</b>	<b>2,868,826</b>	<b>7,467,557</b>	<b>2,446,253</b>
<b>Intangible assets not subject to amortization</b>					
<b>Franchising segment-</b>					
Company stores goodwill		\$ 1,099,328	\$ 267,020	\$ 1,099,328	\$ 267,020
Franchising goodwill		295,000	197,682	295,000	197,682
Manufacturing segment-goodwill		295,000	197,682	295,000	197,682
Trademark		20,000	-	20,000	-
<b>Total goodwill</b>		<b>1,709,328</b>	<b>662,384</b>	<b>1,709,328</b>	<b>662,384</b>
<b>Total Intangible Assets</b>		<b>\$ 9,176,885</b>	<b>\$ 3,531,210</b>	<b>\$ 9,176,885</b>	<b>\$ 3,108,637</b>

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Effective March 1, 2002, under Accounting Standards Codification Topic 350, all goodwill with indefinite lives is no longer subject to amortization. Accumulated amortization related to intangible assets not subject to amortization is a result of amortization expense related to indefinite life goodwill incurred prior to March 1, 2002.

Amortization expense related to intangible assets totaled \$422,573 and \$221,381 during the six months ended August 31, 2018 and 2017, respectively.

At August 31, 2018, annual amortization of intangible assets, based upon our existing intangible assets and current useful lives, is estimated to be the following:

2019	\$	421,474
2020		706,177
2021		594,229
2022		490,060
2023		411,607
Thereafter		1,975,184
Total	\$	4,598,731

#### NOTE 9 – RESTRUCTURING AND ACQUISITION RELATED CHARGES

Restructuring charges incurred were the result of closing certain underperforming Company-owned locations during the three and six months ended August 31, 2018. Restructuring charges of \$118,793 and \$176,981 were incurred during the three and the six months ended August 31, 2018, respectively.

The Company did not record any restructuring charges in the three and six months ended August 31, 2017.

#### NOTE 10 – SALE OR DISTRIBUTION OF ASSETS

During the three months ended August 31, 2017, the Company acquired two franchise stores in satisfaction of certain receivables due by the Franchisees to the Company. The Company subsequently sold one of the stores and is operating the other store as a Company-owned store. Associated with these asset disposal activities, the Company recorded the following in the six months ended August 31, 2018 and 2017:

	2018	2017
Notes receivable	\$ -	\$ 62,609

#### NOTE 11 – NOTE PAYABLE

The Company's long-term debt is comprised of a promissory note, the proceeds of which were loaned to SWRL and used to finance SWRL's business acquisitions.

As of August 31, 2018 and February 28, 2018, notes payable consisted of the following:

	August 31, 2018	February 28, 2018
Promissory note	\$ 1,858,973	\$ 2,529,309
Less: current maturities	(1,378,601)	(1,352,893)
Long-term obligations	\$ 480,372	\$ 1,176,416

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The following table summarizes annual maturities of our notes payable as of August 31, 2018:

	Amount
2019	\$ 682,533
2020	1,176,440
Total minimum payments	1,858,973
Less: current maturities	(1,378,601)
Long-term obligations	\$ 480,372

NOTE 12 – ADOPTION OF ASU 2014-09, “REVENUE FROM CONTRACTS WITH CUSTOMERS” (“ASC 606”)

As described in Note 1, effective March 1, 2018, the Company adopted ASC 606. ASC 606 provides that revenues are to be recognized when control of promised goods or services is transferred to a customer in an amount that reflects the consideration expected to be received for those goods or services. This new standard does not impact the Company’s recognition of revenue from sales of confectionary items to our franchisees and others, or in our Company-owned stores as those sales are recognized at the time of the underlying sale and are presented net of sales taxes and discounts. The standard also does not change the recognition of royalties and marketing fees from franchised or licensed locations, which are based on a percent of sales and recognized at the time the sales occur. The standard does change the timing in which the Company recognizes initial fees from franchisees and licensees for new franchise locations and renewals that affect the term of the franchise agreement.

*Initial Franchise Fees, License Fees, Transfer Fees and Renewal Fees*

The Company’s policy for recognizing initial franchise and renewal fees through February 28, 2018, was to recognize initial franchise fees upon new store openings and renewals that impact the term of the franchise agreement upon renewal. In accordance with the new guidance, the initial franchise services are not distinct from the continuing rights or services offered during the term of the franchise agreement, and will be treated as a single performance obligation. Beginning March 1, 2018, initial franchise fees are being recognized as the Company satisfies the performance obligation over the term of the franchise agreement, which is generally 10-15 years.

*Gift Cards*

The Company’s franchisees sell gift cards which do not have either expiration dates, or non-usage fees. The proceeds from the sale of gift cards by the franchisees are accumulated by the Company and paid out to the franchisees upon customer redemption. The Company has historically accumulated gift card liabilities and has not recognized breakage associated with the gift card liability. The adoption of ASC 606 requires the use of the “proportionate” method for recognizing breakage, which the Company has not historically utilized. Upon adoption of ASC 606 the Company began recognizing breakage from gift cards when the gift card is redeemed by the customer or the Company determines the likelihood of the gift card being redeemed by the customer is remote (“gift card breakage”). The determination of the gift card breakage rate is based upon Company-specific historical redemption patterns.

*Impact to Prior Periods*

The cumulative adjustment recorded upon adoption of ASC 606 consisted of net contract liabilities of approximately \$1,022,720, a reduction in gift card liability of \$2,250,743 and approximately \$302,094 of associated adjustments to the deferred tax balances which are recorded in deferred income taxes. The Company did not record any contract assets. The following table outlines the adjustments to the consolidated financial statements made upon adoption of ASC 606 on March 1, 2018:

	Amount
Increase in deferred revenue	\$ (1,022,720)
Reduction in gift card liabilities	2,250,743
Adjustment to deferred income tax assets	(302,094)
Cumulative increase to retained earnings	\$ 925,929

The Company adopted ASC 606 as of March 1, 2018, using the modified retrospective method. This method allows the new standard to be applied retrospectively through a cumulative catch up adjustment recognized upon adoption. As a result, comparative information in the Company’s financial statements has not been restated and continues to be reported under the accounting standards in effect for those periods.

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARIES  
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The adoption of ASC 606 impacted the Company's previously reported financial statements as follows:

CONSOLIDATED BALANCE SHEET AS OF FEBRUARY 28, 2018			
	Previously Reported	Adjustments	Restated
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 6,072,984	\$ -	\$ 6,072,984
Accounts receivable, net	3,897,334	-	3,897,334
Notes receivable, current portion, net	105,540	-	105,540
Refundable income taxes	342,863	-	342,863
Inventories, net	4,842,474	-	4,842,474
Other	310,173	-	310,173
<b>Total current assets</b>	<b>15,571,368</b>	<b>-</b>	<b>15,571,368</b>
<b>Property and Equipment, Net</b>	<b>6,166,240</b>	<b>-</b>	<b>6,166,240</b>
<b>Other Assets</b>			
Notes receivable, less current portion, net	235,983	-	235,983
Goodwill, net	1,046,944	-	1,046,944
Franchise rights, net	4,433,927	-	4,433,927
Intangible assets, net	587,377	-	587,377
Deferred income taxes	835,463	(302,094)	533,369
Other	63,333	-	63,333
<b>Total other assets</b>	<b>7,203,027</b>	<b>(302,094)</b>	<b>6,900,933</b>
<b>Total Assets</b>	<b>\$ 28,940,635</b>	<b>\$ (302,094)</b>	<b>\$ 28,638,541</b>
<b>Liabilities and Stockholders' Equity</b>			
<b>Current Liabilities</b>			
Current maturities of long-term debt	\$ 1,352,893	-	\$ 1,352,893
Accounts payable	1,647,991	-	1,647,991
Accrued salaries and wages	644,005	-	644,005
Gift card liabilities	3,057,131	(2,250,743)	806,388
Other accrued expenses	325,034	-	325,034
Dividend payable	708,652	-	708,652
Deferred revenue	471,910	(143,445)	328,465
<b>Total current liabilities</b>	<b>8,207,616</b>	<b>(2,394,188)</b>	<b>5,813,428</b>
<b>Long-Term Debt, Less Current Maturities</b>	<b>1,176,416</b>	<b>-</b>	<b>1,176,416</b>
<b>Deferred Revenue, Less Current Portion</b>	<b>-</b>	<b>1,166,165</b>	<b>1,166,165</b>
<b>Commitments and Contingencies</b>			
<b>Stockholders' Equity</b>			
Preferred stock			
Common stock	5,903	-	5,903
Additional paid-in capital	6,131,147	-	6,131,147
Retained earnings	13,419,553	925,929	14,345,482
<b>Total stockholders' equity</b>	<b>19,556,603</b>	<b>925,929</b>	<b>20,482,532</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 28,940,635</b>	<b>\$ (302,094)</b>	<b>\$ 28,638,541</b>

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARIES  
NOTES TO INTERIM (UNAUDITED) CONSOLIDATED FINANCIAL STATEMENTS

The following table contains a reconciliation of revenue reported for the current period and revenue had the Company reported under the prior method for revenue recognition:

	Three Months Ended August 31,		Six Months Ended August 31,	
	2018	2017	2018	2017
Franchise Fees contained within the Statement of Income:	\$ 107,538	\$ 163,000	\$ 200,673	\$ 412,125
Adjustment required to conform revenue to prior period method:	(18,538)	-	(10,173)	-
Comparable franchise fees:	\$ 89,000	\$ 163,000	\$ 190,500	\$ 412,125

At August 31, 2018, annual revenue expected to be recognized in the future, related to performance obligations that are not yet fully satisfied, are estimated to be the following:

2019	\$ 127,919
2020	246,670
2021	196,548
2022	184,300
2023	170,171
Thereafter	491,084
Total	\$ 1,416,692



ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARIES  
NOTES TO INTERIM (UNAUDITED) CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 – DISAGGREGATION OF REVENUE

The following table presents disaggregated revenue by method of recognition and segment:

Three Months Ended August 31, 2018

Revenues recognized over time under ASC 606:

	Franchising	Manufacturing	Retail	U-Swirl	Total
Franchise fees	\$ 36,005	\$ -	\$ -	\$ 71,533	\$ 107,538

Revenues recognized at a point in time:

	Franchising	Manufacturing	Retail	U-Swirl	Total
Factory sales	-	4,782,070	-	-	4,782,070
Retail sales	-	-	298,359	655,890	954,249
Royalty and marketing fees	1,432,749	-	-	523,482	1,956,231
Total	\$ 1,468,754	\$ 4,782,070	\$ 298,359	\$ 1,250,905	\$ 7,800,088

Six Months Ended August 31, 2018

Revenues recognized over time under ASC 606:

	Franchising	Manufacturing	Retail	U-Swirl	Total
Revenues recognized over time under ASC 606:					
Franchise fees	\$ 110,521	\$ -	\$ -	\$ 90,152	\$ 200,673

Revenues recognized at a point in time:

	Franchising	Manufacturing	Retail	U-Swirl	Total
Factory sales	-	10,341,296	-	-	10,341,296
Retail sales	-	-	659,794	1,317,278	1,977,072
Royalty and marketing fees	2,670,403	-	-	976,729	3,647,132
Total	\$ 2,780,924	\$ 10,341,296	\$ 659,794	\$ 2,384,159	\$ 16,166,173

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

### Cautionary Note Regarding Forward-Looking Statements

*This Quarterly Report on Form 10-Q ("Quarterly Report") includes statements of our expectations, intentions, plans and beliefs that constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and are intended to come within the safe harbor protection provided by those sections. These forward-looking statements involve various risks and uncertainties. The nature of our operations and the environment in which we operate subject us to changing economic, competitive, regulatory and technological conditions, risks and uncertainties. The statements, other than statements of historical fact, included in this Quarterly Report are forward-looking statements. Many of the forward-looking statements contained in this document may be identified by the use of forward-looking words such as "will," "intend," "believe," "expect," "anticipate," "should," "plan," "estimate," "potential," or similar expressions. Factors which could cause results to differ include, but are not limited to: changes in the confectionery business environment, seasonality, consumer interest in our products, general economic conditions, the success of our frozen yogurt business, receptiveness of our products internationally, consumer and retail trends, costs and availability of raw materials, competition, the success of our co-branding strategy, the success of international expansion efforts and the effect of government regulations. Government regulations which we and our franchisees either are or may be subject to and which could cause results to differ from forward-looking statements include, but are not limited to: local, state and federal laws regarding health, sanitation, safety, building and fire codes, franchising, employment, manufacturing, packaging and distribution of food products and motor carriers. For a detailed discussion of the risks and uncertainties that may cause our actual results to differ from the forward-looking statements contained herein, please see the "Risk Factors" contained in Item 1A. of our Annual Report on Form 10-K for the fiscal year ended February 28, 2018. These forward-looking statements apply only as of the date of this Quarterly Report. As such they should not be unduly relied upon for more current circumstances. Except as required by law, we undertake no obligation to release publicly any revisions to these forward-looking statements that might reflect events or circumstances occurring after the date of this Quarterly Report or those that might reflect the occurrence of unanticipated events.*

*Unless otherwise specified, the "Company," "we," "us" or "our" refers to Rocky Mountain Chocolate Factory, Inc., a Delaware corporation, and its consolidated subsidiaries.*

### Overview

We are an international franchisor, confectionery manufacturer and retail operator. Founded in 1981, we are headquartered in Durango, Colorado and manufacture an extensive line of premium chocolate candies and other confectionery products. Our subsidiary, U-Swirl International, Inc. ("U-Swirl"), franchises and operates soft-serve frozen yogurt cafés. Our revenues and profitability are derived principally from our franchised/license system of retail stores that feature chocolate, frozen yogurt and other confectionary products. We also sell our candy outside of our system of retail stores and license the use of our brand with certain consumer products. As of August 31, 2018, there were three Company-owned, 89 licensee-owned and 249 franchised Rocky Mountain Chocolate Factory stores operating in 38 states, Canada, South Korea, Panama, and the Philippines. As of August 31, 2018, U-Swirl operated four Company-owned cafés and 107 franchised cafés located in 27 states and Qatar. U-Swirl operates self-serve frozen yogurt cafés under the names "U-Swirl," "Yogurtini," "CherryBerry," "Yogli Mogli Frozen Yogurt," "Fuzzy Peach Frozen Yogurt," "Let's Yo!" and "Aspen Leaf Yogurt".

In January 2013, through our wholly-owned subsidiaries, including Aspen Leaf Yogurt, LLC ("ALY"), we entered into two agreements to sell all of the assets of our ALY frozen yogurt stores, along with our interest in the self-serve frozen yogurt franchises and retail units branded as "Yogurtini" which we also acquired in January 2013, to U-Swirl, Inc., a publicly traded company (OTCQB: SWRL) ("SWRL"), in exchange for a 60% controlling equity interest in SWRL, which was subsequently diluted down to 46% as of August 31, 2018 following various issuances of common stock of SWRL. Until February 29, 2016, U-Swirl was a wholly-owned subsidiary of SWRL, and was the operating subsidiary for all of SWRL's operations.

In fiscal year ("FY") 2014, SWRL acquired the franchise rights and certain other assets of self-serve frozen yogurt concepts under the names "CherryBerry," "Yogli Mogli Frozen Yogurt" and "Fuzzy Peach Frozen Yogurt." In connection with these acquisitions, we entered into a credit facility with Wells Fargo Bank, N.A. used to finance the acquisitions by SWRL, and in turn, we entered into a loan and security agreement with SWRL to cover the purchase price and other costs associated with the acquisitions (the "SWRL Loan Agreement"). Borrowings under the SWRL Loan Agreement were secured by all of the assets of SWRL, including all of the outstanding stock of its wholly-owned subsidiary, U-Swirl. As a result of certain defaults under the SWRL Loan Agreement, we issued a demand for payment of all obligations under the SWRL Loan Agreement. SWRL was unable to repay the obligations under the SWRL Loan Agreement, and as a result, we foreclosed on all of the outstanding stock of U-Swirl on February 29, 2016 in full satisfaction of the amounts owed under the SWRL Loan Agreement. This resulted in U-Swirl becoming our wholly-owned subsidiary as of February 29, 2016, and concurrently we ceased to have financial control of SWRL as of February 29, 2016. As of August 31, 2018, SWRL had no operating assets.

**Results of Operations****Three Months Ended August 31, 2018 Compared to the Three Months Ended August 31, 2017****Results Summary**

Basic earnings per share decreased 18.8% from \$0.16 in the three months ended August 31, 2017 to \$0.13 in the three months ended August 31, 2018. Revenues decreased 5.6% from \$8.3 million in the three months ended August 31, 2017 to \$7.8 million in the three months ended August 31, 2018. Operating income decreased 30.7% from \$1.5 million in the three months ended August 31, 2017 to \$1.0 million in the three months ended August 31, 2018. Net income decreased 19.1% from \$928,000 in the three months ended August 31, 2017 to \$751,000 in the three months ended August 31, 2018. The decrease in operating income was due primarily to lower revenue in the three months ended August 31, 2018 compared to the three months ended August 31, 2017.

**Revenues**

(\$'s in thousands)	August 31,		\$	%
	2018	2017	Change	Change
Factory sales	\$ 4,782.1	\$ 4,881.5	\$ (99.4)	(2.0)%
Retail sales	954.3	1,181.9	(227.6)	(19.3)%
Franchise fees	107.5	163.0	(55.5)	(34.0)%
Royalty and marketing fees	1,956.2	2,040.3	(84.1)	(4.1)%
Total	\$ 7,800.1	\$ 8,266.7	\$ (466.6)	(5.6)%

**Factory Sales**

The decrease in factory sales for the three months ended August 31, 2018 versus the three months ended August 31, 2017 was primarily due to a 13.3% decrease in shipments of product to customers outside our network of franchise retail locations and a 0.3% decrease in purchases by our network of franchised and licensed stores. This change was primarily the result of a decrease in purchases by the Company's largest customer during the three months ended August 31, 2018, with revenue from such customer decreasing to approximately \$100,000, or 1.8%, of the Company's revenues during the three months ended August 31, 2018, compared to \$300,000, or 3.4% of the Company's revenues during the three months ended August 31, 2017 for this same customer. The Company believes the decrease in orders is due to lower sales of its customer. If future purchases from this customer decrease or remain at current levels, our sales could continue to decline, and there is no assurance that sales to such customer will return to historical levels.

Same store pounds purchased by domestic Rocky Mountain Chocolate Factory franchise and license locations decreased 2.2% in the three months ended August 31, 2018, compared with the three months ended August 31, 2017.

**Retail Sales**

The decrease in retail sales was primarily due to changes in retail units in operation resulting from the sale of certain Company-owned locations and the closure of certain underperforming Company-owned locations. Same store sales at all Company-owned stores and cafés decreased 0.1% in the three months ended August 31, 2018 compared to the three months ended August 31, 2017.

**Royalties, Marketing Fees and Franchise Fees**

The decrease in royalties and marketing fees from the three months ended August 31, 2017 to the three months ended August 31, 2018 was primarily due to a 10.2% decrease in domestic franchise units in operation. The average number of total domestic franchise stores in operation decreased from 324 in the three months ended August 31, 2017 to 291 during the three months ended August 31, 2018. This decrease is the result of domestic store closures exceeding domestic store openings. Same store sales at total franchise stores and cafés in operation increased 0.1% during the three months ended August 31, 2018 compared to the three months ended August 31, 2017. Franchise fee revenues decreased as a result of a decrease in international license fees recognized during the three months ended August 31, 2018 compared to the three months ended August 31, 2017. During the three months ended August 31, 2017, U-Swirl entered into a master license agreement for the State of Qatar.

**Costs and Expenses***Cost of Sales*

(\$'s in thousands)	Three Months Ended August 31,		\$ Change	% Change
	2018	2017		
Cost of sales - factory	\$ 3,575.4	\$ 3,461.2	\$ 114.2	3.3%
Cost of sales - retail	308.5	391.3	(82.8)	(21.2)%
Franchise costs	582.8	558.4	24.4	4.4%
Sales and marketing	565.2	566.0	(0.8)	(0.1)%
General and administrative	813.4	976.6	(163.2)	(16.7)%
Retail operating	498.9	616.9	(118.0)	(19.1)%
Total	\$ 6,344.2	\$ 6,570.4	\$ (226.2)	(3.4)%

*Gross Margin*

(\$'s in thousands)	Three Months Ended August 31,		\$ Change	% Change
	2018	2017		
Factory gross margin	\$ 1,206.7	\$ 1,420.3	\$ (213.6)	(15.0)%
Retail gross margin	645.8	790.6	(144.8)	(18.3)%
Total	\$ 1,852.5	\$ 2,210.9	\$ (358.4)	(16.2)%

(Percent)	Three Months Ended August 31,		% Change	% Change
	2018	2017		
Factory gross margin	25.2%	29.1%	(3.9)%	(13.3)%
Retail gross margin	67.7%	66.9%	0.8%	1.2%
Total	32.3%	36.5%	(4.2)%	(11.4)%

*Adjusted Gross Margin*

(\$'s in thousands)	Three Months Ended August 31,		\$ Change	% Change
	2018	2017		
Factory gross margin	\$ 1,206.7	\$ 1,420.3	\$ (213.6)	(15.0)%
Plus: depreciation and amortization	138.2	127.9	10.3	8.1%
Factory adjusted gross margin	1,344.9	1,548.2	(203.3)	(13.1)%
Retail gross margin	645.8	790.6	(144.8)	(18.3)%
Total Adjusted Gross Margin	\$ 1,990.7	\$ 2,338.8	\$ (348.1)	(14.9)%
Factory adjusted gross margin	28.1%	31.7%	(3.6)%	(11.3)%
Retail gross margin	67.7%	66.9%	0.8%	1.2%
Total Adjusted Gross Margin	34.7%	38.6%	(3.9)%	(10.0)%

Adjusted gross margin and factory adjusted gross margin are non-GAAP measures. Adjusted gross margin is equal to the sum of our factory adjusted gross margin plus our retail gross margin calculated in accordance with GAAP. Factory adjusted gross margin is equal to factory gross margin plus depreciation and amortization expense. We believe adjusted gross margin and factory adjusted gross margin are helpful in understanding our past performance as a supplement to gross margin, factory gross margin and other performance measures calculated in conformity with GAAP. We believe that adjusted gross margin and factory adjusted gross margin are useful to investors because they provide a measure of operating performance and our ability to generate cash that is unaffected by non-cash accounting measures. Additionally, we use adjusted gross margin and factory adjusted gross margin rather than gross margin and factory gross margin to make incremental pricing decisions. Adjusted gross margin and factory adjusted gross margin have limitations as analytical tools because they exclude the impact of depreciation and amortization expense and you should not consider it in isolation or as a substitute for any measure reported under GAAP. Our use of capital assets makes depreciation and amortization expense a necessary element of our costs and our ability to generate income. Due to these limitations, we use adjusted gross margin and factory adjusted gross margin as measures of performance only in conjunction with GAAP measures of performance such as gross margin and factory gross margin.

### *Cost of Sales and Gross Margin*

Factory margins decreased 390 basis points in the three months ended August 31, 2018 compared to the three months ended August 31, 2017 due primarily to lower efficiencies associated with an 11.8% decrease in production volume and an increase in transportation fuel costs in the three months ended August 31, 2018 compared to the three months ended August 31, 2017. The increase in Company-owned store margin is due primarily to a change in units in operation during the three months ended August 31, 2018 compared to the prior year.

### *Franchise Costs*

The increase in franchise costs in the three months ended August 31, 2018 versus the three months ended August 31, 2017 is due primarily to an increase in legal and professional expense in the three months ended August 31, 2018 compared to the three months ended August 31, 2017. As a percentage of total royalty and marketing fees and franchise fee revenue, franchise costs increased to 28.2% in the three months ended August 31, 2018 from 25.3% in the three months ended August 31, 2017.

### *Sales and Marketing*

The decrease in sales and marketing costs for the three months ended August 31, 2018 compared to the three months ended August 31, 2017 is primarily due to lower marketing-related costs associated with U-Swirl franchise locations as a result of fewer units in operation.

### *General and Administrative*

The decrease in general and administrative costs for the three months ended August 31, 2018 compared to the three months ended August 31, 2017 is primarily due to a decrease in legal and professional expense in the three months ended August 31, 2018 compared to the three months ended August 31, 2017. As a percentage of total revenues, general and administrative expenses decreased to 10.4% in the three months ended August 31, 2018 compared to 11.8% in the three months ended August 31, 2017.

### *Retail Operating Expenses*

The decrease in retail operating expenses for the three months ended August 31, 2018 compared to the three months ended August 31, 2017 was due primarily to changes in units in operation as a result of the closure of certain underperforming Company-owned units. Retail operating expenses, as a percentage of retail sales, increased from 52.2% in the three months ended August 31, 2017 to 52.3% in the three months ended August 31, 2018. This slight increase is primarily the result of the change in units in operation from the prior year.

### *Depreciation and Amortization*

Depreciation and amortization, exclusive of depreciation and amortization included in cost of sales, was \$297,000 in the three months ended August 31, 2018, an increase of 52.2% from \$195,000 in the three months ended August 31, 2017. This increase was the result of a change in management's estimates related to the future value of U-Swirl intangibles and the associated acceleration of amortization expense. Depreciation and amortization included in cost of sales increased 8.1% from \$128,000 in the three months ended August 31, 2017 to \$138,000 in the three months ended August 31, 2018. This increase was the result of an increase in production assets in service.

### *Restructuring and Acquisition Related Charges*

There was \$119,000 in restructuring charges incurred during the three months ended August 31, 2018 and no restructuring charges incurred during the three months ended August 31, 2017. The increase in restructuring costs was the result of charges related to closing certain underperforming Company-owned locations.

### *Other Income (Expense)*

Net interest expense was \$15,000 in the three months ended August 31, 2018 compared to net interest expense of \$26,000 incurred in the three months ended August 31, 2017. This decrease in interest expense is due to lower average outstanding promissory note balances for the three months ended August 31, 2018.

### *Income Tax Expense*

Our effective income tax rate for the three months ended August 31, 2018 was 26.8%, compared to 37.1% for the three months ended August 31, 2017. The decrease of 10.5% is primarily due to the lower enacted U.S. corporate tax rate of 21% under the recent Tax Cuts and Jobs Act.

**Six Months Ended August 31, 2018 Compared to the Six Months Ended August 31, 2017****Results Summary**

Basic earnings per share decreased 26.7% to \$0.22 for the six months ended August 31, 2018 compared to \$0.30 for the six months ended August 31, 2017. Revenues decrease 8.2% to \$16.2 million for the six months ended August 31, 2018 compared to \$17.6 million in the six months ended August 31, 2017. Operating income decreased 34.8% from \$2.8 million in the six months ended August 31, 2017 to \$1.8 million in the six months ended August 31, 2018. Net income decreased 23.8% from \$1.7 million in the six months ended August 31, 2017 to \$1.3 million in the six months ended August 31, 2018. The decrease in operating income and net income was due primarily to lower revenue and lower margins partially offset by a decrease in operating expenses and a lower effective income tax rate.

**Revenues**

(\$'s in thousands)	Six Months Ended August 31,		\$ Change	% Change
	2018	2017		
Factory sales	\$ 10,341.3	\$ 11,065.4	\$ (724.1)	(6.5)%
Retail sales	1,977.1	2,204.9	(227.8)	(10.3)%
Franchise fees	200.7	412.1	(211.4)	(51.3)%
Royalty and marketing fees	3,647.1	3,930.7	(283.6)	(7.2)%
<b>Total</b>	<b>\$ 16,166.2</b>	<b>\$ 17,613.1</b>	<b>(1,446.9)</b>	<b>(8.2)%</b>

**Factory Sales**

The decrease in factory sales for the six months ended August 31, 2018 versus the six months ended August 31, 2017 was primarily due to a 26.0% decrease in shipments of product to customers outside our network of franchise retail locations. This change was primarily the result of a decrease in purchases by the Company's largest customer during the six months ended August 31, 2018, with revenue from such customer decreasing to approximately \$1.4 million, or 8.8%, of the Company's revenues during the six months ended August 31, 2018, compared to \$2.2 million, or 12.3% of the Company's revenues during the six months ended August 31, 2017 for this same customer. The Company believes the decrease in orders is due to lower sales of its customer. If future purchases from this customer decrease or remain at current levels, our sales could continue to decline, and there is no assurance that sales to such customer will return to historical levels.

Same store pounds purchased by domestic Rocky Mountain Chocolate Factory franchise and license locations decreased 1.4% in the six months ended August 31, 2018, compared with the six months ended August 31, 2017.

**Retail Sales**

The decrease in retail sales was primarily due to changes in retail units in operation as a result of the closure of certain underperforming Company-owned locations. Same store sales at all Company-owned stores and cafés decreased 0.1% in the six months ended August 31, 2018 compared to the six months ended August 31, 2017.

**Royalties, Marketing Fees and Franchise Fees**

The decrease in royalties and marketing fees from the six months ended August 31, 2017 to the three months ended August 31, 2018 was primarily due to a 10.4% decrease in domestic franchise units in operation and lower same store sales. The average number of total domestic franchise stores in operation decreased from 327 in the six months ended August 31, 2017 to 293 during the six months ended August 31, 2018. This decrease is the result of domestic store closures exceeding domestic store openings. Same store sales at total franchise stores and cafés in operation decreased 0.6% during the six months ended August 31, 2018 compared to the six months ended August 31, 2017. Franchise fee revenues decreased as a result of international license fees recognized during the six months ended August 31, 2017 with no comparable international fees recognized during the six months ended August 31, 2018. During the six months ended August 31, 2017, U-Swirl entered into a master license agreement covering the State of Qatar and Rocky Mountain Chocolate Factory entered into master license agreements covering the countries of Vietnam and Panama. There were no international license agreements entered into during the six months ended August 31, 2018.

**Costs and Expenses**
*Cost of Sales*

(\$'s in thousands)	Six Months Ended August 31,		\$ Change	% Change
	2018	2017		
Cost of sales - factory	\$ 7,846.1	\$ 8,119.8	\$ (273.7)	(3.4)%
Cost of sales - retail	703.0	747.6	(44.6)	(6.0)%
Franchise costs	1,076.0	1,073.2	2.8	0.3%
Sales and marketing	1,153.5	1,192.4	(38.9)	(3.3)%
General and administrative	1,727.8	2,105.4	(377.6)	(17.9)%
Retail operating	1,061.3	1,189.8	(128.5)	(10.8)%
Total	\$ 13,567.7	\$ 14,428.2	\$ (860.5)	(6.0)%

*Gross Margin*

	Six Months Ended August 31,		\$ Change	% Change
	2018	2017		
Factory gross margin	\$ 2,495.2	\$ 2,945.6	\$ (450.4)	(15.3)%
Retail gross margin	1,274.1	1,457.3	(183.2)	(12.6)%
Total	\$ 3,769.3	\$ 4,402.9	\$ (633.6)	(14.4)%

	Six Months Ended August 31,		% Change	% Change
	2018	2017		
Factory gross margin	24.1%	26.6%	(2.5)%	(9.4)%
Retail gross margin	64.4%	66.1%	(1.7)%	(2.5)%
Total	30.6%	33.2%	(2.6)%	(7.8)%

*Adjusted Gross Margin*

(\$'s in thousands)	Six Months Ended August 31,		\$ Change	% Change
	2018	2017		
Factory gross margin	\$ 2,495.2	\$ 2,945.6	\$ (450.4)	(15.3)%
Plus: depreciation and amortization	274.7	253.5	21.2	8.4%
Factory adjusted gross margin	2,769.9	3,199.1	(429.2)	(13.4)%
Retail gross margin	1,274.1	1,457.3	(183.2)	(12.6)%
Total Adjusted Gross Margin	\$ 4,044.0	\$ 4,656.4	\$ (612.4)	(13.2)%
Factory adjusted gross margin	26.8%	28.9%	(2.1)%	(7.4)%
Retail gross margin	64.4%	66.1%	(1.7)%	(2.5)%
Total Adjusted Gross Margin	32.8%	35.1%	(2.3)%	(6.4)%

Adjusted gross margin and factory adjusted gross margin are non-GAAP measures. Adjusted gross margin is equal to the sum of our factory adjusted gross margin plus our retail gross margin calculated in accordance with GAAP. Factory adjusted gross margin is equal to factory gross margin plus depreciation and amortization expense. We believe adjusted gross margin and factory adjusted gross margin are helpful in understanding our past performance as a supplement to gross margin, factory gross margin and other performance measures calculated in conformity with GAAP. We believe that adjusted gross margin and factory adjusted gross margin are useful to investors because they provide a measure of operating performance and our ability to generate cash that is unaffected by non-cash accounting measures. Additionally, we use adjusted gross margin and factory adjusted gross margin rather than gross margin and factory gross margin to make incremental pricing decisions. Adjusted gross margin and factory adjusted gross margin have limitations as analytical tools because they exclude the impact of depreciation and amortization expense and you should not consider it in isolation or as a substitute for any measure reported under GAAP. Our use of capital assets makes depreciation and amortization expense a necessary element of our costs and our ability to generate income. Due to these limitations, we use adjusted gross margin and factory adjusted gross margin as measures of performance only in conjunction with GAAP measures of performance such as gross margin and factory gross margin.

*Cost of Sales and Gross Margin*

Factory margins decreased 250 basis points in the six months ended August 31, 2018 compared to the six months ended August 31, 2017 due primarily to lower efficiencies associated with an 11.3% decrease in production volume in the six months ended August 31, 2018 compared to the six months ended August 31, 2017. The decrease in retail gross margins was primarily the result of inventory discounts prior to closing certain underperforming Company-owned locations.

*Franchise Costs*

The increase in franchise costs in the six months ended August 31, 2018 versus the six months ended August 31, 2017 is due primarily to an increase in legal and professional expenses. As a percentage of total royalty and marketing fees and franchise fee revenue, franchise costs increased to 28.0% in the six months ended August 31, 2018 from 24.7% in the six months ended August 31, 2017. This increase as a percentage of royalty, marketing and franchise fees is primarily a result of lower franchise revenues.

*Sales and Marketing*

The decrease in sales and marketing costs for the six months ended August 31, 2018 compared to the six months ended August 31, 2017 is primarily due to lower marketing-related costs associated with U-Swirl franchise locations.

*General and Administrative*

The decrease in general and administrative costs for the six months ended August 31, 2018 compared to the six months ended August 31, 2017 is primarily due to a decrease in legal and professional expenses. As a percentage of total revenues, general and administrative expenses decreased to 10.7% in the six months ended August 31, 2018 compared to 12.0% in the six months ended August 31, 2017.

*Retail Operating Expenses*

The decrease in retail operating expenses for the six months ended August 31, 2018 compared to the six months ended August 31, 2017 was due primarily to changes in units in operation, as a result of the closure of certain underperforming Company-owned units. Retail operating expenses, as a percentage of retail sales, decreased from 54.0% in the six months ended August 31, 2017 to 53.7% in the six months ended August 31, 2018. This decrease is primarily the result of the change in units in operation from the prior year.

*Depreciation and Amortization*

Depreciation and amortization, exclusive of depreciation and amortization included in cost of sales, was \$598,000 in the six months ended August 31, 2018, an increase of 53.3% from \$390,000 in the six months ended August 31, 2017. This increase was the result of a change in management's estimates related to the future value of U-Swirl intangibles and the associated acceleration of amortization expense. Depreciation and amortization included in cost of sales increased 8.4% from \$254,000 in the six months ended August 31, 2017 to \$275,000 in the six months ended August 31, 2018. This increase was the result of an increase in production assets in service.

*Restructuring and acquisition related charges*

There were no restructuring and acquisition related charges during the six months ended August 31, 2017 compared to \$177,000 during the six months ended August 31, 2018. The increase in restructuring costs was the result of charges related to closing certain underperforming Company-owned locations.

*Other Income (Expense)*

Net interest expense was \$33,000 in the six months ended August 31, 2018, a decrease of 39.0% compared to net interest expense of \$54,000 in the six months ended August 31, 2017. This decrease in interest expense is due to lower average outstanding promissory note balances for the six months ended August 31, 2018.



### *Income Tax Expense*

Our effective income tax rate for the six months ended August 31, 2018 was 25.9%, compared to 36.5% for the six months ended August 31, 2017. The decrease of 10.6% is primarily due to the lower enacted U.S. corporate tax rate of 21% under the recent Tax Cuts and Jobs Act.

### **Liquidity and Capital Resources**

As of August 31, 2018, working capital was \$10.0 million, compared with \$7.4 million as of February 28, 2018, an increase of \$2.6 million. The increase in working capital was primarily due to the impact of the adoption of certain recent accounting pronouncements and positive operating results partially offset by the payment of dividends.

Cash and cash equivalent balances declined approximately \$900,000 to \$5.2 million as of August 31, 2018 compared to \$6.1 million as of February 28, 2018 as a result of cash flow used by financing activities, including repayment of debt and payment of dividends exceeding cash flow generated by operating activities. Our current ratio was 2.9 to 1 at August 31, 2018 compared to 1.9 to 1 at February 28, 2018. We monitor current and anticipated future levels of cash and cash equivalents in relation to anticipated operating, financing and investing requirements.

During the six months ended August 31, 2018, we had net income of \$1,327,759. Operating activities provided cash of \$1,388,429, with the principal adjustment to reconcile the net income to net cash provided by operating activities being depreciation and amortization of \$872,454 and the increase in inventory of \$1,579,686. During the comparable 2017 period, we had net income of \$1,741,956, and operating activities provided cash of \$2,188,650. The principal adjustment to reconcile the net income to net cash provided by operating activities was depreciation and amortization of \$643,421 and the increase in inventory of \$1,421,625.

During the six months ended August 31, 2018, investing activities used cash of \$200,537, primarily due to the purchases of property, equipment of \$246,455. In comparison, investing activities used cash of \$172,934 during the six months ended August 31, 2017 primarily due to the purchase of property and equipment of \$283,988.

Financing activities used cash of \$2,087,641 for the six months ended August 31, 2018 and used cash of \$2,050,614 during the prior year period. The Company's financing activities consist primarily of payments on long-term debt and declared dividends.

We have a \$5.0 million (\$5.0 million available as of August 31, 2018) working capital line of credit collateralized by substantially all of our assets with the exception of our retail store assets. Additionally, the line of credit is subject to various financial ratio and leverage covenants. As of August 31, 2018, we were in compliance with all such covenants. The line of credit is subject to renewal in September 2019. As of August 31, 2018, no amount was outstanding under this line of credit.

Our outstanding long-term debt is comprised of a promissory note used to finance business acquisitions of SWRL (unpaid balance as of August 31, 2018 of \$1.9 million). The promissory note allowed us to borrow up to a maximum of \$7.0 million to finance business acquisitions and bears interest at a fixed annual rate of 3.75%. Additionally, the promissory note is subject to various financial ratio and leverage covenants. As of August 31, 2018, we were in compliance with all such covenants.

On July 15, 2014, we publicly announced a plan to repurchase up to \$3.0 million of our common stock in the open market or in private transactions, whenever deemed appropriate by management. On January 13, 2015, we announced a plan to purchase up to an additional \$2,058,000 of our common stock under the repurchase plan, and on May 21, 2015, we announced a further increase to the repurchase plan by authorizing the purchase of up to an additional \$2,090,000 of our common stock under the repurchase plan. We did not repurchase any shares during the three and six months ended August 31, 2018. As of August 31, 2018, approximately \$638,000 remains available under the repurchase plan for further stock repurchases.

We believe cash flows generated by operating activities and available financing will be sufficient to fund our operations for at least the next twelve months. If necessary, the Company has an available bank line of credit to help meet these requirements.

### **Off-Balance Sheet Arrangements**

As of August 31, 2018, we had no off-balance sheet arrangements or obligations.

### **Impact of Inflation**

Inflationary factors such as increases in the costs of ingredients and labor directly affect our operations. Most of our leases provide for cost-of-living adjustments and require us to pay taxes, insurance and maintenance expenses, all of which are subject to inflation. Additionally, our future lease costs for new facilities may include potentially escalating costs of real estate and construction. There is no assurance that we will be able to pass on increased costs to our customers.

Depreciation expense is based on the historical cost to us of our fixed assets, and is therefore potentially less than it would be if it were based on current replacement cost. While property and equipment acquired in prior years will ultimately have to be replaced at higher prices, it is expected that replacement will be a gradual process over many years.

### **Seasonality**

We are subject to seasonal fluctuations in sales, which cause fluctuations in quarterly results of operations. Historically, the strongest sales of our products have occurred during key holidays and the summer vacation season. In addition, quarterly results have been, and in the future are likely to be, affected by the timing of new store openings and sales of franchises. Because of the seasonality of our business and the impact of new store openings and sales of franchises, results for any quarter are not necessarily indicative of results that may be achieved in other quarters or for a full fiscal year.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We do not engage in commodity futures trading or hedging activities and do not enter into derivative financial instrument transactions for trading or other speculative purposes. We also do not engage in transactions in foreign currencies or in interest rate swap transactions that could expose us to market risk. However, we are exposed to some commodity price and interest rate risks.

We frequently enter into purchase contracts of between six to eighteen months for chocolate and certain nuts. These contracts permit us to purchase the specified commodity at a fixed price on an as-needed basis during the term of the contract. Because prices for these products may fluctuate, we may benefit if prices rise during the terms of these contracts, but we may be required to pay above-market prices if prices fall and we are unable to renegotiate the terms of the contract. As of August 31, 2018, based on future contractual obligations for ingredients, we estimate that a 10.0% change in the prices of contracted ingredients would result in a \$199,000 favorable or unfavorable price benefit or cost, respectively, resulting from our contracts.

We have a \$5 million bank line of credit that bears interest at a variable rate. As of August 31, 2018, no amount was outstanding under the line of credit. We do not believe that we are exposed to any material interest rate risk related to this line of credit.

We also entered into a \$7.0 million promissory note with interest at a fixed rate of 3.75% annually that was used to finance the previous acquisitions by SWRL. As of August 31, 2018, \$1.9 million was outstanding under this promissory note. We do not believe that we are exposed to any material interest rate risk related to this promissory note.

### **Item 4. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the "Exchange Act") that are designed to ensure that material information relating to us is made known to the officers who certify as to our financial reports and to other members of senior management and the Board of Directors. These disclosure controls and procedures are designed to ensure that information required to be disclosed in our reports that are filed or submitted under the Exchange Act, are recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Management, with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of August 31, 2018.

#### **Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during the quarter ended August 31, 2018 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

The Company is party to various legal proceedings arising in the ordinary course of business from time to time. Management believes that the resolution of these matters will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

**Item 1A. Risk Factors**

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part 1, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended February 28, 2018. There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the fiscal year ended February 28, 2018.

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

***Issuer Purchases of Equity Securities***

On July 15, 2014, the Company publicly announced a plan to repurchase up to \$3.0 million of its common stock in the open market or in private transactions, whenever deemed appropriate by management. On January 13, 2015, the Company announced a plan to purchase up to an additional \$2,058,000 of its common stock under the repurchase plan, and on May 21, 2015, the Company announced a further increase to the repurchase plan by authorizing the purchase of up to an additional \$2,090,000 of its common stock under the repurchase plan. The Company did not repurchase any shares during the three and six months ended August 31, 2018. As of August 31, 2018, approximately \$638,000 remains available under the repurchase plan for further stock repurchases.

The Company plans to continue the repurchase plan until it has been completed. The number, price, structure and timing of the repurchases, if any, will be at the Company’s sole discretion and future repurchases will be evaluated by the Company depending on market conditions, liquidity needs and other factors. The repurchase authorization does not have an expiration date and does not oblige the Company to acquire any particular amount of its common stock. The Board of Directors may suspend, modify or terminate the repurchase program at any time without prior notice.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not Applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

- 3.1 [Amended and Restated Certificate of Incorporation of Rocky Mountain Chocolate Factory, Inc., a Delaware corporation \(incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on March 2, 2015\).](#)
  - 3.2 [Certificate of Designations of Series A Junior Participating Preferred Stock, par value \\$0.001 per share, of Rocky Mountain Chocolate Factory, Inc., a Delaware corporation \(incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K filed on March 2, 2015\).](#)
  - 3.3 [Amended and Restated Bylaws of Rocky Mountain Chocolate Factory, Inc., a Delaware corporation \(incorporated by reference to Exhibit 3.3 to the Current Report on Form 8-K filed on March 2, 2015\).](#)
  - 31.1\* [Certification of Chief Executive Officer Filed Pursuant To Section 302 of The Sarbanes-Oxley Act of 2002.](#)
  - 31.2\* [Certification of Chief Financial Officer Filed Pursuant To Section 302 of The Sarbanes-Oxley Act of 2002.](#)
  - 32.1\*\* [Certification of Chief Executive Officer Furnished Pursuant To Section 906 of The Sarbanes-Oxley Act of 2002.](#)
  - 32.2\*\* [Certification of Chief Financial Officer Furnished Pursuant To Section 906 of The Sarbanes-Oxley Act of 2002.](#)
- 101.INS\*XBRL Instance Document.
- 101.SCH\*XBRL Taxonomy Extension Schema Document.
- 101.CAL\*XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.DEF\*XBRL Taxonomy Extension Definition Linkbase Document.
- 101.LAB\*XBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE\*XBRL Taxonomy Extension Presentation Linkbase Document.

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\* Filed herewith.

\*\* Furnished herewith.

**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.

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC.  
(Registrant)

Date: October 15, 2018

/s/ Bryan J. Merryman  
Bryan J. Merryman, Chief Operating Officer,  
Chief Financial Officer, Treasurer and Director

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## Certification Pursuant To Section 302 Of The Sarbanes-Oxley Act of 2002

I, Franklin E. Crail, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Rocky Mountain Chocolate Factory, Inc.;
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(s) 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(s) 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: October 15, 2018

/s/ Franklin E. Crail

Franklin E. Crail, President, Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)

## Certification Pursuant To Section 302 Of The Sarbanes-Oxley Act of 2002

I, Bryan J. Merryman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Rocky Mountain Chocolate Factory, Inc.;
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(s) 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(s) 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: October 15, 2018

/s/ Bryan J. Merryman

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Bryan J. Merryman, Chief Operating Officer,  
Chief Financial Officer, Treasurer and Director (Principal Financial and Accounting  
Officer)

CERTIFICATION PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)

In connection with the Quarterly Report of Rocky Mountain Chocolate Factory, Inc. (the "Company") on Form 10-Q for the quarterly period ended August 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company certifies, in his capacity as such, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 15, 2018

By /s/ Franklin E. Crail

Franklin E. Crail, President, Chief Executive Officer and Chairman of the  
Board  
of Directors (Principal Executive Officer)



CERTIFICATION PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)

In connection with the Quarterly Report of Rocky Mountain Chocolate Factory, Inc. (the "Company") on Form 10-Q for the quarterly period ended August 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company certifies, in his capacity as such, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 15, 2018

By /s/ Bryan J. Merryman

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Bryan J. Merryman, Chief Operating Officer, Chief Financial Officer, Treasurer  
and  
Director (Principal Financial and Accounting Officer)