

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 November 30, 2021

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)

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

Title of each class	Trading symbol	Name of each exchange on which registered
Common Stock, \$0.001 par value per share	RMCF	Nasdaq Global Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" 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 January 10, 2022, the registrant had outstanding 6,179,840 shares of its common stock, \$0.001 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 OPERATIONS
(unaudited)

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2021	2020	2021	2020
Revenues				
Sales	\$ 7,012,429	\$ 6,101,776	\$ 18,786,654	\$ 12,418,139
Franchise and royalty fees	1,495,205	1,127,091	5,240,768	2,840,567
Total Revenue	8,507,634	7,228,867	24,027,422	15,258,706
Costs and Expenses				
Cost of sales	5,200,749	4,688,011	13,819,428	10,624,790
Franchise costs	458,518	440,669	1,747,348	1,312,917
Sales and marketing	377,231	382,462	1,195,823	1,265,471
General and administrative	3,865,912	788,717	6,575,037	4,756,735
Retail operating	420,320	361,454	1,304,560	1,010,032
Depreciation and amortization, exclusive of depreciation and amortization expense of \$155,170, \$157,582, \$464,767 and \$473,294, respectively, included in cost of sales	143,612	168,990	440,205	531,245
Costs associated with Company-owned store closures	-	-	-	68,558
Total costs and expenses	10,466,342	6,830,303	25,082,401	19,569,748
Income (Loss) from Operations	(1,958,708)	398,564	(1,054,979)	(4,311,042)
Other Income (Expense)				
Interest Expense	-	(24,690)	-	(72,241)
Interest Income	2,195	3,461	9,348	14,626
Gain on insurance recovery	-	210,464	167,123	210,464
Debt forgiveness income	-	108,309	-	108,309
Other income (expense), net	2,195	297,544	176,471	261,158
Income (Loss) Before Income Taxes	(1,956,513)	696,108	(878,508)	(4,049,884)
Income Tax Provision (Benefit)	(478,867)	172,413	(177,600)	(982,314)
Consolidated Net Income (Loss)	\$ (1,477,646)	\$ 523,695	\$ (700,908)	\$ (3,067,570)
Basic Earnings (Loss) per Common Share	\$ (0.24)	\$ 0.09	\$ (0.11)	\$ (0.51)
Diluted Earnings (Loss) per Common Share	\$ (0.24)	\$ 0.08	\$ (0.11)	\$ (0.51)
Weighted Average Common Shares Outstanding - Basic	6,141,507	6,070,887	6,127,884	6,065,237
Dilutive Effect of Employee Stock Awards	-	213,432	-	-
Weighted Average Common Shares Outstanding - Diluted	6,141,507	6,284,319	6,127,884	6,065,237

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

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

	November 30, 2021 (unaudited)	February 28, 2021
Assets		
Current Assets		
Cash and cash equivalents	\$ 6,021,594	\$ 5,633,279
Accounts receivable, less allowance for doubtful accounts of \$1,435,234 and \$1,341,853, respectively	2,993,389	2,007,502
Notes receivable, current portion, less current portion of the valuation allowance of \$38,725 and \$32,571, respectively	27,830	84,819
Refundable income taxes	773,359	774,527
Inventories, net	4,943,914	4,062,885
Other	319,662	213,811
Total current assets	15,079,748	12,776,823
Property and Equipment, Net	5,445,466	5,152,015
Other Assets		
Notes receivable, less current portion and valuation allowance of \$73,562 and \$79,716, respectively	593	42,525
Goodwill, net	729,701	729,701
Franchise rights, net	2,188,491	2,519,764
Intangible assets, net	364,134	395,946
Deferred income taxes	1,570,805	1,144,764
Lease right of use asset	1,857,578	1,925,591
Other	62,148	264,023
Total other assets	6,773,450	7,022,314
Total Assets	\$ 27,298,664	\$ 24,951,152
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	\$ 2,420,734	1,297,211
Accrued salaries and wages	1,962,969	735,241
Gift card liabilities	551,963	617,438
Other accrued expenses	426,079	253,345
Contract liabilities	190,470	194,737
Lease liability	566,387	682,348
Total current liabilities	6,118,602	3,780,320
Lease Liability, Less Current Portion	1,335,171	1,278,354
Contract Liabilities, Less Current Portion	930,296	924,909
Commitments and Contingencies		
Stockholders' Equity		
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, 6,176,697 shares and 6,074,293 shares issued and outstanding, respectively	6,177	6,074
Additional paid-in capital	8,680,819	7,971,712
Retained earnings	10,227,599	10,989,783
Total stockholders' equity	18,914,595	18,967,569
Total Liabilities and Stockholders' Equity	\$ 27,298,664	\$ 24,951,152

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)

	Nine Months Ended November 30,	
	2021	2020
Cash Flows From Operating Activities		
Net Loss	\$ (700,908)	\$ (3,067,570)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	904,972	1,004,539
Provision for obsolete inventory	103,422	41,433
Provision for loss on accounts and notes receivable	-	1,468,815
Asset impairment and store closure losses	-	544,060
Gain on sale or disposal of property and equipment	(153,129)	(199,774)
Forgiveness of indebtedness	-	(107,700)
Expense recorded for stock compensation	709,210	399,636
Deferred income taxes	(426,041)	(990,129)
Changes in operating assets and liabilities:		
Accounts receivable	(985,887)	435,536
Refundable income taxes	1,168	(3,252)
Inventories	(936,483)	(1,262,189)
Other current assets	(105,851)	101,436
Accounts payable	1,079,671	(376,375)
Accrued liabilities	1,343,856	12,613
Contract liabilities	23,048	(13,688)
Net cash (used in) provided by operating activities	857,048	(2,012,609)
Cash Flows from Investing Activities		
Proceeds received on notes receivable	98,918	69,583
Purchase of intangible assets	-	(99,048)
Proceeds from insurance recovery	206,336	304,962
Proceeds from sale or distribution of assets	1,751	-
Purchases of property and equipment	(704,462)	(77,059)
Increase in other assets	(10,000)	-
Net cash (used in) provided by investing activities	(407,457)	198,438
Cash Flows from Financing Activities		
Proceeds from long-term debt	-	1,537,200
Proceeds from the line of credit	-	3,448,165
Dividends paid and redemption of outstanding preferred stock purchase rights	(61,276)	(722,344)
Net cash provided by (used in) financing activities	(61,276)	4,263,021
Net Increase (Decrease) in Cash and Cash Equivalents	388,315	2,448,850
Cash and Cash Equivalents, Beginning of Period	5,633,279	4,822,071
Cash and Cash Equivalents, End of Period	\$ 6,021,594	\$ 7,270,921

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

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(unaudited)

	Common Stock		Additional	Retained	Total
	Shares	Amount	Paid-in Capital	Earnings	
Balance as of August 31, 2020	6,067,461	\$ 6,068	\$ 7,747,320	\$ 8,298,295	\$ 16,051,683
Consolidated net (loss) income				523,695	523,695
Issuance of common stock, vesting of restricted stock units and other, net of shares withheld	3,464	3	(3)		-
Equity compensation, restricted stock units, net of shares withheld			112,199		112,199
Balance as of November 30, 2020	6,070,925	\$ 6,071	\$ 7,859,516	\$ 8,821,990	\$ 16,687,577
Balance as of February 29, 2020	6,019,532	6,020	\$ 7,459,931	\$ 11,889,560	\$ 19,355,511
Consolidated net (loss) income				(3,067,570)	(3,067,570)
Issuance of common stock, vesting of restricted stock units and other, net of shares withheld	51,393	51	(51)		-
Equity compensation, restricted stock units, net of shares withheld			399,636		399,636
Balance as of November 30, 2020	6,070,925	\$ 6,071	\$ 7,859,516	\$ 8,821,990	\$ 16,687,577
Balance as of August 31, 2021	6,124,288	\$ 6,124	\$ 8,241,286	\$ 11,766,521	\$ 20,013,931
Consolidated net (loss) income				(1,477,646)	(1,477,646)
Issuance of common stock, vesting of restricted stock units and other, net of shares withheld	52,409	53	(53)		-
Equity compensation, restricted stock units, net of shares withheld			439,586		439,586
Redemption of outstanding preferred stock purchase rights				(61,276)	(61,276)
Balance as of November 30, 2021	6,176,697	\$ 6,177	\$ 8,680,819	\$ 10,227,599	\$ 18,914,595
Balance as of February 28, 2021	6,074,293	6,074	\$ 7,971,712	\$ 10,989,783	\$ 18,967,569
Consolidated net (loss) income				(700,908)	(700,908)
Issuance of common stock, vesting of restricted stock units and other, net of shares withheld	102,404	103	(103)		-
Equity compensation, restricted stock units, net of shares withheld			709,210		709,210
Redemption of outstanding preferred stock purchase rights				(61,276)	(61,276)
Balance as of November 30, 2021	6,176,697	\$ 6,177	\$ 8,680,819	\$ 10,227,599	\$ 18,914,595

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), Aspen Leaf Yogurt, LLC (“ALY”), and U-Swirl International, Inc. (“U-Swirl”), and its 46%-owned subsidiary, U-Swirl, Inc. (“SWRL”) (collectively, the “Company,” “we,” “us” or “our”).

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 self-serve frozen yogurt cafés. The Company also sells its candy in selected locations outside of its system of retail stores and through ecommerce channels, and licenses the use of its brand with certain consumer products.

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; and sales at Company-owned stores of chocolates, frozen yogurt, and other confectionery products.

In FY 2020 and early FY 2021 we entered into a long-term strategic alliance and ecommerce agreements, respectively, with Edible Arrangements®, LLC and its affiliates (“Edible”), whereby it is intended that we would become the exclusive provider of certain branded chocolate products to Edible, its affiliates and its franchisees. Under the strategic alliance, Rocky Mountain Chocolate Factory branded products are intended to be available for purchase both on Edible’s website as well as through over 1,000 franchised Edible locations nationwide. In addition, due to Edible’s significant e-commerce expertise and scale, we have also executed an ecommerce licensing agreement with Edible, whereby Edible is expected to sell a wide variety of chocolates, candies and other confectionery products produced by the Company or its franchisees through Edible’s websites. There is no assurance that the strategic alliance and ecommerce agreements will be deployed into our operations and to our satisfaction, or that we will achieve the expected full benefits from these agreements. During the nine months ended November 30, 2021, certain disagreements arose between RMCF and Edible related to the strategic alliance and ecommerce agreements resulting in continuing discussions, the result of which are not currently determinable. Purchases by Edible during the three and nine months ended November 30, 2021 were approximately \$413,400 and \$1.2 million, or 4.9% and 5.0% of the Company’s revenues, respectively. Purchases by Edible during the three and nine months ended November 30, 2020 were approximately \$1.2 million and \$2.1 million, or 16.3% and 13.9% of the Company’s revenues, respectively. There can be no assurance historical revenue levels will be indicative of future revenues.

The following table summarizes the number of stores operating under the Rocky Mountain Chocolate Factory brand and frozen yogurt cafés as of November 30, 2021:

	Sold, Not Yet Open	Open	Total
Rocky Mountain Chocolate Factory			
Company-owned stores	-	2	2
Franchise stores - Domestic stores and kiosks	5	156	161
International license stores	1	5	6
Cold Stone Creamery - co-branded	5	97	102
U-Swirl (Including all associated brands)			
Company-owned stores - co-branded	-	3	3
Franchise stores - Domestic stores	1	60	61
Franchise stores - Domestic - co-branded	1	5	6
International license stores	-	1	1
Total	13	329	342

During FY 2021 the Company initiated formal legal proceedings against Immaculate Confections (“IC”), the operator of RMCF locations in Canada. In its complaint, the Company alleged, among other things, that IC has utilized the Company’s trademarks and other intellectual property without authority to do so and that IC has been unjustly enriched by their use of the Company’s trademarks and intellectual property.

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

In June 2021 a court order was issued declaring the original 1991 Development Agreement for Canada between RMCF and IC had expired. In September 2021, the Company and IC reached a Settlement Agreement (the "IC Agreement") whereby the parties agreed to a six months negotiation period to explore alternative solutions. During the six-month period, IC will continue to operate locations as Rocky Mountain Chocolate Factory. The IC Agreement contains provisions that would require IC to de-identify its locations if a solution is not reached. As of the date of this filing, IC operates 49 locations in Canada. During the nine months ended November 30, 2021 the Company recognized approximately \$116,800 of factory revenue from locations operated by IC in Canada compared with no revenue recognized from locations operated by IC in Canada during the nine months ended November 30, 2020.

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 (the "SEC") 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 nine months ended November 30, 2021 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, 2021, as amended by Amendment No. 1 on Form 10-K/A filed on June 28, 2021. The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

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.

COVID-19 Update

As discussed in more detail throughout this Quarterly Report on Form 10-Q for the nine months ended November 30, 2021 (this "Quarterly Report"), we have experienced significant business disruptions resulting from efforts to contain the rapid spread of the novel coronavirus ("COVID-19"), including the vast mandated self-quarantines of customers throughout the United States and internationally. During the year ended February 28, 2021 nearly all of the Company-owned and franchise stores were directly and negatively impacted by public health measures taken in response to COVID-19, with nearly all locations experiencing reduced operations as a result of, among other things, modified business hours and store and mall closures. As a result, franchisees and licensees were not ordering products for their stores in line with historical amounts. This trend has negatively impacted, and may continue to negatively impact, among other things, factory sales, retail sales and royalty and marketing fees. Beginning in May 2020, most stores previously closed for much of March 2020 and April 2020 in response to the COVID-19 pandemic, began to re-open. During the year ended February 28, 2021, approximately 53 stores closed and have not re-opened and the future of these locations is uncertain. That is a closure rate significantly higher than historical levels. As of the date of this report, most stores have met or exceeded pre-COVID-19 sales levels, however, many retail environments have continued to be adversely impacted by changes to consumer behavior as a result of COVID-19. Most stores re-opened subject to various local health restrictions and often with reduced operations. Strong consumer spending and other macro-economic trends as well as the roll out of vaccines and relaxing of most local health restrictions have resulted in significant increases in sales at our franchise stores during the nine months ended November 30, 2021. Our ability to meet the increase in franchise store demand has been partially constrained by labor and supply chain constraints. We are unsure how the emergence of COVID-19 variants, such as Delta and Omicron, will impact the positive recovery trends.

In addition, as previously announced on May 11, 2020, the Board of Directors has suspended future quarterly dividends until the Board of Directors determines that resumption of dividend payments is in the best interest of the Company and our stockholders.

Recent Accounting Pronouncements

Except for the recent accounting pronouncements described below, other recent accounting pronouncements are not expected to have a material impact on our consolidated financial statements.

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

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, 2023 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.

NOTE 2 – SUPPLEMENTAL CASH FLOW INFORMATION

	Nine Months Ended November 30,	
	2021	2020
Cash paid for:		
Interest	\$ 5,202	\$ 70,953
Income taxes	247,273	11,066
Non-cash Operating Activities		
Accrued Inventory	\$ 196,222	\$ 136,998

NOTE 3 – REVENUE FROM CONTRACTS WITH CUSTOMERS

The Company recognizes revenue from contracts with its customers in accordance with Accounting Standards Codification® (“ASC”) 606, which provides that revenues are 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. The Company generally receives a fee associated with the Franchise Agreement or License Agreement (collectively “Customer Contracts”) at the time that the Customer Contract is entered. These Customer Contracts have a term of up to 20 years, however the majority of Customer Contracts have a term of 10 years. During the term of the Customer Contract, the Company is obligated to many performance obligations that the Company has not determined are distinct. The resulting treatment of revenue from Customer Contracts is that the revenue is recognized proportionately over the life of the Customer Contract.

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

In accordance with ASC 606, the initial franchise services are not distinct from the continuing rights or services offered during the term of the franchise agreement, and are treated as a single performance obligation. Initial franchise fees are being recognized as the Company satisfies the performance obligation over the term of the franchise agreement, which is generally 10 years.

The following table summarizes contract liabilities as of November 30, 2021 and November 30, 2020:

	Nine Months Ended November 30:	
	2021	2020
Contract liabilities at the beginning of the year:	\$ 1,119,646	\$ 1,155,809
Revenue recognized	(164,952)	(174,689)
Contract fees received	188,000	161,000
Amortized gain on the financed sale of equipment	(21,928)	(7,309)
Contract liabilities at the end of the period:	\$ 1,120,766	\$ 1,134,811

At November 30, 2021, 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:

FY 22	\$ 47,752
FY 23	188,515
FY 24	165,545
FY 25	150,469
FY 26	138,178
Thereafter	430,307
Total	\$ 1,120,766

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

Gift Cards

The Company's franchisees sell gift cards, which do not have 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. ASC 606 requires the use of the "proportionate" method for recognizing breakage. Under the guidance of ASC 606 the Company recognizes 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.

Factory Sales of Confectionary Items, Retail Sales and Royalty and Marketing Fees

Confectionary items sold to the Company's franchisees, others and its Company-owned stores sales are recognized at the time of the underlying sale and are presented net of sales taxes and discounts. 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.

NOTE 4 – DISAGGREGATION OF REVENUE

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

Three Months Ended November 30, 2021

Revenues recognized over time under ASC 606:	Franchising	Manufacturing	Retail	U-Swirl	Total
Franchise fees	\$ 53,944	\$ -	\$ -	\$ 7,755	\$ 61,699
Revenues recognized at a point in time:					
Factory sales	-	6,376,367	-	-	6,376,367
Retail sales	-	-	275,530	360,532	636,062
Royalty and marketing fees	1,196,192	-	-	237,314	1,433,506
Total	\$ 1,250,136	\$ 6,376,367	\$ 275,530	\$ 605,601	\$ 8,507,634

Three Months Ended November 30, 2020

Revenues recognized over time under ASC 606:	Franchising	Manufacturing	Retail	U-Swirl	Total
Franchise fees	\$ 40,834	\$ -	\$ -	\$ 5,220	\$ 46,054
Revenues recognized at a point in time:					
Factory sales	-	5,570,375	-	-	5,570,375
Retail sales	-	-	273,378	258,023	531,401
Royalty and marketing fees	892,814	-	-	188,223	1,081,037
Total	\$ 933,648	\$ 5,570,375	\$ 273,378	\$ 451,466	\$ 7,228,867

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

Nine Months Ended November 30, 2021

Revenues recognized over time under ASC 606:	Franchising	Manufacturing	Retail	U-Swirl	Total
Franchise fees	\$ 136,907	\$ -	\$ -	\$ 28,045	\$ 164,952
Revenues recognized at a point in time:					
	Franchising	Manufacturing	Retail	U-Swirl	Total
Factory sales	-	16,578,535	-	-	16,578,535
Retail sales	-	-	829,542	1,378,577	2,208,119
Royalty and marketing fees	4,147,951	-	-	927,865	5,075,816
Total	\$ 4,284,858	\$ 16,578,535	\$ 829,542	\$ 2,334,487	\$ 24,027,422

Nine Months Ended November 30, 2020

Revenues recognized over time under ASC 606:	Franchising	Manufacturing	Retail	U-Swirl	Total
Franchise fees	\$ 131,665	\$ -	\$ -	\$ 43,024	\$ 174,689
Revenues recognized at a point in time:					
	Franchising	Manufacturing	Retail	U-Swirl	Total
Factory sales	-	11,203,742	-	-	11,203,742
Retail sales	-	-	527,061	687,336	1,214,397
Royalty and marketing fees	2,095,912	-	-	569,966	2,665,878
Total	\$ 2,227,577	\$ 11,203,742	\$ 527,061	\$ 1,300,326	\$ 15,258,706

NOTE 5 – INVENTORIES

Inventories consist of the following:

	November 30, 2021	February 28, 2021
Ingredients and supplies	\$ 3,093,580	\$ 2,464,123
Finished candy	2,157,967	1,888,818
U-Swirl food and packaging	49,277	39,518
Reserve for slow moving inventory	(356,910)	(329,574)
Total inventories	\$ 4,943,914	\$ 4,062,885

NOTE 6 – PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following:

	November 30, 2021	February 28, 2021
Land	\$ 513,618	\$ 513,618
Building	5,148,854	4,827,807
Machinery and equipment	9,962,400	10,129,508
Furniture and fixtures	787,921	797,303
Leasehold improvements	995,219	985,407
Transportation equipment	479,701	429,789
	17,887,713	17,683,432
Less accumulated depreciation	(12,442,247)	(12,531,417)
Property and equipment, net	\$ 5,445,466	\$ 5,152,015

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Depreciation expense related to property and equipment totaled \$177,909 and \$541,887 during the three and nine months ended November 30, 2021 compared to \$189,522 and \$576,128 during the three and nine months ended November 30, 2020, respectively.

NOTE 7 – GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets consist of the following:

	Amortization Period (in years)	November 30, 2021		February 28, 2021	
		Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Intangible assets subject to amortization					
Store design	10	\$ 394,826	\$ 235,683	\$ 394,826	\$ 221,504
Packaging licenses	3 - 5	120,830	120,830	120,830	120,830
Packaging design	10	430,973	430,972	430,973	430,973
Trademark/Non-competition agreements	5 - 20	556,339	351,349	556,339	333,715
Franchise rights	20	5,979,637	3,791,146	5,979,637	3,459,873
Total		\$ 7,482,605	\$ 4,929,980	\$ 7,482,605	\$ 4,566,895
Goodwill and intangible assets not subject to amortization					
Franchising segment					
Company stores goodwill		\$ 515,065		\$ 515,065	
Franchising goodwill		97,318		97,318	
Manufacturing segment-goodwill		97,318		97,318	
Trademark		20,000		20,000	
Total		729,701		729,701	
Total Goodwill and Intangible Assets		\$ 8,212,306	\$ 4,929,980	\$ 8,212,306	\$ 4,566,895

Amortization expense related to intangible assets totaled \$120,873 and \$363,085 during the three and nine months ended November 30, 2021 compared to \$137,050 and \$428,411 during the three and nine months ended November 30, 2020, respectively.

At November 30, 2021, annual amortization of intangible assets, based upon the Company's existing intangible assets and current useful lives, is estimated to be the following:

2022	120,873
2023	409,393
2024	346,672
2025	294,427
2026	251,342
Thereafter	1,129,918
Total	\$ 2,552,625

NOTE 8 – IMPAIRMENT OF LONG-LIVED AND INTANGIBLE ASSETS

We assess the potential impairment of our long-lived assets on an annual basis or whenever events or changes in circumstances indicate the carrying value of the assets or asset group may not be recoverable. Due to the significant impact of the COVID-19 pandemic on our operations, we determined it was necessary to perform an interim test of our long-lived assets during the three months ended May 31, 2020. Based on the results of these assessments, we recorded \$545,000 of expense. This expense is presented within general and administrative expense on the Consolidated Statements of Operations.

Certain interim tests conducted during the three months ended May 31, 2020 did not indicate a need for impairment. Franchise rights, store design, manufacturing segment goodwill and franchising goodwill tests succeeded during the interim period. We believe we have made reasonable estimates and judgements, however, further COVID-19 related impacts could cause interim testing to be performed in future periods and further impairments recorded if testing of impairment is not successful in future periods.

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARIES
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The assessment of our goodwill, trademark and long-lived asset fair values includes many assumptions that are subject to risk and uncertainties. The primary assumptions, which are all Level 3 inputs of the fair value hierarchy (inputs to the valuation methodology that are unobservable and significant to the fair value measurement), used in our impairment testing consist of:

- Expected future cash flows from operation of our Company-owned units.
- Forecasted future royalty revenue, marketing revenue and associated expenses.
- Projected rate of royalty savings on trademarks.
- Our cost of capital.

During the nine months ended November 30, 2020 costs associated with the impairment of long-lived and intangible assets consisted of the following:

Company store goodwill impairment	\$	317,243
Trademark intangible asset impairment		159,000
Company-owned store impairment of long-lived assets and inventory		68,558
Total	\$	544,801

During the nine months ended November 30, 2021 the Company did not identify any triggering events and there were no costs associated with the impairment of long-lived assets during the nine months ended November 30, 2021.

NOTE 9 – LINE OF CREDIT AND LONG-TERM DEBT

Paycheck Protection Program

During the year ended February 28, 2021 the Company received promissory notes pursuant to the Paycheck Protection Program (“PPP”), under the recently enacted Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) administered by the U.S. Small Business Administration (the “SBA Loans”). The Company received total proceeds of \$1.5 million from SBA Loans. During the three months ended November 30, 2020, approximately \$108,000 of the original loan proceeds was forgiven by the SBA and during the three months ended February 28, 2021 the remaining approximately \$1.4 million of the original loan proceeds was forgiven.

Revolving Credit Line

The Company has a \$5.0 million credit line for general corporate and working capital purposes, of which \$5.0 million was available for borrowing (subject to certain borrowing base limitations) as of November 30, 2021. The credit line is secured by substantially all of the Company’s assets, except retail store assets. Interest on borrowings is at Daily Simple SOFR plus 2.37% (2.4% at November 30, 2021). Additionally, the line of credit is subject to various financial ratio and leverage covenants. At November 30, 2021, the Company was in compliance with all such covenants. The credit line is subject to renewal in September 2022.

NOTE 10 – STOCKHOLDERS’ EQUITY

Cash Dividend

The Company paid a quarterly cash dividend of \$0.12 per share of common stock on March 13, 2020 to stockholders of record on February 28, 2020.

As previously announced on May 11, 2020, the Board of Directors suspended the Company’s fiscal year 2021 first quarter cash dividend payment to preserve cash and provide additional flexibility in the current environment as a result of the economic impact of COVID-19. Furthermore, the Board of Directors has suspended future quarterly dividends until the Board of Directors determines that resumption of dividend payments is in the best interest of the Company and its stockholders.

Future declarations of dividends will depend on, among other things, the Company’s results of operations, financial condition, capital requirements, and on such other factors as the Company’s Board of Directors may in its discretion consider relevant and in the best long-term interest of the Company’s stockholders.

On October 2, 2021, the Board of Directors approved the redemption of all the outstanding preferred stock purchase rights (the “Rights”) granted pursuant to the Rights Agreement, dated March 1, 2015, between the Company and Computershare Trust Company, N.A., as Rights Agent (as amended, the “Rights Agreement”), commonly referred to as a “poison pill.” Immediately upon the action of the Board of Directors to approve the redemption of the Rights, the right to exercise the Rights terminated, which effectively terminated the Rights Agreement. Pursuant to the Rights Agreement, the Rights were redeemed at a redemption price of \$ 0.01 per Right. As a result, the Company paid an aggregate amount of \$61,276 to shareholders in October 2021 to redeem the Rights.

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARIES
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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. As of November 30, 2021, approximately \$638,000 remains available under the repurchase plan for further stock repurchases.

Warrants

In consideration of Edible entering into the exclusive supplier agreement and the performance of its obligations therein, on December 20, 2019, the Company issued Edible a warrant (the "Warrant") to purchase up to 960,677 shares of the Company's common stock (the "Warrant Shares") at an exercise price of \$8.76 per share. The Warrant Shares vest in annual tranches in varying amounts following each contract year under the exclusive supplier agreement, subject to, and only upon, Edible's achievement of certain revenue thresholds on an annual or cumulative five-year basis in connection with its performance under the exclusive supplier agreement. The Warrant expires six months after the final and conclusive determination of revenue thresholds for the fifth contract year and the cumulative revenue determination in accordance with the terms of the Warrant.

The Company determined that the grant date fair value of the warrants was de minimis and did not record any amount in consideration of the warrants. The Company utilized a Monte Carlo model for purposes of determining the grant date fair value.

Stock-Based Compensation

Under the Company's 2007 Equity Incentive Plan (as amended and restated) (the "2007 Plan"), the Company may authorize and grant stock awards to employees, non-employee directors and certain other eligible participants, including stock options, restricted stock and restricted stock units.

The Company recognized \$677,370 and \$946,994 of stock-based compensation expense during the three- and nine-month periods ended November 30, 2021, respectively, compared to \$112,199 and \$399,636 during the three- and nine-month periods ended November 30, 2020, 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 nine months ended November 30, 2021 and 2020:

	Nine Months Ended November 30,	
	2021	2020
Outstanding non-vested restricted stock units as of February 28 or 29:	209,450	265,555
Granted	26,058	-
Vested	(117,470)	(51,393)
Cancelled/forfeited	(2,400)	(1,344)
Outstanding non-vested restricted stock units as of November 30:	115,638	212,818
Weighted average grant date fair value	\$ 9.23	\$ 9.40
Weighted average remaining vesting period (in years)	2.40	3.92

The Company issued 26,058 restricted stock units to non-employee directors during the three months ended November 30, 2021 and issued 9,000 unrestricted shares to non-employee directors during the nine months ended November 30, 2021 compared to no shares issued during the three and nine months ended November 30, 2020. In connection with these non-employee director stock issuances, the Company recognized \$55,373 and \$101,983 during the three and nine months ended November 30, 2021, respectively, compared to \$0 of non-employee director stock-based compensation expense during the three and nine months ended November 30, 2020.

During the three- and nine-month periods ended November 30, 2021, the Company recognized \$621,997 and \$845,011, respectively, of stock-based compensation expense related to employee restricted stock unit grants. The restricted stock unit grants generally vest in equal annual or quarterly installments over a period of five to six years. During the nine-month periods ended November 30, 2021 and 2020, 117,470 and 51,393 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 November 30, 2021 was \$913,096, which is expected to be recognized over the weighted-average period of 2.40 years.

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARIES
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During the three months ended November 30, 2021 the Company accelerated 66,667 restricted stock units and recognized accelerated expense of \$525,000. These restricted stock units were scheduled to vest through March 2025. The acceleration of the restricted stock units was the result of an agreement entered into by the Company and Mr. Merryman, the Company's Chief Financial Officer and Interim Chief Executive Officer. See Notes 13 and 15 for additional information on costs associated with the contested solicitation of proxies, change in control severance payments, and the acceleration of restricted stock unit vesting.

The Company has no outstanding stock options as of November 30, 2021.

NOTE 11 – 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.

The weighted-average number of shares outstanding used in the computation of diluted earnings per share does not include outstanding common shares issuable if their effect would be anti-dilutive. During the nine months ended November 30, 2021, 960,677 shares of common stock warrants and 160,951 shares of issuable common stock were excluded from the computation of diluted earnings per share because their effect would have been anti-dilutive. During the nine months ended November 30, 2020, 960,677 shares of common stock warrants and 219,596 shares of issuable common stock were excluded from the computation of diluted earnings per share because their effect would have been anti-dilutive.

NOTE 12 – LEASING ARRANGEMENTS

The Company conducts its retail operations in facilities leased under non-cancelable operating leases of up to ten years. Certain leases contain renewal options for between five and ten additional years at increased monthly rentals. Some of the leases provide for contingent rentals based on sales in excess of predetermined base levels. All of the Company's leases are classified as operating leases.

The Company acts as primary lessee of some franchised store premises, which the Company then subleases to franchisees, but the majority of existing locations are leased by the franchisee directly. Currently, there are no indications that the Company will be required to make any payments on behalf of franchisees.

In some instances, the Company has leased space for its Company-owned locations that are now occupied by franchisees. When the Company-owned location was sold or transferred, the store was subleased to the franchisee who is responsible for the monthly rent and other obligations under the lease.

The Company also leases trucking equipment and warehouse space in support of its manufacturing operations. Expense associated with trucking and warehouse leases is included in cost of sales on the consolidated statements of operations.

The Company accounts for payments related to lease liabilities on a straight-line basis over the lease term. During the nine months ended November 30, 2021 and 2020, lease expense recognized in the Consolidated Statements of Income was \$582,344 and \$630,871, respectively.

The lease liability reflects the present value of the Company's estimated future minimum lease payments over the life of its leases. This includes known escalations and renewal option periods reasonably assured of being exercised. Typically, renewal options are considered reasonably assured of being exercised if the sales performance of the location remains strong. Therefore, the Right of Use Asset and Lease Liability include an assumption on renewal options that have not yet been exercised by the Company, and are not currently a future obligation. The Company has separated non-lease components from lease components in the recognition of the Asset and Liability except in instances where such costs were not practical to separate. To the extent that occupancy costs, such as site maintenance, are included in the Asset and Liability, the impact is immaterial. For franchised locations, the related occupancy costs including property taxes, insurance and site maintenance are generally required to be paid by the franchisees as part of the franchise arrangement. In addition, the Company is the lessee under non-store related leases such as storage facilities and trucking equipment. For leases where the implicit rate is not readily determinable, the Company uses an incremental borrowing rate to calculate the lease liability that represents an estimate of the interest rate the Company would incur to borrow on a collateralized basis over the term of a lease. The weighted average discount rate used for operating leases was 3.1% as of November 30, 2021. The total estimated future minimum lease payments is \$2.1 million.

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

As of November 30, 2021, maturities of lease liabilities for the Company's operating leases were as follows:

FY 22	\$	170,911
FY 23		536,712
FY 24		417,930
FY 25		268,966
FY 26		171,324
Thereafter		521,138
Total	\$	2,086,981
Less: imputed interest		(185,423)
Present value of lease liabilities:	\$	1,901,558

Weighted average lease term (in years)		6.8
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During the nine months ended November 30, 2021, the Company entered into lease amendments to extend the terms of leases for certain Company-owned locations. These lease amendments resulted in the Company recognizing a present value of future lease liability of \$475,908 based upon a total lease liability of \$504,946. The Company did not enter into any lease agreements or amendments during the nine months ended November 30, 2020.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Employment Agreement Payments upon a Change in Control

We have entered into employment agreements with certain of our executives which contain, among other things, "change in control" severance provisions. The employment agreements generally provide that, if the Company or the executive terminates the executive's employment under circumstances constituting a "triggering termination," the executive will be entitled to receive, among other benefits, 2.99 times the sum of (i) the executive's annual salary and (ii) the lesser of (a) two times the bonus that would be payable to the executive for the bonus period in which the change in control occurred or (b) 25% of the executive's annual salary. The executive will also receive an additional payment of \$18,000, which represents the estimated cost to the executive of obtaining accident, health, dental, disability and life insurance coverage for the 18-month period following the expiration of COBRA coverage. Additionally, all of the named executive officer's unvested restricted stock units will immediately vest and become exercisable and payable.

A "change in control," as used in these employment agreements, generally means a change in the control of the Company following any number of events, but specifically a proxy contest in which our Board of Directors prior to the transaction constitutes less than a majority of our Board of Directors after the transaction or the members of our Board of Directors during any consecutive two-year period who at the beginning of such period constituted the Board of Directors cease to be the majority of the Board of Directors at the conclusion of that period. We have determined that a change in control has taken place. A "triggering termination" generally occurs when an executive is terminated during a specified period preceding a change in control of us, or if the executive or the Company terminates the executive's employment under circumstances constituting a triggering termination during a specified period after a change in control. A triggering termination may also include a voluntary termination under certain scenarios.

As a result of the changes in our Board of Directors, the Company may be liable to each executive for change in control payments contingent upon a triggering termination event. As of November 30, 2021 the amount of the cash severance payments and benefits contingent upon a triggering termination event are estimated to be approximately \$859,000 and the acceleration of unvested restricted stock units with an unrecognized expense of approximately \$28,000. The Company may further be liable for outplacement services obligations, consulting fees, and certain tax consequences associated with severance payments, benefits payments and stock awards. These additional obligations may have a material impact on the liability of the Company upon a triggering termination.

Purchase Contracts

The Company frequently enters into purchase contracts of between six to eighteen months for chocolate and certain nuts. These contracts permit the Company 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, the Company may benefit if prices rise during the terms of these contracts, but it may be required to pay above-market prices if prices fall and it is unable to renegotiate the terms of the contract. As of November 30, 2021, the Company was contracted for approximately \$64,000 of raw materials under such agreements. The Company has designated these contracts as normal under the normal purchase and sale exception under the accounting standards for derivatives. These contracts are not entered into for speculative purposes.

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARIES
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NOTE 14 – 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, 2021, as amended by Amendment No. 1 on Form 10-K/A filed on June 28, 2021. 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 November 30, 2021	Franchising	Manufacturing	Retail	U-Swirl	Other	Total
Total revenues	\$ 1,251,381	\$ 6,685,416	\$ 275,530	\$ 605,601	\$ -	\$ 8,817,928
Intersegment revenues	(1,245)	(309,049)	-	-	-	(310,294)
Revenue from external customers	1,250,136	6,376,367	275,530	605,601	-	8,507,634
Segment profit (loss)	578,357	1,339,108	16,706	(56,790)	(3,833,894)	(1,956,513)
Total assets	1,590,914	10,988,056	651,372	4,824,466	9,243,856	27,298,664
Capital expenditures	650	59,095	2,620	12,751	58,485	133,601
Total depreciation & amortization	\$ 9,060	\$ 156,696	\$ 1,397	\$ 116,648	\$ 14,981	\$ 298,782

Three Months Ended November 30, 2020	Franchising	Manufacturing	Retail	U-Swirl	Other	Total
Total revenues	\$ 934,793	\$ 5,880,361	\$ 273,378	\$ 451,466	\$ -	\$ 7,539,998
Intersegment revenues	(1,145)	(309,986)	-	-	-	(311,131)
Revenue from external customers	933,648	5,570,375	273,378	451,466	-	7,228,867
Segment profit (loss)	274,748	986,763	35,935	(30,060)	(571,278)	696,108
Total assets	1,232,759	10,647,718	640,383	5,036,284	10,723,870	28,281,014
Capital expenditures	-	16,830	-	-	9,376	26,206
Total depreciation & amortization	\$ 8,998	\$ 161,902	\$ 1,393	\$ 134,773	\$ 19,506	\$ 326,572

Nine Months Ended November 30, 2021	Franchising	Manufacturing	Retail	U-Swirl	Other	Total
Total revenues	\$ 4,289,116	\$ 17,434,641	\$ 829,542	\$ 2,334,487	\$ -	\$ 24,887,786
Intersegment revenues	(4,258)	(856,106)	-	-	-	(860,364)
Revenue from external customers	4,284,858	16,578,535	829,542	2,334,487	-	24,027,422
Segment profit (loss)	1,866,829	3,254,726	61,029	262,202	(6,323,294)	(878,508)
Total assets	1,590,914	10,988,056	651,372	4,824,466	9,243,856	27,298,664
Capital expenditures	1,832	593,043	3,688	14,150	91,749	704,462
Total depreciation & amortization	\$ 27,732	\$ 469,562	\$ 4,194	\$ 350,047	\$ 53,437	\$ 904,972

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Nine Months Ended November 30, 2020	Franchising	Manufacturing	Retail	U-Swirl	Other	Total
Total revenues	\$ 2,230,132	\$ 11,941,869	\$ 527,061	\$ 1,300,326	\$ -	\$ 15,999,388
Intersegment revenues	(2,555)	(738,127)	-	-	-	(740,682)
Revenue from external customers	2,227,577	11,203,742	527,061	1,300,326	-	15,258,706
Segment profit (loss)	189,964	692,962	(419,967)	(475,875)	(4,036,968)	(4,049,884)
Total assets	1,232,759	10,647,718	640,383	5,036,284	10,723,870	28,281,014
Capital expenditures	150	42,027	72	1,712	33,098	77,059
Total depreciation & amortization	\$ 29,231	\$ 486,254	\$ 6,188	\$ 422,545	\$ 60,321	\$ 1,004,539

NOTE 15 – CONTESTED SOLICITATION OF PROXIES AND CHANGE IN CONTROL PAYMENTS

Contested Solicitation of Proxies

During the three and nine months ended November 30, 2021, the Company incurred substantial costs associated with a stockholder's contested solicitation of proxies in connection with its 2021 annual meeting of stockholders. During the three and nine months ended November 30, 2021, the Company incurred approximately \$800,000 and \$1.7 million, respectively, of costs associated with the contested solicitation of proxies, compared with no comparable costs incurred in the three and nine months ended November 30, 2020. These costs are recognized as general and administrative expense in the Consolidated Statement of Operations.

Employment Agreement Payments upon a Change in Control

As described above in Note 13, we have entered into employment agreements with certain of our executives, which contain, among other things, "change in control" severance provisions.

As previously announced, Bryan J. Merryman agreed to voluntarily step down as President and Chief Executive Officer ("CEO") of the Company upon the hiring of a new President and CEO for the Company. The Company is actively engaged in the search for a new CEO to succeed Mr. Merryman who will continue until such time in the capacity of interim CEO.

In connection therewith, the Company and Mr. Merryman entered into a letter agreement dated November 8, 2021 (the "Letter Agreement"), effective November 3, 2021 (the "Effective Date"), amending that certain Second Restated Employment Agreement, dated as of February 26, 2019, by and between the Company and Mr. Merryman (the "Current Employment agreement"). Pursuant to the Letter Agreement, among other things, Mr. Merryman will (i) continue as Chief Financial Officer of the Company, and (ii) until the Company hires a new President and CEO, as the interim President and CEO of the Company. Except as specifically set forth in the Letter Agreement, all the terms and provisions of the Current Employment Agreement remain unmodified and in full force and effect. In addition, on November 3, 2021, the Compensation Committee of the Board of Directors recommended, and the Board of Directors unanimously approved, the acceleration of vesting of approximately 66,667 unvested restricted stock units previously granted to Mr. Merryman, such that the restricted stock units are fully vested as of November 3, 2021 (the "RSU Acceleration").

As a result of this Letter Agreement the Company incurred the following costs during the three and nine months ended November 30, 2021:

Accrued severance compensation	\$ 1,344,813
Accelerated restricted stock unit compensation expense:	525,000
Total	\$ 1,869,813

These costs are recognized as general and administrative expense in the Consolidated Statement of Operations.

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, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), 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: the impact of the novel coronavirus (COVID-19) on our business, including, among other things, disruptions to our supply chain, including, but not limited to, raw materials and freight costs, the availability of qualified labor, online sales, factory sales, retail sales and royalty and marketing fees, our liquidity, our cost cutting and capital preservation measures, achievement of the anticipated potential benefits of the strategic alliance with Edible (as defined herein), our ability to provide products to Edible under the strategic alliance, the ability to increase our online sales through the agreements with Edible, the outcome of the legal proceedings initiated against Immaculate Confections, the operator of RMCF locations in Canada, 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 and licensees 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, licensing, 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 section entitled "Risk Factors" contained in Item 1A. of our Annual Report on Form 10-K for the fiscal year ended February 28, 2021, as amended by Amendment No. 1 on Form 10-K/A filed on June 28, 2021. Additional factors that might cause such differences include, but are not limited to: the length and severity of the current COVID-19 pandemic and its effect on among other things, factory sales, retail sales, royalty and marketing fees and operations, the effect of any governmental action or mandated employer-paid benefits in response to the COVID-19 pandemic, our ability to manage costs and reduce expenditures in the current economic environment and the availability of additional financing if and when required. 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 (including its operating subsidiary with the same name, Rocky Mountain Chocolate Factory, Inc., a Colorado corporation ("RMCF")).

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 confectionery 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 November 30, 2021, there were two Company-owned, 97 licensee-owned and 161 franchised Rocky Mountain Chocolate Factory stores operating in 37 states, South Korea, Panama, and the Philippines. As of November 30, 2021, U-Swirl operated three Company-owned cafés and 66 franchised cafés located in 22 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 FY 2020 and early FY 2021, we entered into a long-term strategic alliance and ecommerce agreements with Edible, whereby it is intended that we would become the exclusive provider of certain branded chocolate products to Edible, its affiliates and its franchisees. Under the strategic alliance, Rocky Mountain Chocolate Factory branded products are intended to be available for purchase both on Edible's website as well as through over 1,000 franchised Edible locations nationwide. In addition, due to Edible's significant e-commerce expertise and scale, we have also executed an ecommerce licensing agreement with Edible, whereby Edible is expected to sell a wide variety of chocolates, candies and other confectionery products produced by the Company or its franchisees through Edible's websites. There is no assurance that the strategic alliance and ecommerce agreements will be deployed into our operations and to our satisfaction, or that we will achieve the expected full benefits from these agreements. During the nine months ended November 30, 2021, certain disagreements arose between RMCF and Edible related to the strategic alliance and ecommerce agreements resulting in continuing discussions, the result of which are not currently determinable. There can be no assurance historical revenue levels will be indicative of future revenues.

COVID-19

As discussed in more detail throughout this Quarterly Report on Form 10-Q for the nine months ended November 30, 2021 (this “Quarterly Report”), we have experienced significant business disruptions resulting from efforts to contain the rapid spread of the novel coronavirus (“COVID-19”), including the vast mandated self-quarantines of customers throughout the United States and internationally. During the year ended February 28, 2021 nearly all of the Company-owned and franchise stores were directly and negatively impacted by public health measures taken in response to COVID-19, with nearly all locations experiencing reduced operations as a result of, among other things, modified business hours and store and mall closures. As a result, franchisees and licensees were not ordering products for their stores in line with historical amounts. This trend has negatively impacted, and may continue to negatively impact, among other things, factory sales, retail sales and royalty and marketing fees. Beginning in May 2020, most stores previously closed for much of March 2020 and April 2020 in response to the COVID-19 pandemic, began to re-open. During the year ended February 28, 2021, approximately 53 stores closed and have not re-opened and the future of these locations is uncertain. That is a closure rate significantly higher than historical levels. As of the date of this report, most stores have met or exceeded pre-COVID-19 sales levels, however, many retail environments have continued to be adversely impacted by changes to consumer behavior as a result of COVID-19. Most stores re-opened subject to various local health restrictions and often with reduced operations. Strong consumer spending and other macro-economic trends as well as the roll out of vaccines and relaxing of most local health restrictions have resulted in significant increases in sales at our franchise stores during the nine months ended November 30, 2021. Our ability to meet the increase in franchise store demand has been impacted by labor and supply chain constraints. We are unsure how the emergence of COVID-19 variants, such as Delta and Omicron, will impact the positive recovery trends.

Labor and Supply Chain

As a result of macro-economic inflationary trends and disruptions to the global supply chain, we have experienced and expect to continue experiencing higher raw material, labor, and freight costs. We have begun to see labor and logistics challenges, which we believe have contributed to lower factory, retail and e-commerce sales of our products due to the availability of material, labor and freight. In addition, we could experience additional lost sale opportunities if our products are not available for purchase as a result of continued disruptions in our supply chain relating to an inability to obtain ingredients or packaging, labor challenges at our logistics providers or our manufacturing facility, or if we or our franchisees experience delays in stocking our products.

Contested Solicitation of Proxies

During the three and nine months ended November 30, 2021, the Company incurred substantial costs associated with a stockholder’s contested solicitation of proxies in connection with our 2021 annual meeting of stockholders. During the three and nine months ended November 30, 2021, the Company incurred approximately \$800,000 and \$1.7 million of costs, respectively, associated with the contested solicitation of proxies, compared with no comparable costs incurred in the three and nine months ended November 30, 2020. These costs are recognized as general and administrative expense in the Consolidated Statement of Operations. Additionally, as a result of the contested solicitation of proxies and the resulting changes to the composition of the Company’s Board of Directors, the Company incurred \$1.9 million of accrued severance costs and accelerated restricted stock unit expense during the three and nine months ended November 30, 2021. As previously announced, Bryan J. Merryman agreed to voluntarily step down as President and Chief Executive Officer (“CEO”) of the Company upon the hiring of a new President and CEO for the Company. The Company is actively engaged in the search for a new CEO to succeed Mr. Merryman who will continue until such time in the capacity of interim CEO.

Results of Operations

Three Months Ended November 30, 2021 Compared to the Three Months Ended November 30, 2020

Results Summary

Basic earnings per share decreased from \$0.09 per share in the three months ended November 30, 2020 to a loss of \$(0.24) per share in the three months ended November 30, 2021. Revenues increased 17.7% from \$7.2 million in the three months ended November 30, 2020 to \$8.5 million in the three months ended November 30, 2021. Income from operations decreased from \$399,000 in the three months ended November 30, 2020 to a loss from operations of \$(1,959,000) in the three months ended November 30, 2021. Net income decreased from \$524,000 in the three months ended November 30, 2020 to a net loss of \$(1,478,000) in the three months ended November 30, 2021. The increase in revenue was due primarily to the impacts from the COVID-19 pandemic during the three months ended November 30, 2020, including its impact on our operation and the operations of our franchised, licensed and Company-owned locations. During the three months ended November 30, 2021 most of the disruptions experienced as a result of the COVID-19 pandemic were no longer impacting our network of franchised and licensed retail stores and many of our locations have exceeded, pre-pandemic levels. The decrease in income from operations and net income was due primarily to the costs associated with the contested solicitation of proxies and the associated accrued severance and stock compensation costs.

Revenues

(\$'s in thousands)	Three Months Ended November 30,			Change	% Change
	2021	2020			
Factory sales	\$ 6,376.4	\$ 5,570.4	\$ 806.0	14.5%	
Retail sales	636.0	531.4	104.6	19.7%	
Franchise fees	61.7	46.1	15.6	33.8%	
Royalty and marketing fees	1,433.5	1,081.0	352.5	32.6%	
Total	\$ 8,507.6	\$ 7,228.9	\$ 1,278.7	17.7%	

Factory Sales

The increase in factory sales for the three months ended November 30, 2021 compared to the three months ended November 30, 2020 was primarily due to a 37.8% increase in sales of product to our network of franchised and licensed retail stores, partially offset by a 31.1% decrease in shipments of product to customers outside our network of franchised retail stores. Purchases by the Company's largest customer, Edible Arrangements LLC ("Edible"), during the three months ended November 30, 2021 were approximately \$413,400, or 4.9% of the Company's revenues, compared to \$1.2 million, or 16.3% of the Company's revenues during the three months ended November 30, 2020. The increase in sales of product to our network of franchised and licensed retail stores was primarily the result of the COVID-19 pandemic and the associated public health measures in place during the three months ended November 30, 2020, which significantly reduced traffic in our stores. During the three months ended November 30, 2021 most of the disruptions experienced as a result of the COVID-19 pandemic were no longer impacting our network of franchised and licensed retail stores and many of our locations had exceeded, pre-pandemic levels. During the nine months ended November 30, 2021, certain disagreements arose between RMCF and Edible related to the strategic alliance and ecommerce agreements resulting in continuing discussions, the result of which are not currently determinable. There can be no assurance historical revenue levels will be indicative of future revenues. Same store pounds purchased by domestic franchise and licensed locations increased 2.6% during the three months ended November 30, 2021, when compared to the three months ended November 30, 2019 (the most recent comparable period prior to the business disruptions of COVID-19).

Retail Sales

Retail sales at Company-owned stores increased 19.7% during the three months ended November 30, 2021 compared to the three months ended November 30, 2020 as a result of all of our Company-owned stores being open during the three months ended November 30, 2021 compared to the limited operations of all of our Company-owned stores for much of the three months ended November 30, 2020. The limited operations of our Company-owned stores in the prior year period was the result of the COVID-19 pandemic and the associated public health measures in place during the three months ended November 30, 2020. As of November 30, 2021, all Company-owned stores had substantially resumed full operations following COVID-19 related closure.

Royalties, Marketing Fees and Franchise Fees

The increase in royalties and marketing fees from the three months ended November 30, 2020 to the three months ended November 30, 2021 was primarily due to the majority of our franchise locations having resumed normal operations during the three months ended November 30, 2021, due to the relaxing of restrictions related to the COVID-19 pandemic and the associated public health measures in place during the three months ended November 30, 2020 as well as the rollout of vaccines. Nearly all of our franchised locations experienced reduced operations during the three months ended November 30, 2020. Same store sales at domestic franchise locations increased 22.4% during the three months ended November 30, 2021 when compared to the three months ended November 30, 2019 (the most recent comparable period prior to the business disruptions of COVID-19).

The increase in franchise fee revenue for the three months ended November 30, 2021 compared to the three months ended November 30, 2020 was the result of an increase in revenue resulting from the closure of franchise locations and the associated recognition of revenue in the three months ended November 30, 2021, with no comparable revenue during the three months ended November 30, 2020. This increase was partially offset by fewer franchise stores in operation and the associated recognition of revenue over the terms of the various franchise agreements.

Costs and Expenses*Cost of Sales*

(\$'s in thousands)	Three Months Ended November 30,		\$ Change	% Change
	2021	2020		
Cost of sales - factory	\$ 4,960.9	\$ 4,505.4	\$ 455.5	10.1%
Cost of sales - retail	239.8	182.6	57.2	31.3%
Franchise costs	458.5	440.7	17.8	4.0%
Sales and marketing	377.2	382.5	(5.3)	(1.4)%
General and administrative	3,865.9	788.7	3,077.2	390.2%
Retail operating	420.3	361.4	58.9	16.3%
Total	\$ 10,322.6	\$ 6,661.3	\$ 3,661.3	55.0%

Gross Margin

(\$'s in thousands)	Three Months Ended November 30,		\$ Change	% Change
	2021	2020		
Factory gross margin	\$ 1,415.5	\$ 1,065.0	\$ 350.5	32.9%
Retail gross margin	396.2	348.8	47.4	13.6%
Total	\$ 1,811.7	\$ 1,413.8	\$ 397.9	28.1%

(Percent)	Three Months Ended November 30,		% Change	% Change
	2021	2020		
Factory gross margin	22.2%	19.1%	3.1%	16.1%
Retail gross margin	62.3%	65.6%	(3.3)%	(5.1)%
Total	25.8%	23.2%	2.7%	11.5%

Adjusted Gross Margin

(\$'s in thousands)	Three Months Ended November 30,		\$ Change	% Change
	2021	2020		
Factory gross margin	\$ 1,415.5	\$ 1,065.0	\$ 350.5	32.9%
Plus: depreciation and amortization	155.2	157.6	(2.4)	(1.5)%
Factory adjusted gross margin	1,570.7	1,222.6	348.1	28.5%
Retail gross margin	396.2	348.8	47.4	13.6%
Total Adjusted Gross Margin	\$ 1,966.9	\$ 1,571.4	\$ 395.5	25.2%
Factory adjusted gross margin	24.6%	21.9%	2.7%	12.2%
Retail gross margin	62.3%	65.6%	(3.3)%	(5.1)%
Total Adjusted Gross Margin	28.0%	25.8%	2.3%	8.9%

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 them 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 gross margins increased to 22.2% in the three months ended November 30, 2021 compared to 19.1% the three months ended November 30, 2020, due primarily to higher average sell prices and a 12.5% increase in production volume in the three months ended November 30, 2021 compared to the three months ended November 30, 2020, partially offset by increased costs of materials and labor. The increase in production volume was the result of an increase in factory sales.

Retail gross margins decreased from 65.6% during the three months ended November 30, 2020 to 62.3% during the three months ended November 30, 2021. This decrease was primarily due to increased costs.

Franchise Costs

The increase in franchise costs in the three months ended November 30, 2021 compared to the three months ended November 30, 2020 was due primarily to an increase in professional fees. As a percentage of total royalty and marketing fees and franchise fee revenue, franchise costs decreased to 30.7% in the three months ended November 30, 2021 from 39.1% in the three months ended November 30, 2020. This decrease as a percentage of royalty, marketing and franchise fees is primarily a result of an increase in royalty revenues.

Sales and Marketing

Sales and marketing costs were comparable for the three months ended November 30, 2021 and the three months ended November 30, 2020.

General and Administrative

The increase in general and administrative costs for the three months ended November 30, 2021 compared to the three months ended November 30, 2020 is primarily due to costs associated with a stockholder's contested solicitation of proxies in connection with our 2021 annual meeting of stockholders and the compensation costs associated with the letter agreement between the Company and Mr. Merryman. During the three months ended November 30, 2021, the Company incurred approximately \$800,000 of costs associated with the contested solicitation of proxies and \$1.9 million in change in control severance expense, compared with no comparable expenses incurred in the three months ended November 30, 2020. As a percentage of total revenues, general and administrative expenses increased to 45.4% in the three months ended November 30, 2021 compared to 10.9% in the three months ended November 30, 2020.

Retail Operating Expenses

The increase in retail operating expenses for the three months ended November 30, 2021 compared to the three months ended November 30, 2020 was due primarily to the resumption of normal operations at most of our Company-owned stores so that most stores were fully operational during the three months ended November 30, 2021 compared to the limited operations of all of our Company-owned stores for much of the three months ended November 30, 2020. The limited operation of our Company-owned stores was the result of COVID-19 and the associated public health measures in place during the three months ended November 30, 2020. Retail operating expenses, as a percentage of retail sales, decreased from 68.0% in the three months ended November 30, 2020 to 66.1% in the three months ended November 30, 2021. This decrease is primarily the result of higher retail sales, partially offset by higher retail operating expenses.

Depreciation and Amortization

Depreciation and amortization, exclusive of depreciation and amortization included in cost of sales, was \$144,000 in the three months ended November 30, 2021, a decrease of 15.0% from \$169,000 in the three months ended November 30, 2020. This decrease was the result of lower amortization of franchise rights, the result of a decrease in frozen yogurt cafés in operation. See Note 7 to the consolidated financial statements for a summary of annual amortization of intangible assets based upon existing intangible assets and current useful lives. Depreciation and amortization included in cost of sales decreased 1.5% from \$158,000 in the three months ended November 30, 2020 to \$155,000 in the three months ended November 30, 2021.

Other Income (Expense)

Other income was \$2,200 in the three months ended November 30, 2021 compared to other income of \$298,000 realized in the three months ended November 30, 2020. This change was primarily the result of a gain on insurance recovery realized and debt forgiveness income during the three months ended November 30, 2020 with no comparable amounts realized during the three months ended November 30, 2021. Net interest expense was \$21,200 in the three months ended November 30, 2020 compared with net interest income of \$2,200 during the three months ended November 30, 2021. This change was primarily the result of the Company's increased debt during the prior year as a result of measures taken to ensure adequate liquidity during the COVID-19 pandemic. During the prior year, the Company borrowed \$3.4 million from its line of credit and borrowed \$1.5 million of loans under the Paycheck Protection Program. The line of credit was paid in full and Paycheck Protection Program loans were fully forgiven during the year ended February 28, 2021.

Income Tax Expense

Our effective income tax rate for the three months ended November 30, 2021 was 24.5% compared to an effective tax rate in the three months ended November 30, 2020 of 24.8%.

Nine Months Ended November 30, 2021 Compared to the Nine Months Ended November 30, 2020*Results Summary*

Basic earnings per share increased from a net loss of \$(0.51) per share for the nine months ended November 30, 2020 to a net loss of \$(0.11) per share for the nine months ended November 30, 2021. Revenues increased 57.5% from \$15.3 million for the nine months ended November 30, 2020 to \$24.0 million for the nine months ended November 30, 2021. Loss from operations decreased from an operating loss of \$(4.3) million for the nine months ended November 30, 2020 to an operating loss of \$(1.1) million for the nine months ended November 30, 2021. Net loss decreased from a net loss of \$(3.1) million for the nine months ended November 30, 2020 to a net loss of \$(701,000) for the nine months ended November 30, 2021. The increase in revenue was due primarily to the impacts from the COVID-19 pandemic during the nine months ended November 30, 2020, including its impact on our operation and the operations of our franchised, licensed and Company-owned locations. During the nine months ended November 30, 2021 many of the disruptions experienced as a result of the COVID-19 pandemic were no longer impacting our network of franchised and licensed retail stores and many of our locations had returned to, or exceeded, pre-pandemic levels. These increases were partially offset by the costs associated with the contested solicitation of proxies incurred during the nine months ended November 30, 2021 with no comparable costs in the nine months ended November 30, 2020. The decrease in loss from operations and net loss was due primarily to recovery from the COVID-19 pandemic and the associated impact on revenue during the nine months ended November 30, 2020 partially offset by the costs associated with the contested solicitation of proxies and the associated accrued severance and stock compensation costs during the nine months ended November 30, 2021.

Revenues

(\$'s in thousands)	Nine Months Ended November 30,		\$ Change	% Change
	2021	2020		
Factory sales	\$ 16,578.5	\$ 11,203.7	\$ 5,374.8	48.0%
Retail sales	2,208.1	1,214.4	993.7	81.8%
Franchise fees	165.0	174.7	(9.7)	(5.6)%
Royalty and marketing fees	5,075.8	2,665.9	2,409.9	90.4%
Total	\$ 24,027.4	\$ 15,258.7	\$ 8,768.7	57.5%

Factory Sales

The increase in factory sales for the nine months ended November 30, 2021 compared to the nine months ended November 30, 2020 was primarily due to an 86.6% increase in sales of product to our network of franchised and licensed retail stores partially offset by a 27.7% decrease in shipments of product to customers outside our network of franchised retail stores. Purchases by the Company's largest customer, Edible, during the nine months ended November 30, 2021 were approximately \$1.2 million, or 5.0% of the Company's revenues, compared to \$2.1 million, or 13.9% of the Company's revenues during the nine months ended November 30, 2020. The increase in sales of product to our network of franchised and licensed retail stores was primarily the result of the COVID-19 pandemic and the associated public health measures in place during the nine months ended November 30, 2020, which significantly reduced traffic in our stores. During the nine months ended November 30, 2021 most of the disruptions experienced as a result of the COVID-19 pandemic were no longer impacting our network of franchised and licensed retail stores and many of our locations had returned to, or exceeded, pre-pandemic levels. During the nine months ended November 30, 2021, certain disagreements arose between RMCF and Edible related to the strategic alliance and ecommerce agreements resulting in continuing discussions, the result of which are not currently determinable. There can be no assurance historical revenue levels will be indicative of future revenues. Same store pounds purchased by domestic franchise and licensed locations increased 11.1% during the nine months ended November 30, 2021 when compared to the nine months ended November 30, 2019 (the most recent comparable period prior to the business disruptions of COVID-19).

Retail Sales

The increase in retail sales for the nine months ended November 30, 2021 compared to the nine months ended November 30, 2020 was primarily due to all of our Company-owned stores being open during the nine months ended November 30, 2021 compared to the closure or limited operations of all of our Company-owned stores for much of the nine months ended November 30, 2020. The closure or limited operations of our Company-owned stores in the prior year period was the result of the COVID-19 pandemic and the associated public health measures in place during the nine months ended November 30, 2020. As of November 30, 2021 most Company-owned stores had resumed full operations following COVID-19 related closure.

Royalties, Marketing Fees and Franchise Fees

The increase in royalty and marketing fees for the nine months ended November 30, 2021 compared to the nine months ended November 30, 2020 was primarily due to the majority of our franchise locations having resumed normal operations during the nine months ended November 30, 2021, due to the relaxing of restrictions related to the COVID-19 pandemic and the associated public health measures in place during the nine months ended November 30, 2020 as well as the rollout of vaccines earlier in the fiscal year. Nearly all of our franchised locations experienced reduced operations and periods of full closure during the nine months ended November 30, 2020. Same store sales at domestic franchise locations increased 17.8% during the nine months ended November 30, 2021 when compared to the nine months ended November 30, 2019 (the most recent comparable period prior to the business disruptions of COVID-19).

The decrease in franchise fee revenue for the nine months ended November 30, 2021 compared to the nine months ended November 30, 2020 was the result of a decrease in revenue resulting from the closure of franchise location and the associated recognition of revenue in the nine months ended November 30, 2020, with fewer comparable closures during the nine months ended November 30, 2021 and fewer franchise stores in operation and the associated recognition of revenue over the term of the various franchise agreements.

Costs and Expenses

Cost of Sales

(\$'s in thousands)	Nine Months Ended November 30,		\$ Change	% Change
	2021	2020		
Cost of sales - factory	\$ 13,065.3	\$ 10,203.7	\$ 2,861.6	28.0%
Cost of sales - retail	754.1	421.1	333.0	79.1%
Franchise costs	1,747.4	1,312.9	434.5	33.1%
Sales and marketing	1,195.8	1,265.5	(69.7)	(5.5)%
General and administrative	6,575.0	4,756.7	1,818.3	38.2%
Retail operating	1,304.6	1,010.0	294.6	29.2%
Total	\$ 24,642.2	\$ 18,969.9	\$ 5,672.3	29.9%

Gross Margin

	Nine Months Ended November 30,		\$ Change	% Change
	2021	2020		
Factory gross margin	\$ 3,513.2	\$ 1,000.0	\$ 2,513.2	251.3%
Retail gross margin	1,454.0	793.3	660.7	83.3%
Total	\$ 4,967.2	\$ 1,793.3	\$ 3,173.9	177.0%

	Nine Months Ended November 30,		% Change	% Change
	2021	2020		
Factory gross margin	21.2%	8.9%	12.3%	137.4%
Retail gross margin	65.8%	65.3%	0.5%	0.8%
Total	26.4%	14.4%	12.0%	83.1%

Adjusted Gross Margin

(\$'s in thousands)	Nine Months Ended November 30,		\$ Change	% Change
	2021	2020		
Factory gross margin	\$ 3,513.2	\$ 1,000.0	\$ 2,513.2	251.3%
Plus: depreciation and amortization	464.8	473.3	(8.5)	(1.8)%
Factory adjusted gross margin	3,978.0	1,473.3	2,504.7	170.0%
Retail gross margin	1,454.0	793.3	660.7	83.3%
Total Adjusted Gross Margin	\$ 5,432.0	\$ 2,266.6	\$ 3,165.4	139.7%
Factory adjusted gross margin	24.0%	13.2%	10.8%	82.5%
Retail gross margin	65.8%	65.3%	0.5%	0.8%
Total Adjusted Gross Margin	28.9%	18.3%	10.7%	58.4%

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 them 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 gross margins increased to 21.2% in the nine months ended November 30, 2021 compared to a gross margin of 8.9% during the nine months ended November 30, 2020, due primarily to a 39.4% increase in production volume, higher average sell prices, and the impacts of Employee Retention Credits in the nine months ended November 30, 2021 compared to the nine months ended November 30, 2020, partially offset by increased costs of materials and labor. The increase in production volume was in response to a 48.0% increase in factory sales, primarily due to a resumption of normal factory operations during the nine months ended November 30, 2021 compared to significantly reduced operations during the nine months ended November 30, 2020. Operations during the nine months ended November 30, 2020 were lower than historical levels as a result of the impacts of the COVID-19 pandemic. As a result of the decrease in production volume, factory fixed costs, including idle labor, did not decrease proportionate to factory revenue during the nine months ended November 30, 2020. During the nine months ended November 30, 2020 the Company incurred approximately \$280,000 of production labor costs associated with paying employees who abided by local stay at home orders related to COVID-19 public health measures. This excess capacity cost, in the form of idle labor, was included in cost of sales.

Retail gross margins increased from 65.3% during the nine months ended November 30, 2020 to 65.8% during the nine months ended November 30, 2021. The increase in retail gross margins was primarily the result of the resumption of normal operations during the nine months ended November 30, 2021 compared to the temporary closure of all of our Company-owned stores for portions of the nine months ended November 30, 2020 due to the COVID-19 pandemic, and the associated impact on perishable inventory. This increase was mostly offset by higher costs.

Franchise Costs

The increase in franchise costs in the nine months ended November 30, 2021 compared to the nine months ended November 30, 2020 was due primarily to an increase in professional fees, the result of litigation with our licensee in Canada. As a percentage of total royalty and marketing fees and franchise fee revenue, franchise costs decreased to 33.3% in the nine months ended November 30, 2021 from 46.2% in the nine months ended November 30, 2020. This decrease as a percentage of royalty, marketing and franchise fees is primarily a result of higher royalty fees partially offset by higher costs.

Sales and Marketing

The decrease in sales and marketing costs for the nine months ended November 30, 2021 compared to the nine months ended November 30, 2020 was primarily due to a decrease in online advertising costs.

General and Administrative

The increase in general and administrative costs for the nine months ended November 30, 2021 compared to the nine months ended November 30, 2020 is primarily due to costs associated with a stockholder's contested solicitation of proxies in connection with our 2021 annual meeting of stockholders and the compensation costs associated with the letter agreement between the Company and Mr. Merryman. These increases were partially offset by a decrease in bad debt expense and a decrease in the impairment of certain intangible assets. During the nine months ended November 30, 2021, the Company incurred approximately \$1.7 million of costs associated with the contested solicitation of proxies and \$1.9 million in change in control severance expense, compared with no comparable costs incurred in the nine months ended November 30, 2020. As a percentage of total revenues, general and administrative expenses decreased to 27.4% in the nine months ended November 30, 2021 compared to 31.2% in the nine months ended November 30, 2020.

Retail Operating Expenses

The increase in retail operating expenses for the nine months ended November 30, 2021 compared to the nine months ended November 30, 2020 was a result of the re-opening of all of our Company-owned stores so that all stores were open during the nine months ended November 30, 2021 compared to the closure or limited operation of all of our Company-owned stores for much of the nine months ended November 30, 2020. The closure or limited operation of our Company-owned stores was the result of COVID-19 and the associated public health measures in place during the nine months ended November 30, 2020. Retail operating expenses, as a percentage of retail sales, decreased from 83.2% in the nine months ended November 30, 2020 to 59.1% in the nine months ended November 30, 2021. This decrease is primarily the result of higher retail sales partially offset by higher retail operating expenses.

Depreciation and Amortization

Depreciation and amortization, exclusive of depreciation and amortization included in cost of sales, was \$440,000 in the nine months ended November 30, 2021, a decrease of 17.1% from \$531,000 in the nine months ended November 30, 2020. This decrease was the result of lower amortization of franchise rights, the result of a decrease in frozen yogurt cafés in operation. See Note 7 to the financial statements for a summary of annual amortization of intangible assets based upon existing intangible assets and current useful lives. Depreciation and amortization included in cost of sales decreased 1.8% from \$473,000 in the nine months ended November 30, 2020 to \$465,000 in the nine months ended November 30, 2021.

Other Income (Expense)

Other income decreased to \$176,500 during the nine months ended November 30, 2021 compared to other income of \$261,000 during the nine months ended November 30, 2020. This change was primarily the result of debt forgiveness income during the nine months ended November 30, 2020 with no comparable amounts realized during the nine months ended November 30, 2021. Net interest income was \$9,300 in the nine months ended November 30, 2021 compared to net interest expense of \$57,600 during the nine months ended November 30, 2020. This change was primarily the result of the Company's increased debt as a result of measures taken during the three months ended May 31, 2020 to ensure adequate liquidity during the COVID-19 pandemic. During the nine months ended November 30, 2020, the Company borrowed \$3.4 million from its line of credit and borrowed \$1.5 million of loans under the Paycheck Protection Program. The line of credit was paid in full and Paycheck Protection Program loans were fully forgiven during the year ended February 28, 2021.

The Company recognized a gain on insurance recovery of \$167,100 during the nine months ended November 30, 2021, compared with \$210,500 recognized during the nine months ended November 30, 2020. The Company recognized forgiveness of debt of \$108,300 during the nine months ended November 30, 2020, with no comparable amount recognized during the nine months ended November 30, 2021.

Income Tax Expense

Our effective income tax rate for the nine months ended November 30, 2021 was 20.2%, compared to 24.3% for the nine months ended November 30, 2020. This decrease was primarily the result of the impact of different values of vested restricted stock units for financial reporting purposes compared to how the same vested restricted stock units are valued for tax purposes.

Liquidity and Capital Resources

As discussed below, we took several defensive measures to maximize liquidity in response to the COVID-19 pandemic, including the suspension of our cash dividend, reducing expenses, extending payment terms with vendors, reducing production volume and deferring discretionary capital expenditures. Based on these actions, we believe that cash flows from operations and our cash and cash equivalents on hand, will be sufficient to meet our ongoing liquidity needs and capital expenditure requirements for at least the next twelve months. Additional future financing may be necessary to fund our operations, and there can be no assurance that, if needed, we will be able to secure additional debt or equity financing on terms acceptable to us or at all, especially in light of the market volatility and uncertainty as a result of the COVID-19 pandemic. Although we believe we have adequate sources of liquidity over the long term, the success of our operations, the global economic outlook, and the pace of sustainable growth in our markets, in each case, in light of the market volatility and uncertainty as a result of the COVID-19 pandemic, among other factors, could impact our business and liquidity.

As of November 30, 2021, working capital was \$9.0 million, compared to \$9.0 million as of February 28, 2021.

Cash and cash equivalent balances increased approximately \$400,000 to \$6.0 million as of November 30, 2021 compared to \$5.6 million as of February 28, 2021, primarily due to improved operating results. Our current ratio was 2.5 to 1 at November 30, 2021 compared to 3.4 to 1 at February 28, 2021. We monitor current and anticipated future levels of cash and cash equivalents in relation to anticipated operating, financing and investing requirements.

During the nine months ended November 30, 2021, we had a net loss of \$(700,908). Operating activities provided cash of \$857,048, with the principal adjustment to reconcile the net income to net cash used by operating activities being an increase in accrued liabilities of \$1,343,856, an increase in accounts payable of \$1,079,671, depreciation and amortization of \$904,972, and expense related to stock-based compensation of \$709,210, partially offset by an increase in accounts receivable of \$985,887 and an increase in inventory of \$936,483. During the comparable 2020 period, we had a net loss of \$(3,067,570), and operating activities used cash of \$2,012,609. The principal adjustment to reconcile the net income to net cash used by operating activities being the provision for loss on accounts and notes receivable of \$1,468,815, asset impairment and store closure losses of \$544,060, depreciation and amortization of \$1,004,539 and the expense recorded for stock compensation of \$399,636.

During the nine months ended November 30, 2021, investing activities used cash of \$407,457, primarily due to the purchases of property and equipment of \$704,462 partially offset by proceeds from insurance recovery of \$206,336. In comparison, investing activities provided cash of \$198,438 during the nine months ended November 30, 2020 primarily due to proceeds from the sales of assets, the result of insurance proceeds, of \$304,962.

During the nine months ended November 30, 2021, financing activities used cash of \$61,276 due to the redemption of the shareholder rights plan. In comparison, financing activities provided cash of \$4,263,021 during the prior year period primarily due to the use of the line of credit and receipt of loans under the Paycheck Protection Program, as described above. There was no amount outstanding related to our line of credit and loans under the Paycheck Protection Program as of November 30, 2021, the result of repayment and forgiveness, respectively.

Off-Balance Sheet Arrangements

As of November 30, 2021, except for the purchase obligations as described below, we had no material off-balance sheet arrangements or obligations.

Purchase obligations: As of November 30, 2021, we had purchase obligations of approximately \$64,000. These purchase obligations primarily consist of contractual obligations for future purchases of commodities for use in our manufacturing.

Impact of Inflation

We have recently experienced historically high levels of inflation related to labor and materials. 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

As a smaller reporting company, we are not required to provide the information required by this Item.

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 November 30, 2021.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended November 30, 2021 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, 2021, as amended by Amendment No. 1 on Form 10-K/A filed on June 28, 2021. 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, 2021, as amended by Amendment No. 1 on Form 10-K/A.

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

Issuer Purchases of Equity Securities

None.

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 [Second Amended and Restated Bylaws of Rocky Mountain Chocolate Factory, Inc., a Delaware corporation \(incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on December 6, 2019\).](#)
- 10.1* [Revolving Line of Credit Note, dated October 13, 2021, between Rocky Mountain Chocolate Factory, Inc. and Wells Fargo Bank, National Association.](#)
- 10.2 [Letter Agreement, dated November 8, 2021, between Rocky Mountain Chocolate Factory, Inc. and Bryan J. Merryman \(incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on November 9, 2021\).](#)
- 31.1* [Certification Filed Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.](#)
- 32.1** [Certification Furnished Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.](#)
- 101.INS * Inline XBRL Instance Document (the Instance Document does not appear in the Interactive Data File because it's XBRL (1))
- 101.SCH * Inline XBRL Taxonomy Extension Schema Document (1)
- 101.CAL * Inline XBRL Taxonomy Extension Calculation Linkbase Document (1)
- 101.DEF * Inline XBRL Taxonomy Extension Definition Linkbase Document (1)
- 101.LAB * Inline XBRL Taxonomy Extension Label Linkbase Document (1)
- 101.PRE * Inline XBRL Taxonomy Extension Presentation Linkbase Document (1)
- 104 * Cover page Interactive Data File (formatted as Inline XBRL and combined in Exhibit 101.1)

(1) These interactive data files shall not be deemed filed for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Exchange Act of 1937, as amended, or otherwise subject to liability under those sections.

* 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: January 13, 2022

/s/ Bryan J. Merryman
Bryan J. Merryman, Interim Chief Executive Officer,
Chief Financial Officer and Treasurer

REVOLVING LINE OF CREDIT NOTE

\$5,000,000.00

Denver, Colorado
October 13, 2021

FOR VALUE RECEIVED, the undersigned ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. ("Borrower") promises to pay to the order of WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank") at its office at MAC C7300-081, 1700 Lincoln Street, Suite 800, Denver, CO 80203, or at such other place as the holder hereof may designate, in lawful money of the United States of America and in immediately available funds, the principal sum of Five Million Dollars (\$5,000,000.00), or so much thereof as may be advanced and be outstanding pursuant to the terms of the Credit Agreement, as defined herein, with interest thereon, to be computed on each advance from the date of its disbursement as set forth herein.

DEFINITIONS:

As used herein, the following terms shall have the meanings set forth after each, and any other term defined in this Note shall have the meaning set forth at the place defined:

(a) "Benchmark Floor" means a rate of interest equal to zero percent (0%).

(b) "Daily Simple SOFR" means, with respect to any day (a "SOFR Rate Day"), a rate per annum equal to SOFR for the day (such day, the "SOFR Determination Day") that is five (5) U.S. Government Securities Business Days prior to (i) if such SOFR Rate Day is a U.S. Government Securities Business Day, such SOFR Rate Day or (ii) if such SOFR Rate Day is not a U.S. Government Securities Business Day, the U.S. Government Securities Business Day immediately preceding such SOFR Rate Day, in each case, as such SOFR is published by the SOFR Administrator on the SOFR Administrator's Website; provided, however, that if Daily Simple SOFR determined as provided above would be less than the Benchmark Floor, then Daily Simple SOFR shall be deemed to be the Benchmark Floor. If by 5:00 p.m. (New York City time) on the second (2nd) U.S. Government Securities Business Day immediately following any SOFR Determination Day, SOFR in respect of such SOFR Determination Day has not been published on the SOFR Administrator's Website and a Benchmark Replacement Date with respect to Daily Simple SOFR has not occurred, then SOFR for such SOFR Determination Day will be SOFR as published in respect of the first preceding U.S. Government Securities Business Day for which SOFR was published on the SOFR Administrator's Website; provided that any SOFR determined pursuant to this sentence shall be utilized for purposes of calculation of Daily Simple SOFR for no more than three (3) consecutive SOFR Rate Days.

(c) "Federal Reserve Business Day" means any day that is not a Saturday, Sunday or other day on which the Federal Reserve Bank of New York is closed.

(d) "Prime Rate" means at any time the rate of interest most recently announced within Bank at its principal office as its prime rate, with the understanding that the Prime Rate is one of Bank's base rates and serves as the basis upon which effective rates of interest are calculated for those loans making reference thereto, and is evidenced by the recording thereof after its announcement in such internal publication or publications as Bank may designate; provided, however, that if Prime Rate determined as provided above would be less than zero percent (0%), then Prime Rate shall be deemed to be zero percent (0%).

(e) "SOFR" means a rate per annum equal to the secured overnight financing rate as administered by the SOFR Administrator.

(f) "SOFR Administrator" means the Federal Reserve Bank of New York (or a successor administrator of the secured overnight financing rate).

(g) "SOFR Administrator's Website" means the website of the Federal Reserve Bank of New York, currently at <http://www.newyorkfed.org>, or any successor source for the secured overnight financing rate identified as such by the SOFR Administrator from time to time.

(h) "U.S. Government Securities Business Day" means any day except for (i) a Saturday, (ii) a Sunday or (iii) a day on which the Securities Industry and Financial Markets Association, or any successor thereto, recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in United States government securities.

INTEREST:

(a) Interest. The outstanding principal balance of this Note shall bear interest (computed on the basis of a 360-day year, actual days elapsed) at a fluctuating rate per annum determined by Bank to be two and thirty-seven hundredths percent (2.37%) above Daily Simple SOFR in effect from time to time. Bank is hereby authorized to note the date, principal amount and interest rate applicable to this Note and any payments made thereon on Bank's books and records (either manually or by electronic entry) and/or on any schedule attached to this Note, which notations shall be prima facie evidence of the accuracy of the information noted. The Bank shall be permitted to estimate the amount of accrued interest that is payable at any time hereunder on the applicable invoice provided by Bank to Borrower in respect thereof, in which case Borrower shall pay such estimated amount and Bank shall to the extent necessary, include on the next invoice an adjustment to correct any difference between the amount on the applicable invoice and the amount of interest that actually accrued pursuant to the terms of this Note.

(b) Taxes and Regulatory Costs. Borrower shall pay to Bank immediately upon demand, in addition to any other amounts due or to become due hereunder, any and all (i) withholdings, interest equalization taxes, stamp taxes or other taxes (except income and franchise taxes) imposed by any domestic or foreign governmental authority and related in any manner to SOFR or Daily Simple SOFR, and (ii) costs, expenses and liabilities arising from or in connection with reserve percentages prescribed by the Board of Governors of the Federal Reserve System (or any successor) for "Eurocurrency Liabilities" (as defined in Regulation D of the Board of Governors of the Federal Reserve System, as amended), assessment rates imposed by the Federal Deposit Insurance Corporation, or similar requirements or costs imposed by any domestic or foreign governmental authority or resulting from compliance by Bank with any request or directive (whether or not having the force of law) from any central bank or other governmental authority and related in any manner to SOFR or Daily Simple SOFR. In determining which of the foregoing are attributable to any SOFR or Daily Simple SOFR option available to Borrower hereunder, any reasonable allocation made by Bank among its operations shall be conclusive and binding upon Borrower.

(c) Default Interest. Bank shall have the option in its sole and absolute discretion to have the outstanding principal balance of this Note bear interest at an increased rate per annum (computed on the basis of a 360-day year, actual days elapsed) equal to four percent (4%) above the rate of interest from time to time applicable to this Note (i) from and after the maturity date of this Note; (ii) from and after the date prior to the maturity date of this Note when all principal owing hereunder becomes due and payable by acceleration or otherwise; and/or (iii) upon the occurrence and during the continuance of any Event of Default.

(d) Inability to Determine Interest Rates; Illegality. Subject to the Benchmark Replacement Provisions below, if Bank determines (any determination of which shall be conclusive and binding on Borrower) that either (i) Daily Simple SOFR cannot be determined pursuant to the definition thereof other than as a result of a Benchmark Transition Event (an "Inability Determination") or (ii) any law has made it unlawful, or that any governmental authority has asserted that it is unlawful, for Bank to make or maintain an advance based on SOFR or Daily Simple SOFR, or to determine or charge interest rates based upon SOFR or Daily Simple SOFR (an Illegality Determination"), then Bank will so notify Borrower. The outstanding principal balance of this Note shall bear interest (computed on the basis of a 360-day year, actual days elapsed) at a fluctuating rate per annum determined by Bank to be equal to the Prime Rate in effect from time to time, from the date of an Inability Determination or an Illegality Determination until Bank revokes such Inability Determination or notifies Borrower that the circumstances giving rise to such Illegality Determination no longer exist, as applicable. When interest is determined in relation to the Prime Rate, each change in the rate of interest hereunder shall become effective on the date each Prime Rate change is announced within Bank. Notwithstanding any of the foregoing to the contrary, if a Benchmark Replacement is subsequently determined in accordance with applicable Benchmark Replacement Provisions, that Benchmark Replacement, plus any applicable margin, will become effective on the Benchmark Replacement Date and will then supersede the Prime Rate and margin determined in accordance with this provision.

BENCHMARK REPLACEMENT PROVISIONS:

Notwithstanding anything to the contrary contained in this Note or in any related loan document (for the purposes of these Benchmark Replacement Provisions, a swap agreement by and between Borrower and Bank or any of its affiliates is not a loan document):

(a) Benchmark Replacement. If a Benchmark Transition Event occurs, the applicable Benchmark Replacement will replace the then-current Benchmark for all purposes under this Note or under any related loan document. Any Benchmark Replacement will become effective on the applicable Benchmark Replacement Date without any further action or consent of Borrower.

(b) Benchmark Replacement Conforming Changes. Bank will have the right to make Benchmark Replacement Conforming Changes from time to time and any amendments implementing such Benchmark Replacement Conforming Changes will become effective without any further action or consent of Borrower.

(c) Notices; Standards for Decisions and Determinations. Bank will promptly notify Borrower of (i) the implementation of any Benchmark Replacement and (ii) the effectiveness of any Benchmark Replacement Conforming Changes. Any determination, decision or election that may be made by Bank pursuant to these Benchmark Replacement Provisions, including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action or any selection, will be conclusive and binding absent manifest error and will be made in its sole discretion and without Borrower consent.

(d) Certain Defined Terms. As used in this Note, each of the following capitalized terms has the meaning given to such term below:

(i) "Benchmark" means, initially, Daily Simple SOFR; provided, however, that if a Benchmark Transition Event has occurred with respect to Daily Simple SOFR or the then-current Benchmark, then "Benchmark" means the applicable Benchmark Replacement to the extent that such Benchmark Replacement has become effective pursuant to the provisions of this Note.

(ii) "Benchmark Administrator" means, initially, the SOFR Administrator, or any successor administrator of the then-current Benchmark or any insolvency or resolution official with authority over such administrator.

(iii) "Benchmark Replacement" means the sum of: (A) the alternate rate of interest that has been selected by Bank as the replacement for the then-current Benchmark; and (B) the spread adjustment, or method for calculating or determining such spread adjustment, (which may be a positive or negative value or zero) that has been selected by Bank, in each case, giving due consideration to (x) any selection or recommendation by the Relevant Governmental Body at such time for a replacement rate, the mechanism for determining such a rate, the methodology or conventions applicable to such rate, or the spread adjustment, or method for calculating or determining such spread adjustment, for such rate, or (y) any evolving or then- prevailing market convention for determining a rate of interest as a replacement to the then- current Benchmark, the methodology or conventions applicable to such rate, or the spread adjustment, or method for calculating or determining such spread adjustment, for such alternate rate for U.S. dollar-denominated syndicated or bilateral credit facilities at such time; provided, however, that if the Benchmark Replacement as determined as provided above would be less than the Benchmark Floor, then Benchmark Replacement shall be deemed to be the Benchmark Floor, subject to any other applicable floor rate provision.

(iv) "Benchmark Replacement Conforming Changes" means any technical, administrative or operational changes (including, without limitation, changes to the definition of "U.S. Government Securities Business Day," the timing and frequency of determining rates and making payments of interest, prepayment provisions and other technical, administrative or operational matters) that Bank decides may be appropriate to reflect the adoption and implementation of a Benchmark Replacement and to permit the administration thereof by Bank.

(v) "Benchmark Replacement Date" means the date specified by Bank in a notice to Borrower following a Benchmark Transition Event.

(vi) "Benchmark Transition Event" means the occurrence of one or more of the following events with respect to the then-current Benchmark: a public statement or publication of information by or on behalf of the Benchmark Administrator or a regulatory supervisor for the Benchmark Administrator announcing that (A) the Benchmark Administrator has ceased or will cease to provide the Benchmark permanently or indefinitely or (B) the Benchmark is no longer, or as of a specified future date will no longer be, representative of underlying markets.

(vii) "Relevant Governmental Body" means the Board of Governors of the Federal Reserve System and/or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Board of Governors of the Federal Reserve System and/or the Federal Reserve Bank of New York or any successor thereto.

BORROWING AND REPAYMENT:

(a) Borrowing and Repayment of Principal. Borrower may from time to time during the term of this Note borrow, partially or wholly repay its outstanding borrowings, and reborrow, subject to all of the limitations, terms and conditions of this Note and of any document executed in connection with or governing this Note; provided however, that the total outstanding borrowings under this Note shall not at any time exceed the principal amount stated above. The unpaid principal balance of this obligation at any time shall be the total amounts advanced hereunder by the holder hereof less the amount of principal payments made hereon by or for Borrower, which balance may be endorsed hereon from time to time by the holder. The outstanding principal balance of this Note shall be due and payable in full on September 30, 2022.

(b) Payment of Interest. Interest accrued on this Note shall be payable on the last day of each month, commencing October 31, 2021, and on the maturity date set forth above.

(c) Advances. Advances hereunder, to the total amount of the principal sum stated above, may be made by the holder at the oral or written request of (i) BRYAN MERRYMAN or JEREMY KINNEY, any one acting alone (subject to any of Bank's applicable authentication policies or procedures, which may require that a particular individual—including another specific individual listed above—provide verification of the identity of the requestor), who are authorized to request advances and direct the disposition of any advances until written notice of the revocation of such authority is received by the holder at the office designated above, or (ii) any person, with respect to advances deposited to the credit of any deposit account of Borrower, which advances, when so deposited, shall be conclusively presumed to have been made to or for the benefit of Borrower regardless of the fact that persons other than those authorized to request advances may have authority to draw against such account. The holder shall have no obligation to determine whether any person requesting an advance is or has been authorized by Borrower.

(d) Application of Payments. Each payment made on this Note shall be credited first, to any interest then due and second, to the outstanding principal balance hereof.

PAYMENTS:

If any payment of principal or interest to be made pursuant to this Note other than a prepayment or a payment due on the maturity date of this Note, shall fall due on a day that is not a Federal Reserve Business Day, payment shall be made on the next succeeding Federal Reserve Business Day, except that, if such next succeeding Federal Reserve Business Day would fall in the next calendar month, such payment shall be made on the immediately preceding Federal Reserve Business Day. Any extension or contraction of time shall be reflected in computing interest or fees, as the case may be.

PREPAYMENT:

Borrower may prepay principal on this Note at any time, in any amount and without penalty. If principal under this Note is payable in more than one installment, then any prepayments of principal shall be applied to the most remote principal installment or installments then unpaid.

SWAP AGREEMENT:

Borrower understands and acknowledges that (i) any Swap Agreement constitutes an independent agreement between Borrower and Bank and will be unaffected by any repayment, prepayment, acceleration, reduction, increase or change in the terms of this Note, except as otherwise expressly provided in the Swap Agreement, (ii) nothing in this Note shall be construed as a modification of a Swap Agreement or create an obligation to amend a Swap Agreement, (iii) Borrower may incur losses or reductions in benefits related to differences between the economic terms and characteristics of this Note and those of a related Swap Agreement (including, without limitation, differences with respect to maturity dates, payment dates and methods for determining interest rates and differences between borrowings hereunder and the notional amount of a Swap Agreement), and Bank is under no obligation to ensure that there are no differences or that differences will not arise hereafter, including, without limitation, differences between usage hereunder and the notional amount of a Swap Agreement, and (iv) Bank has no obligation to modify, renew or extend the maturity date of this Note to match the maturity date of Swap Agreement. For the purposes of this provision, "Swap Agreement" means any existing or future swap agreement by and between Borrower and Bank or any of its affiliates.

EVENTS OF DEFAULT:

This Note is made pursuant to and is subject to the terms and conditions of that certain Credit Agreement between Borrower and Bank dated October 13, 2021, as amended from time to time (the "Credit Agreement"). Any default in the payment or performance of any obligation under this Note, or any defined event of default under the Credit Agreement, shall constitute an "Event of Default" under this Note.

MISCELLANEOUS:

(a) Remedies. Upon the sale, transfer, hypothecation, assignment or other encumbrance, whether voluntary, involuntary or by operation of law, of all or any interest in any real property securing this Note, if any, or upon the occurrence of any Event of Default, the holder of this Note, at the holder's option, may declare all sums of principal and interest outstanding hereunder to be immediately due and payable without presentment, demand, notice of nonperformance, notice of protest, protest or notice of dishonor, all of which are expressly waived by Borrower, and the obligation, if any, of the holder to extend any further credit hereunder shall immediately cease and terminate. Borrower shall pay to the holder immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of the holder's in-house counsel), expended or incurred by the holder in connection with the enforcement of the holder's rights and/or the collection of any amounts which become due to the holder under this Note whether or not suit is brought, and the prosecution or defense of any action in any way related to this Note, including without limitation, any action for declaratory relief, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Bank or any other person) relating to Borrower or any other person or entity.

(b) Collateral Exclusion. No lien or security interest created by or arising under any deed of trust, mortgage, security deed, or similar real estate collateral agreement ("Lien Document") shall secure the Note Obligations unless such Lien Document specifically describes the promissory note(s), instrument(s) or agreement(s) evidencing Note Obligations as a part of the indebtedness secured thereby. This exclusion shall apply notwithstanding (i) the fact that such Lien Document may appear to secure the Note Obligations by virtue of a cross-collateralization provision or other provisions expanding the scope of the secured obligations, and (ii) whether such Lien Document was entered into prior to, concurrently with, or after the date hereof. As used herein, "Note Obligations" means any obligations under this Note, as amended, extended, renewed, refinanced, supplemented or otherwise modified from time to time, or under any other evidence of indebtedness that has been modified, renewed or extended in whole or in part by this Note, as amended, extended, renewed, refinanced, supplemented or otherwise modified from time to time.

(c) Obligations Joint and Several. Should more than one person or entity sign this Note as a Borrower, the obligations of each such Borrower shall be joint and several.

(d) Governing Law. This Note shall be governed by and construed in accordance with the laws of Colorado, but giving effect to federal laws applicable to national banks, without reference to the conflicts of law or choice of law principles thereof.

(e) Effective Date. The effective date of this Note shall be the date that Bank has accepted this Note and all conditions to the effectiveness of the Credit Agreement have been fulfilled to Bank's satisfaction. Notwithstanding the occurrence of the effective date of this Note, Bank shall not be obligated to extend credit under this Note until all conditions to each extension of credit set forth in the Credit Agreement have been fulfilled to Bank's satisfaction.

IN WITNESS WHEREOF, the undersigned has executed this Note to be effective as of the effective date set forth herein.

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC.

By: /s/ Bryan Merryman
BRYAN MERRYMAN, CEO, CFO

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: January 13, 2022

/s/ Bryan J. Merryman
Bryan J. Merryman, Interim Chief Executive Officer and Chief Financial Officer (*Principal Executive and Financial 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 November 30, 2021 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: January 13, 2022

By: /s/ Bryan J. Merryman
Bryan J. Merryman, Interim Chief Executive Officer and Chief Financial Officer
(Principal Executive and Financial Officer)