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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

(Mark One)
☒ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended February 28, 2019
OR
☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 001-36865

Rocky Mountain Chocolate Factory, Inc.
(Exact name of registrant as specified in its charter)

Delaware	47-1535633
(State or Other Jurisdiction of Incorporation or Organization)	(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
Preferred Stock Purchase Rights	RMCF	Nasdaq Global Market

Securities Registered Pursuant To Section 12(g) Of The Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☒
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the registrant's common stock (based on the closing price as quoted on the Nasdaq Global Market on August 31, 2018, the last trading day of the registrant's most recently completed second fiscal quarter) held by non-affiliates was $38,815,702. For purposes of this calculation, shares of common stock held by each executive officer and director and by holders of more than 5% of the registrant's outstanding common stock have been excluded since those persons may under certain circumstances be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of May 10, 2019, there were 5,962,327 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement in connection with the 2019 Annual Meeting of Stockholders (the "Proxy Statement") are incorporated by reference in Part III of this Annual Report on Form 10-K. The Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended February 28, 2019.

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC.
FORM 10-K

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Cautionary Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K ("Annual 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 Annual Report are forward-looking statements. Many of the forward-looking statements contained in this document may be identified by the use of forward-looking words such as "will," "intend," "believe," "expect," "anticipate," "should," "plan," "estimate," "potential," or similar expressions. Factors which could cause results to differ include, but are not limited to: changes in the confectionery business environment, seasonality, consumer interest in our products, general economic conditions, the success of our frozen yogurt business, receptiveness of our products internationally, consumer and retail trends, costs and availability of raw materials, competition, the success of our co-branding strategy, the success of international expansion efforts and the effect of government regulations. Government regulations whichwe 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 thesection entitled "Risk Factors" contained in this Annual Report in Item 1A. These forward-looking statements apply only as of the date of thisAnnual 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 Annual Report or those that might reflect the occurrence of unanticipated events.

PART I.

ITEM 1. BUSINESS

General

Rocky Mountain Chocolate Factory, Inc., a Delaware corporation, and its subsidiaries (collectively, the "Company," "we," "us," or "our"), including its operating subsidiary with the same name, Rocky Mountain Chocolate Factory, Inc., a Colorado corporation ("RMCF"), is 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 wholly-owned subsidiary, U-Swirl International, Inc. ("U-Swirl"), franchises and operates self-serve frozen yogurt cafés. Our revenues and profitability are derived principally from our franchised/license system of retail stores that feature chocolate, frozen yogurt and other confectionary products. We also sell our candy in selected locations outside of our system of retail stores and license the use of our brand with certain consumer products. As of March 31, 2019, there were two Company-owned, 90 licensee-owned and 245 franchised Rocky Mountain Chocolate Factory stores operating in 37 states, Canada, South Korea, Panama, and the Philippines. As of March 31, 2019, U-Swirl operated four Company-owned cafés, 68 franchised cafés and 30 licensed locations located in 26 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". The Company was incorporated in Delaware in 2014 in connection with its holding company reorganization.

In January 2013, through our wholly-owned subsidiaries, including Aspen Leaf Yogurt, LLC ("ALY"), we entered into two agreements to sell all of the assets of our ALY frozen yogurt stores, along with our interest in the self-serve frozen yogurt franchises and retail units branded as "Yogurtini," which we also acquired in January 2013, to U-Swirl, Inc. ("SWRL"), in exchange for a 60% controlling equity interest in SWRL (46% equity interest as of February 28, 2019). Upon completion of these transactions, we ceased to directly operate any Company-owned ALY locations or sell and support frozen yogurt franchise locations, which were being supported by SWRL. The SWRL Board of Directors is composed solely of board members also serving on our Board of Directors.

In fiscal year ("FY") 2014, SWRL acquired the franchise rights and certain other assets of self-serve frozen yogurt concepts under the names "CherryBerry," "Yogli Mogli Frozen Yogurt" and "Fuzzy Peach Frozen Yogurt." In connection with these acquisitions, we entered into a credit facility with Wells Fargo Bank, N.A. used to finance the acquisitions by SWRL, and in turn, we entered into a loan and security agreement with SWRL to cover the purchase price and other costs associated with the acquisitions (the "SWRL Loan Agreement"). Borrowings under the SWRL Loan Agreement were secured by all of the assets of SWRL, including all of the outstanding stock of its wholly-owned subsidiary, U-Swirl. As a result of certain defaults under the SWRL Loan Agreement, we issued a demand for payment of all obligations under the SWRL Loan Agreement. SWRL was unable to repay the obligations under the SWRL Loan Agreement, and as a result, we foreclosed on all of the outstanding stock of U-Swirl on February 29, 2016 in full satisfaction of the amounts owed under the SWRL Loan Agreement. This resulted in U-Swirl becoming our wholly-owned subsidiary as of February 29, 2016, and concurrently we ceased to have financial control of SWRL as of February 29, 2016. As of February 28, 2019, SWRL had no operating assets.

In FY 2019, approximately 52% of the products sold at Rocky Mountain Chocolate Factory stores were prepared on the premises. We believe that in-store preparation of products creates a special store ambiance, and the aroma and sight of products being made attracts foot traffic and assures customers that products are fresh.

Our principal competitive strengths lie in our brand name recognition, our reputation for the quality, variety and taste of our products, the special ambiance of our stores, our knowledge and experience in applying criteria for selection of new store locations, our expertise in the manufacture of chocolate candy products and the merchandising and marketing of confectionary products, and the control and training infrastructures we have implemented to assure consistent customer service and execution of successful practices and techniques at our stores.

We believe our manufacturing expertise and reputation for quality has facilitated the sale of selected products through specialty markets. We are currently selling our products in a select number of specialty markets, including wholesale, fundraising, corporate sales, mail order, private label and internet sales.

U-Swirl cafés and associated brands are designed to be attractive to customers by offering the following:

- inside café-style seating for 50 people and outside patio seating, where feasible and appropriate;
- spacious surroundings of approximately 1,800 to 3,000 square feet;
- 8 to 16 flavors of frozen yogurt;
- up to 70 toppings; and
- self-serve format allowing guests to create their own favorite snack.

We believe that these characteristics provide U-Swirl with the ability to compete successfully in the retail frozen yogurt industry. While U-Swirl continues to pursue locations with the characteristics described above, we recognize that its acquisition strategy may lead U-Swirl to purchase competitors with diverse layouts.

The trade dress of the Aspen Leaf Yogurt, CherryBerry, Yogli Mogli, Fuzzy Peach, Let's Yo! and Yogurtini locations are similar to that of U-Swirl, although their locations use different color schemes and are typically smaller than the U-Swirl cafés.

Our consolidated revenues are primarily derived from three principal sources: (i) sales to franchisees and other third parties of chocolates and other confectionery products manufactured by us (70%-68%-66%); (ii) sales at Company-owned stores of chocolates, other confectionery products and frozen yogurt (including products manufactured by us) (10%-11%-12%) and (iii) the collection of initial franchise fees and royalties from franchisees (20%-21%-22%). For FY 2019, approximately 98% of our revenues were derived from domestic sources, with 2% derived from international sources. The figures in parentheses above show the percentage of total revenues attributable to each source for the FY 2019, 2018 and 2017, respectively.

According to industry data, the total U.S. candy market generated approximately $35.8 billion of retail sales in 2015with chocolate sales growing 2.2% from sales of approximately $22.8 billion during 2017 to $23.3 billion during 2018 and candy sales per capita of $111.16 during 2015.

According to Ice Cream and Frozen Desserts in the U.S. 9th Edition, published in January 2017 by Packaged Facts, in 2016 the U.S. market for ice cream and related frozen desserts, including frozen yogurt and frozen novelties, grew to $28 billion.

Business Strategy

Our objective is to build on our position as a leading international franchisor and manufacturer of high-quality chocolate, other confectionery products and frozen yogurt. We continually seek opportunities to profitably expand our business. To accomplish this objective, we employ a business strategy that includes the elements set forth below.

Product Quality and Variety

We maintain the gourmet taste and quality of our chocolate candies by using only the finest chocolate and other wholesome ingredients. We use our own proprietary recipes, primarily developed by our master candy makers. A typical Rocky Mountain Chocolate Factory store offers up to 100 of our chocolate candies throughout the year and as many as 200, including many packaged candies, during the holiday seasons. Individual stores also offer numerous varieties of premium fudge and gourmet caramel apples, as well as other products prepared in the store from Company recipes.

Store Atmosphere and Ambiance

We seek to establish a fun, enjoyable and inviting atmosphere in each of our store locations. Unlike most other confectionery stores, each Rocky Mountain Chocolate Factory store prepares numerous products, including fudge, barks and caramel apples, in the store. In-store preparation is designed to be both fun and entertaining for customers and we believe the in-store preparation and aroma of our products enhance the ambiance at Rocky Mountain Chocolate Factory stores, are fun and entertaining for our customers and convey an image of freshness and homemade quality. To ensure that all stores conform to the Rocky Mountain Chocolate Factory image, our design staff has developed easily replicable designs and specifications and approves the construction plans for each new store. We also control the signage and building materials that may be used in the stores.

Site Selection

Careful selection of a site is critical to the success of our stores. We consider many factors in identifying suitable sites, including tenant mix, visibility, attractiveness, accessibility, level of foot traffic and occupancy costs. Final site selection occurs only after our senior management has approved the site. We believe that the experience of our management team in evaluating a potential site is one of our competitive strengths.

Customer Service Commitment

We emphasize excellence in customer service in our stores and cafés and seek to employ and to sell franchises to motivated and energetic people. We also foster enthusiasm for our customer service philosophy and our concepts through our regional meetings and other frequent contacts with our franchisees. Rocky Mountain Chocolate Factory holds a biennial convention for franchisees.

Increase Same Store Retail Sales at Existing Rocky Mountain Chocolate Factory and U-Swirl Locations

We seek to increase profitability of our store system through increasing sales at existing store locations. Changes in system wide domestic same store retail sales at Rocky Mountain Chocolate Factory locations are as follows:

2015	3.1%
2016	1.6%
2017	0.9%
2018	(2.9)%
2019	1.0%

Changes in system wide domestic same store retail sales at frozen yogurt franchise locations are as follows:

2015	*
2016	(1.4)%
2017	(3.0)%
2018	(4.3)%
2019	(0.5)%

*Same store sales for acquired brands are reported after 24 months of operation as a part of our network of domestic franchise stores. Because the majority of our frozen yogurt franchise brands were acquired in January 2014, the earliest period same store sales are reported is for FY 2016.

We have designed a contemporary and coordinated line of packaged products that we believe capture and convey the freshness, fun and excitement of the Rocky Mountain Chocolate Factory retail store experience. We also believe that the successful launch of new packaging has had a positive impact on same store sales.

Same Store Pounds Purchased by Existing Franchised and Licensed Locations

In FY 2019, same store pounds purchased by franchisees and licensees decreased 0.5% compared to the prior fiscal year. We continue to add new products and focus our existing product lines in an effort to increase same store pounds purchased by existing locations. We believe historical decreases in same store pounds purchased, including for FY 2019, were due, in part, to a product mix shift from factory-made products to products made in the store, such as caramel apples.

Enhanced Operating Efficiencies

We seek to improve our profitability by controlling costs and increasing the efficiency of our operations. Efforts in the last several years include: the purchase of additional automated factory equipment, implementation of a comprehensive advanced planning and scheduling system for production scheduling, implementation of alternative manufacturing strategies, installation of enhanced point-of-sale systems in all of our Company-owned stores and the majority of our franchised stores, and implementation of a serial/lot tracking and warehouse management system. These measures have significantly improved our ability to deliver our products to our stores safely, quickly and cost-effectively and positively impact store operations.

Expansion Strategy

We are continually exploring opportunities to grow our brand and expand our business. Key elements of our expansion strategy are set forth below.

Unit Growth

We continue to pursue unit growth opportunities, despite the difficult financing environment for our concepts, in locations where we have traditionally been successful, to pursue new and developing real estate environments for franchisees which appear promising based on early sales results, and to improve and expand our retail store concepts, such that previously untapped and unfeasible environments generate sufficient revenue to support a successful Rocky Mountain Chocolate Factory or U-Swirl location.

High Traffic Environments

We currently establish franchised stores in the following environments: regional centers, outlet centers, tourist areas, street fronts, airports, other entertainment-oriented environments and strip centers. We have established a business relationship with most of the major developers in the United States and believe that these relationships provide us with the opportunity to take advantage of attractive sites in new and existing real estate environments.

Rocky Mountain Chocolate Factory Name Recognition and New Market Penetration

We believe the visibility of our stores and the high foot traffic at many of our locations has generated strong name recognition of Rocky Mountain Chocolate Factory and demand for our franchises. The Rocky Mountain Chocolate Factory system has historically been concentrated in the western and Rocky Mountain region of the United States, but growth has generated a gradual easterly momentum as new stores have been opened in the eastern half of the country. We believe this growth has further increased our name recognition and demand for our franchises. We believe that distribution of Rocky Mountain Chocolate Factory products through specialty markets also increases name recognition and brand awareness in areas of the country in which we have not previously had a significant presence and we believe it will also improve and benefit our entire store system.

We seek to establish a fun, enjoyable and inviting atmosphere in each of our store locations. Unlike most other confectionery stores, each Rocky Mountain Chocolate Factory store prepares numerous products, including fudge, barks and caramel apples, in the store. Customers can observe store personnel making fudge from start to finish, including the mixing of ingredients in old-fashioned copper kettles and the cooling of the fudge on large granite or marble tables, and are often invited to sample the store's products. In FY 2019, an average of approximately 52% of the revenues of franchised stores are generated by sales of products prepared on the premises. In-store preparation is designed to be both fun and entertaining for customers and we believe the in-store preparation and aroma of our products enhance the ambiance at Rocky Mountain Chocolate Factory stores, are fun and entertaining for our customers and convey an image of freshness and homemade quality.

To ensure that all stores conform to the Rocky Mountain Chocolate Factory image, our design staff has developed easily replicable designs and specifications and approves the construction plans for each new store. We also control the signage and building materials that may be used in the stores.

The average store size is approximately 1,000 square feet, approximately 650 square feet of which is selling space. Most stores are open seven days a week. Typical hours are 10 a.m. to 9 p.m., Monday through Saturday, and 12 noon to 6 p.m. on Sundays. Store hours in tourist areas may vary depending upon the tourist season.

In January 2007, we began testing co-branded locations, such as the co-branded stores with Cold Stone Creamery. Co-branding a location is a vehicle to exploit retail environments that would not typically support a stand-alone Rocky Mountain Chocolate Factory store. Co-branding can also be used to more efficiently manage rent structure, payroll and other operating costs in environments that have not historically supported stand-alone Rocky Mountain Chocolate Factory stores. As of February 28, 2019, Cold Stone Creamery franchisees operated 91 co-branded locations, our U-Swirl franchisees operated 12 co-branded locations and three Company-owned co-branded units were in operation.

We have previously entered into franchise developments and licensing agreements for the expansion of our franchise stores in Canada, the United Arab Emirates, the Republic of Panama, South Korea, the Republic of the Philippines, Vietnam, Qatar and Japan. We believe that international opportunities may create a favorable expansion strategy and reduce dependence on domestic franchise openings to achieve growth.

International units in operation were as follows at March 31, 2019:

Rocky Mountain Chocolate Factory	
Canada	58
The Republic of Panama	1
The Republic of the Philippines	4
South Korea	1
U-Swirl Cafés (including all associated brands)	
Qatar	2
Total	66

Products and Packaging

We produce approximately 700 chocolate candies and other confectionery products using proprietary recipes developed primarily by our master candy makers. These products include many varieties of clusters, caramels, creams, toffees, mints and truffles. These products are offered for sale and also configured into approximately 400 varieties of packaged assortments. We continue to engage in a major effort to expand our product line by developing additional exciting and attractive new products. During the Christmas, Easter and Valentine's Day holiday seasons, we may make as many as 100 items, including many candies offered in packages, that are specially designed for such holidays. A typical Rocky Mountain Chocolate Factory store offers up to 100 of these approximately 700 chocolate candies and other confectionery products throughout the year and up to an additional 100 during holiday seasons. Individual stores also offer more than 15 varieties of caramel apples and other products prepared in the store. In FY 2019, approximately 45% of the revenues of Rocky Mountain Chocolate Factory stores are generated by products manufactured at our factory, 52% by products made in individual stores using our recipes and ingredients purchased from us or approved suppliers and the remaining 3% by products such as ice cream, coffee and other sundries purchased from approved suppliers.

In FY 2019, approximately 28% of our product sales resulted from the sale of products outside of our system of franchised and licensed locations, which we refer to as specialty markets. The majority of sales to specialty markets are to a single customer. For FY 2019, this customer represented approximately 46% of total shipments to specialty markets and approximately 9% of our total revenues. These products are produced using the same quality ingredients and manufacturing processes as the products sold in our network of retail stores. See Item 1A “Risk Factors—Our Sales to Specialty Market Customers, Customers Outside Our System of Franchised Stores, Are Concentrated Among a Small Number of Customers.”

We use only the finest chocolates, nutmeats and other wholesome ingredients in our candies and continually strive to offer new confectionery items in order to maintain the excitement and appeal of our products. We develop special packaging for the Christmas, Valentine's Day and Easter holidays, and customers can have their purchases packaged in decorative boxes and fancy tins throughout the year.

Chocolate candies that we manufacture are sold at prices ranging from $19.75 to $29.95 per pound, with an average price of $23.32 per pound. Franchisees set their own retail prices, though we do recommend prices for all of our products.

Our frozen yogurt cafés feature a high-quality yogurt that we believe is superior to products offered by many of our competitors. Our product is nationally distributed and consistent among our cafés. Most cafés feature 8 to 16 flavor varieties, including custom and seasonal specialty flavors. Our toppings bars feature up to 70 toppings allowing for a customizable frozen dessert experience. Cafés typically sell frozen yogurt by the ounce, with prices generally ranging between $0.46 and $0.61 per ounce.

Operating Environment

Rocky Mountain Chocolate Factory

We currently establish Rocky Mountain Chocolate Factory stores in six primary environments: regional centers, outlet centers, tourist areas, street fronts, airports and other entertainment-oriented shopping centers. Each of these environments has a number of attractive features, including high levels of foot traffic. Rocky Mountain Chocolate Factory domestic franchise locations in operation as of February 28, 2019 include:

Regional Centers	23.5%
Outlet Centers	21.3%
Festival/Community Centers	19.1%
Tourist Areas	15.8%
Street Fronts	7.7%
Airports	6.0%
Other	6.6%

Regional Centers

As of February 28, 2019, there were Rocky Mountain Chocolate Factory stores in approximately 43 regional centers, including a location in the Mall of America in Bloomington, Minnesota. Although they often provide favorable levels of foot traffic, regional centers typically involve more expensive rent structures and competing food and beverage concepts.

Outlet Centers

As of February 28, 2019, there were approximately 39 Rocky Mountain Chocolate Factory stores in outlet centers. We have established business relationships with most of the major outlet center developers in the United States. Although not all factory outlet centers provide desirable locations for our stores, we believe our relationships with these developers will provide us with the opportunity to take advantage of attractive sites in new and existing outlet centers.

Tourist Areas, Street Fronts, Airports and Other Entertainment-Oriented Shopping Centers

As of February 28, 2019, there were approximately 29 Rocky Mountain Chocolate Factory stores in locations considered to be tourist areas, including Fisherman's Wharf in San Francisco, California and the River Walk in San Antonio, Texas. Tourist areas are very attractive locations because they offer high levels of foot traffic and favorable customer spending characteristics, and greatly increase our visibility and name recognition. We believe there are a number of other environments that have the characteristics necessary for the successful operation of Rocky Mountain Chocolate Factory stores such as airports and sports arenas. As of February 28, 2019, there were 11 franchised Rocky Mountain Chocolate Factory stores at airport locations.

Strip/Convenience Centers

Our self-serve frozen yogurt locations are primarily located in strip and convenience center locations. Such centers generally have convenient parking and feature many retail entities without enclosed connecting walkways. Such centers generally offer favorable rents and the ability to operate during hours when other operating environments are closed, such as late at night.

Franchising Program

General

Our franchising philosophy is one of service and commitment to our franchise system and we continuously seek to improve our franchise support services. Our concept has been rated as an outstanding franchise opportunity by publications and organizations rating such opportunities. In January 2011, Rocky Mountain Chocolate Factory was rated the number one franchise opportunity in the candy category by Entrepreneur Magazine (the last publication of this category ranking) and since then has been ranked in the Top 500 Franchises every year by Entrepreneur Magazine. As of March 31, 2019, there were 245 franchised stores in the Rocky Mountain Chocolate Factory system and 68 franchised stores under the U-Swirl frozen yogurt brands. We strive to bring this philosophy of service and commitment to all of our franchised brands and believe this strategy gives us a competitive advantage in the support of frozen yogurt franchises.

Franchisee Sourcing and Selection

The majority of new franchises are awarded to persons referred to us by existing franchisees, to interested consumers who have visited one of our domestic franchise locations and to existing franchisees. We also advertise for new franchisees in national and regional newspapers as suitable potential store locations come to our attention. Franchisees are approved by us on the basis of the applicant's net worth and liquidity, together with an assessment of work ethic and personality compatibility with our operating philosophy.

International Franchising and Licensing

In FY 1992, we entered into a franchise development agreement covering Canada with Immaculate Confections, Ltd. of Vancouver, British Columbia (“Immaculate Confections”). Pursuant to this agreement, Immaculate Confections purchased the exclusive right to franchise and operate Rocky Mountain Chocolate Factory stores in Canada. As of March 31, 2019, Immaculate Confections operated 58 stores under this agreement.

Our business was significantly affected by the global recession during 2008-2009. During this period there was a decrease in leads and qualified franchisees for domestic franchise growth. Amidst this environment we initiated a program to focus on international expansion. International growth is generally achieved through entry into a Master License Agreement covering specific countries, with a licensee that meets minimum qualifications to develop Rocky Mountain Chocolate Factory, or a brand of U-Swirl in that country. License agreements are generally entered into for a period of 3-10 years and allow the licensee exclusive development rights in a country. Generally, we require an initial license fee and commitment to a development schedule. International license agreements in place include the following:

- In March 2013, we entered into a Licensing Agreement in the country of South Korea. As of March 31, 2019, one unit was operating under this agreement.
- In October 2014, we entered into a Licensing Agreement in the Republic of the Philippines. As of March 31, 2019, four units were operating under the agreement.
- In May 2017, we entered into a Licensing Agreement in the Republic of the Panama. As of March 31, 2019, one unit was operating under the agreement.

- In May 2017, we entered into a Licensing Agreement in the Socialist Republic of Vietnam. As of March 31, 2019, there were no units operating under the agreement.

- Through our U-Swirl subsidiary, we have additional international development agreements covering Canada and the State of Qatar. As of March 31, 2019, no units were operating in Canada and two units were operating in Qatar.

Co-Branding

In August 2009, we entered into a Master License Agreement with Kahala Franchise Corp. Under the terms of the agreement, select current and future Cold Stone Creamery franchise stores are co-branded with both the Rocky Mountain Chocolate Factory and the Cold Stone Creamery brands. Locations developed or modified under the agreement are subject to the approval of both parties. Locations developed or modified under the agreement will remain franchisees of Cold Stone Creamery and will be licensed to offer the Rocky Mountain Chocolate Factory brand. As of March 31, 2019, Cold Stone Creamery franchisees operated 90 stores under this agreement.

Additionally, we allow U-Swirl brands to offer Rocky Mountain Chocolate Factory products under terms similar to other co-branding agreements. As of March 31, 2019, there were 12 franchise and Company-owned U-Swirl cafés offering Rocky Mountain Chocolate Factory products.

Training and Support

Each domestic franchisee owner/operator and each store manager for a domestic franchisee is required to complete a comprehensive training program in store operations and management. We have established a training center at our Durango headquarters in the form of a full-sized replica of a properly configured and merchandised Rocky Mountain Chocolate Factory store. U-Swirl franchisees are required to complete a similar training program. Topics covered in the training course include our philosophy of store operation and management, customer service, merchandising, pricing, cooking, inventory and cost control, quality standards, record keeping, labor scheduling and personnel management. Training is based on standard operating policies and procedures contained in an operations manual provided to all franchisees, which the franchisee is required to follow by terms of the franchise agreement. Additionally, and importantly, trainees are provided with a complete orientation to our operations by working in key factory operational areas and by meeting with members of our senior management.

Our operating objectives include providing knowledge and expertise in merchandising, marketing and customer service to all front-line store level employees to maximize their skills and ensure that they are fully versed in our proven techniques.

We provide ongoing support to franchisees through our field consultants, who maintain regular and frequent communication with the stores by phone and by site visits. The field consultants also review and discuss store operating results with the franchisee and provide advice and guidance in improving store profitability and in developing and executing store marketing and merchandising programs.

Quality Standards and Control

The franchise agreements for Rocky Mountain Chocolate Factory and U-Swirl brands franchisees require compliance with our procedures of operation and food quality specifications and permits audits and inspections by us.

Operating standards for Rocky Mountain Chocolate Factory and U-Swirl brands stores are set forth in operating manuals. These manuals cover general operations, factory ordering, merchandising, advertising and accounting procedures. Through their regular visits to franchised stores, our field consultants audit performance and adherence to our standards. We have the right to terminate any franchise agreement for non-compliance with our operating standards. Products sold at the stores and ingredients used in the preparation of products approved for on-site preparation must be purchased from us or from approved suppliers.

The Franchise Agreement: Terms and Conditions

The domestic offer and sales of our franchise concepts are made pursuant to the respective Franchise Disclosure Document prepared in accordance with federal and state laws and regulations. States that regulate the sale and operation of franchises require a franchisor to register or file certain notices with the state authorities prior to offering and selling franchises in those states.

Under the current form of our domestic franchise agreements, franchisees pay us (i) an initial franchise fee for each store, (ii) royalties based on monthly gross sales, and (iii) a marketing fee based on monthly gross sales. Franchisees are generally granted exclusive territory with respect to the operation of their stores only in the immediate vicinity of their stores. Chocolate and yogurt products not made on the premises by franchisees must be purchased from us or approved suppliers. The franchise agreements require franchisees to comply with our procedures of operation and food quality specifications, to permit inspections and audits by us and to remodel stores to conform with standards then in effect. We may terminate the franchise agreement upon the failure of the franchisee to comply with the conditions of the agreement and upon the occurrence of certain events, such as insolvency or bankruptcy of the franchisee or the commission by the franchisee of any unlawful or deceptive practice, which in our judgment are likely to adversely affect the system. Our ability to terminate franchise agreements pursuant to such provisions is subject to applicable bankruptcy and state laws and regulations. See "Regulation" Below for additional information.

The agreements prohibit the transfer or assignment of any interest in a franchise without our prior written consent. The agreements also give us a right of first refusal to purchase any interest in a franchise if a proposed transfer would result in a change of control of that franchise. The refusal right, if exercised, would allow us to purchase the interest proposed to be transferred under the same terms and conditions and for the same price as offered by the proposed transferee.

The term of each franchise agreement is ten years, and franchisees have the right to renew for one additional ten-year term.

Franchise Financing

We do not typically provide prospective franchisees with financing for their stores for new or existing franchises, but we have developed relationships with several sources of franchisee financing to whom we will refer franchisees. Typically, franchisees have obtained their own sources of such financing and have not required our assistance. In the normal course of business, we extend credit to customers, primarily franchisees that satisfy pre-defined credit criteria, for inventory and other operational costs.

During FY 2014, we began an initiative to finance entrepreneurial graduates of the Missouri Western State University ("MWSU") entrepreneurial program. Beginning in FY 2010, recent graduates were awarded the opportunity to own a Rocky Mountain Chocolate Factory franchise under favorable financing terms. Prior to FY 2014, the financing was provided by an independent benefactor of the MWSU School of Business. Beginning in FY 2014, we began to finance the graduates directly, under similar terms as the previous financing facility. This program has generally included financing for the purchase of formerly Company-owned locations or for the purchase of underperforming franchise locations. As of February 28, 2019, approximately $219,000 was included in notes receivable as a result of this program. As of March 31, 2019, there were 15 units in operation by graduates of the MWSU entrepreneurial program.

Licensee Financing

During FY 2011, we began a program to finance the remodel costs of a select number of co-branded licensed Cold Stone Creamery locations. The financing was provided to existing Cold Stone Creamery franchisees that were required to meet a number of financial qualifications prior to approval. At February 28, 2019, approximately $3,000 was included in notes receivable as a result of this program. We initially financed this program in order to encourage early adoption of the co-branding program. Now that the program is mature, we do not intend to continue direct financing unless circumstances change.

Company Store Program

As of March 31, 2019, there were two Company-owned Rocky Mountain Chocolate Factory stores and four Company-owned U-Swirl cafés. Company-owned stores provide a training ground for Company-owned store personnel and district managers and a controllable testing ground for new products and promotions, operating and training methods and merchandising techniques, which may then be incorporated into the franchise store operations.

Managers of Company-owned stores are required to comply with all Company operating standards and undergo training and receive support from us similar to the training and support provided to franchisees. See "—Franchising Program—Training and Support" and "—Franchising Program—Quality Standards and Control."

Manufacturing Operations

General

We manufacture our chocolate candies at our factory in Durango, Colorado. All products are produced consistent with our philosophy of using only the finest high-quality ingredients to achieve our marketing motto of "*The Peak of Perfection in Handmade Chocolates*®."

We have always believed that we should control the manufacturing of our own chocolate products. By controlling manufacturing, we can better maintain our high product quality standards, offer unique, proprietary products, manage costs, control production and shipment schedules and potentially pursue new or under-utilized distribution channels.

Manufacturing Processes

The manufacturing process primarily involves cooking or preparing candy centers, including nuts, caramel, peanut butter, creams and jellies, and then coating them with chocolate or other toppings. All of these processes are conducted in carefully controlled temperature ranges, and we employ strict quality control procedures at every stage of the manufacturing process. We use a combination of manual and automated processes at our factory. Although we believe that it is currently preferable to perform certain manufacturing processes, such as dipping of some large pieces by hand, automation increases the speed and efficiency of the manufacturing process. We have from time to time automated certain processes formerly performed by hand where it has become cost-effective for us to do so without compromising product quality or appearance.

We also seek to ensure the freshness of products sold in Rocky Mountain Chocolate Factory stores with frequent shipments. Most Rocky Mountain Chocolate Factory stores do not have significant space for the storage of inventory, and we encourage franchisees and store managers to order only the quantities that they can reasonably expect to sell within approximately two to four weeks. For these reasons, we generally do not have a significant backlog of orders.

Ingredients

The principal ingredients used in our products are chocolate, nuts, sugar, corn syrup, cream and butter. The factory receives shipments of ingredients daily. To ensure the consistency of our products, we buy ingredients from a limited number of reliable suppliers. In order to assure a continuous supply of chocolate and certain nuts, we frequently enter into purchase contracts of between six to eighteen months for these products. Because prices for these products may fluctuate, we may benefit if prices rise during the terms of these contracts, but we may be required to pay above-market prices if prices fall. We have one or more alternative sources for most essential ingredients and therefore believe that the loss of any supplier would not have a material adverse effect on our business or results of operations. We currently purchase small amounts of finished candy from third parties on a private label basis for sale in Rocky Mountain Chocolate Factory stores.

Trucking Operations

We operate nine trucks and ship a substantial portion of our products from the factory on our own fleet. Our trucking operations enable us to deliver our products to the stores quickly and cost-effectively. In addition, we back-haul our own ingredients and supplies, as well as products from third parties, on return trips, which helps achieve even greater efficiencies and cost savings.

Marketing

General

We rely primarily on in-store promotion and point-of-purchase materials to promote the sale of our products. The monthly marketing fees collected from franchisees are used by us to develop new packaging and in-store promotion and point-of-purchase materials, and to create and update our local store marketing handbooks.

We focus on local store marketing efforts by providing customizable marketing materials, including advertisements, coupons, flyers and mail order catalogs generated by our in-house Creative Services department. The department works directly with franchisees to implement local store marketing programs.

We have not historically, and do not intend to, engage in national traditional media advertising in the near future. Consistent with our commitment to community support, we aggressively seek opportunities to participate in local and regional events, sponsorships and charitable causes. This support leverages low cost, high return publicity opportunities for mutual gain partnerships. Through programs such as Fudge for Troops, and collaborations with Care and Share Food Bank and other national/local organizations focused on youth/leadership development and underserved populations in our community, we have developed relationships that define our principal platforms, and contribute to charitable causes that provide exposure at a national level.

Internet and Social Media

Beginning in 2010, we initiated a program to leverage the marketing benefits of various social media outlets. These low-cost marketing opportunities seek to leverage the positive feedback of our customers to expand brand awareness through a customer's network of contacts. Complementary to local store marketing efforts, these networks also provide a medium for us to communicate regularly and authentically with customers. When possible, we work to facilitate direct relationships between our franchisees and their customers. We use social media as a powerful tool to build brand recognition, increase repeat exposure and enhance dialogue with consumers about their preferences and needs. To date, the majority of stores have location specific websites and location specific Facebook® pages dedicated to help customers interact directly with their local store. Proceeds from the monthly marketing fees collected from franchisees are used by us to facilitate and assist stores in managing their online presence consistent with our brand and marketing efforts.

Licensing

We have developed relationships and utilized licensing partners to leverage the equity of the Rocky Mountain Chocolate Factory brand. These licensed products place our brands and story in front of consumers in environments where they regularly shop but may not be seeing our brands at present. We regularly review product opportunities and selectively pursue those we believe will have the greatest impact. The most recent example is the announcement of our Rocky Mountain Chocolate Factory Chocolatey Almond breakfast cereal, which was manufactured, marketed, and distributed by Kellogg's Company. Some of our specialty markets customers have worked with us to offer licensed products alongside products we produce to further enhance brand placement and awareness.

Competition

The retailing of confectionery and frozen dessert products is highly competitive. We and our franchisees compete with numerous businesses that offer products similar to those offered by our stores. Many of these competitors have greater name recognition and financial, marketing and other resources than us. In addition, there is intense competition among retailers for real estate sites, store personnel and qualified franchisees.

We believe that our principal competitive strengths lie in our name recognition and our reputation for the quality, value, variety and taste of our products and the special ambiance of our stores; our knowledge and experience in applying criteria for selection of new store locations; our expertise in merchandising and marketing of chocolate, other candy products and frozen yogurt; and the control and training infrastructures we have implemented to assure execution of successful practices and techniques at our store locations. In addition, by controlling the manufacturing of our own chocolate products, we can better maintain our high product quality standards for those products, offer proprietary products, manage costs, control production and shipment schedules and pursue new or under-utilized distribution channels.

Trade Name and Trademarks

The trade name "*Rocky Mountain Chocolate Factory*®," the phrases, "*The Peak of Perfection in Handmade Chocolates*®", "*America's Chocolatier*®" , *"The World's Chocolatier®"* as well as all other trademarks, service marks, symbols, slogans, emblems, logos and designs used in the Rocky Mountain Chocolate Factory system, are our proprietary rights. We believe that all of the foregoing are of material importance to our business. The trademark "Rocky Mountain Chocolate Factory" is registered in the United States and Canada. Applications to register the Rocky Mountain Chocolate Factory trademark have been filed and/or obtained in certain foreign countries.

In connection with U-Swirl's frozen yogurt café operations, the following marks are owned by U-Swirl and have been registered with the U.S. Patent and Trademark Office: "U-Swirl Frozen Yogurt And Design"; "U-Swirl Frozen Yogurt"; "U-Swirl"; "U and Design"; "Worth The Weight"; "Frequent Swirler"; "Yogurtini"; "CherryBerry Self-Serve Yogurt Bar"; "Yogli Mogli"; "Best on the Planet"; "Fuzzy Peach"; "U-Swirl-N-Go"; and "Serve Yo Self". The "U-Swirl Frozen Yogurt and Design" (a logo) is also registered in Mexico and U-Swirl has a registration for "U-Swirl" in Canada.

We have not attempted to obtain patent protection for the proprietary recipes developed by our master candy-maker and instead rely upon our ability to maintain the confidentiality of those recipes.

Employees

At February 28, 2019, we employed approximately 231 people. Most employees, with the exception of store management, factory management and corporate management, are paid on an hourly basis. We also employ some individuals on a temporary basis during peak periods of store and factory operations. We seek to assure that participatory management processes, mutual respect and professionalism and high-performance expectations for the employee exist throughout the organization. We believe that we provide working conditions, wages and benefits that compare favorably with those of our competitors. Our employees are not covered by a collective bargaining agreement. We consider our employee relations to be good.

Seasonal Factors

Our sales and earnings are seasonal, with significantly higher sales and earnings occurring during key holidays, such as Christmas, Easter and Valentine's Day, and the U.S. summer vacation season than at other times of the year, which may cause fluctuations in our quarterly results of operations. In addition, quarterly results have been, and in the future are likely to be, affected by the timing of new store openings, the sale of franchises and the timing of purchases by customers outside our network of franchised locations. Because of the seasonality of our business, results for any quarter are not necessarily indicative of the results that may be achieved in other quarters or for a full fiscal year.

Regulation

Company-owned Rocky Mountain Chocolate Factory stores and Company-owned U-Swirl cafés are subject to licensing and regulation by the health, sanitation, safety, building and fire agencies in the state or municipality where located. Difficulties or failures in obtaining the required licensing or approvals could delay or prevent the opening of new stores. New stores must also comply with landlord and developer criteria.

Many states have laws regulating franchise operations, including registration and disclosure requirements in the offer and sale of franchises. We are also subject to the Federal Trade Commission regulations relating to disclosure requirements in the sale of franchises and ongoing disclosure obligations.

Additionally, certain states have enacted and others may enact laws and regulations governing the termination or non-renewal of franchises and other aspects of the franchise relationship that are intended to protect franchisees. Although these laws and regulations, and related court decisions, may limit our ability to terminate franchises and alter franchise agreements, we do not believe that such laws or decisions will have a material adverse effect on our franchise operations. However, the laws applicable to franchise operations and relationships continue to develop, and we are unable to predict the effect on our intended operations of additional requirements or restrictions that may be enacted or of court decisions that may be adverse to franchisors.

Federal and state environmental regulations have not had a material impact on our operations but more stringent and varied requirements of local governmental bodies with respect to zoning, land use and environmental factors could delay construction of new stores, increase our capital expenditures and thereby decrease our earnings and negatively impact competitive position.

Companies engaged in the manufacturing, packaging and distribution of food products are subject to extensive regulation by various governmental agencies. A finding of a failure to comply with one or more regulations could result in the imposition of sanctions, including the closing of all or a portion of our facilities for an indeterminate period of time. Our product labeling is subject to and complies with the Nutrition Labeling and Education Act of 1990 and the Food Allergen Labeling and Consumer Protection Act of 2004.

We provide a limited amount of trucking services to third parties, to fill available space on our trucks. Our trucking operations are subject to various federal and state regulations, including regulations of the Federal Highway Administration and other federal and state agencies applicable to motor carriers, safety requirements of the Department of Transportation relating to interstate transportation and federal, state and Canadian provincial regulations governing matters such as vehicle weight and dimensions.

We believe that we are operating in substantial compliance with all applicable laws and regulations.

Available Information

The Internet address of our website is www.rmcf.com. Additional websites specific to our franchise opportunities are www.sweetfranchise.com and www.u-swirl.com.

We file or furnish annual, quarterly and current reports, proxy statements and other information with the United States Securities and Exchange Commission ("SEC"). We make available free of charge, through our Internet website, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after we file such material with, or furnish it to, the SEC. The SEC also maintains a website that contains these reports, proxy and information statements and other information that can be accessed, free of charge, at www.sec.gov. The contents of our websites are not incorporated into, and should not be considered a part of, this Annual Report.

ITEM 1A. RISK FACTORS

General Economic Conditions Could Have a Material Adverse Effect on our Business, Results of Operations and Liquidity or our Franchisees, with Adverse Consequences to Us.

Consumer purchases of discretionary items, including our products, generally decline during weak economic periods and other periods where disposable income is adversely affected. Our performance is subject to factors that affect worldwide economic conditions, including employment, consumer debt, reductions in net worth based on severe market declines, residential real estate and mortgage markets, taxation, fuel and energy prices, interest rates, consumer confidence, value of the U.S. dollar versus foreign currencies and other macroeconomic factors. These factors may cause consumers to purchase products from lower priced competitors or to defer purchases of discretionary products altogether.

Economic weakness could have a material effect on our results of operations, liquidity and capital resources. It could also impact our ability to fund growth and/or result in us becoming more reliant on external financing, the availability and terms of which may be uncertain. In addition, a weak economic environment may exacerbate the other risks noted below.

We rely in part on our franchisees and the manner in which they operate their stores to develop and promote our business. It is possible that some franchisees could file for bankruptcy or become delinquent in their payments to us, which could have a significant adverse impact on our business due to loss or delay in payments of royalties, contributions to our marketing fund and other fees.

Although we have developed criteria to evaluate and screen prospective developers and franchisees, we cannot be certain that the developers and franchisees we select will have the business acumen or financial resources necessary to open and operate successful franchises in their franchise areas, and state franchise laws may limit our ability to terminate or modify these franchise arrangements. Moreover, franchisees may not successfully operate stores in a manner consistent with our standards and requirements, or may not hire and train qualified managers and other store personnel. The failure of developers and franchisees to open and operate franchises successfully could have a material adverse effect on us, our reputation, our brand and our ability to attract prospective franchisees and could materially adversely affect our business, financial condition, results of operations and cash flows.

Our Sales to Specialty Market Customers, Customers Outside Our System of Franchised Stores, Are Concentrated Among a Small Number of Customers

Revenue from one customer of our manufacturing segment represented approximately $3.1 million or 9% of our total revenues during the year ended February 28, 2019 compared to revenue of approximately $5.1 million or 13% of our total revenues during the year ended February 28, 2018. Our future results may be adversely impacted by further decreases in the purchases of this customer or the loss of this customer entirely.

Our Growth is Dependent Upon Attracting and Retaining Qualified Franchisees and Their Ability to Operate Their Franchised Stores Successfully

Our continued growth and success is dependent in part upon our ability to attract, retain and contract with qualified franchisees. Our growth is dependent upon the ability of franchisees to operate their stores successfully, promote and develop our store concepts, and maintain our reputation for an enjoyable in-store experience and high-quality products. Although we have established criteria to evaluate prospective franchisees and have been successful in attracting franchisees, there can be no assurance that franchisees will be able to operate successfully in their franchise areas in a manner consistent with our concepts and standards.

The Financial Performance of Our Franchisees Can Negatively Impact Our Business.

Our financial results are dependent in part upon the operational and financial success of our franchisees. We receive royalties, franchise fees, contributions to our marketing fund, and other fees from our franchisees. We have established operational standards and guidelines for our franchisees; however, we have limited control over how our franchisees' businesses are run. While we are responsible for ensuring the success of our entire system of stores and for taking a longer-term view with respect to system improvements, our franchisees have individual business strategies and objectives, which might conflict with our interests. Our franchisees may not be able to secure adequate financing to open or continue operating their Rocky Mountain Chocolate Factory stores or U-Swirl cafés. If they incur too much debt or if economic or sales trends deteriorate such that they are unable to repay existing debt, our franchisees could experience financial distress or even bankruptcy. If a significant number of franchisees become financially distressed, it could harm our operating results through reduced royalty revenues and the impact on our profitability could be greater than the percentage decrease in the royalty revenues. Closure of franchised stores, which during FY 2019, and potentially in subsequent years, could exceed levels experienced in recent years, would reduce our royalty revenues and could negatively impact margins, since we may not be able to reduce fixed costs which we continue to incur.

We Have Limited Control with Respect to the Operations of Our Franchisees, Which Could Have a Negative Impact on Our Business

Franchisees are independent business operators and are not our employees, and we do not exercise control over the day-to-day operations of their stores. We provide training and support to franchisees, and set and monitor operational standards, but the quality of franchised stores may be diminished by any number of factors beyond our control. Consequently, franchisees may not successfully operate stores in a manner consistent with our standards and requirements, or may not hire and train qualified managers and other store personnel. If franchisees do not operate to our expectations, our image and reputation, and the image and reputation of other franchisees, may suffer materially and system-wide sales could decline significantly, which would reduce our royalty revenues, and the impact on profitability could be greater than the percentage decrease in royalties and fees.

Our Expansion Plans Are Dependent on the Availability of Suitable Sites for Franchised Stores at Reasonable Occupancy Costs

Our expansion plans are critically dependent on our ability to obtain suitable sites for franchised stores at reasonable occupancy costs for our franchised stores in high foot traffic retail environments. There is no assurance that we will be able to obtain suitable locations for our franchised stores in this environment at a cost that will allow such stores to be economically viable.

A Significant Shift by Franchisees from Company-Manufactured Products to Products Producedby Third Parties Could Adversely Affect Our Operations.

In FY 2019, approximately 45% of franchised stores' revenues are generated by sales of products manufactured by and purchased from us, 52% by sales of products made in the stores with ingredients purchased from us or approved suppliers and 3% by sales of products purchased from approved suppliers for resale in the stores. Franchisees' sales of products manufactured by us generate higher revenues to us than sales of store-made or other products. We have seen a significant increase in system-wide sales of store-made and other products, which has led to a decrease in purchases from us and had an adverse effect on our revenues. If this trend continues, it could further adversely affect our total revenues and results of operations. Such a decrease could result from franchisees' decisions to sell more store-made products or products purchased from approved third party suppliers.

Same Store Sales Have Fluctuated and Will Continue to Fluctuate on a Regular Basis.

Our same store sales, defined as year-over-year sales for a store that has been open at least one year, have fluctuated significantly in the past on an annual and quarterly basis and are expected to continue to fluctuate in the future. During the past five fiscal years, same store sales results at Rocky Mountain Chocolate Factory franchise stores have fluctuated as follows: (a) from (2.9%) to 3.1% for annual results; and (b) from (4.6%) to 7.5% for quarterly results. During the past four fiscal years, same store sales results at U-Swirl franchise stores have fluctuated as follows: (a) from (4.3%) to (0.5%) for annual results; and (b) from (8.6%) to 2.8% for quarterly results. Sustained declines in same store sales or significant same store sales declines in any single period could have a material adverse effect on our results of operations.

Increases in Costs Could Adversely Affect Our Operations.

Inflationary factors such as increases in the costs of ingredients, energy 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 reflect potentially escalating costs of real estate and construction. There is no assurance that we will be able to pass on our increased costs to our customers.

Price Increases May Not Be Sufficient To Offset Cost Increases And Maintain Profitability Or May Result In Sales Volume Declines Associated With Pricing Elasticity.

We may be able to pass some or all raw materials, energy and other input cost increases to customers by increasing the selling prices of our products, however, higher product prices may also result in a reduction in sales volume and/or consumption. If we are not able to increase our selling prices sufficiently, or in a timely manner, to offset increased raw material, energy or other input costs, including packaging, direct labor, overhead and employee benefits, or if our sales volume decreases significantly, there could be a negative impact on our financial condition and results of operations.

The Availability and Price of Principal Ingredients Used in Our Products Are Subject to Factors Beyond Our Control

Several of the principal ingredients used in our products, including chocolate and nuts, are subject to significant price fluctuations. Although cocoa beans, the primary raw material used in the production of chocolate, are grown commercially in Africa, Brazil and several other countries around the world, cocoa beans are traded in the commodities market, and their supply and price are subject to volatility. We believe our principal chocolate supplier purchases most of its beans at negotiated prices from African growers, often at a premium to commodity prices. The supply and price of cocoa beans, and in turn of chocolate, are affected by many factors, including monetary fluctuations and economic, political and weather conditions in countries in which cocoa beans are grown. We purchase most of our nut meats from domestic suppliers who procure their products from growers around the world. The price and supply of nuts are also affected by many factors, including weather conditions in the various regions in which the nuts we use are grown. Although we often enter into purchase contracts for these products, significant or prolonged increases in the prices of chocolate or of one or more types of nuts, or the unavailability of adequate supplies of chocolate or nuts of the quality sought by us, could have a material adverse effect on us and our results of operations.

We Own 100% of the Operations of U-Swirl, Which Has a History of Losses and May Continue to Report Losses in the Future.

In January 2013, we obtained a controlling ownership interest in SWRL. This interest was the result of a transaction designed to create a self-serve frozen yogurt company through the combination of three formerly separate self-serve frozen yogurt retailers (U-Swirl, Yogurtini and Aspen Leaf Yogurt). SWRL has historically reported net losses. In February 2016, we foreclosed on the all of the outstanding common stock of U-Swirl (the operating subsidiary of SWRL) in full satisfaction of the obligations under the SWRL Loan Agreement, pursuant to which U-Swirl became a wholly-owned subsidiary of the Company. If U-Swirl continues to not be profitable, those operating losses could have a material adverse effect on our overall results of operations.

We And Our Subsidiaries May Be Unable To Successfully Integrate The Operations Of Acquired Businesses And May Not Achieve The Cost Savings And Increased Revenues Anticipated As A Result Of These Acquisitions.

U-Swirl has acquired a number of other yogurt franchising businesses. Achieving the anticipated benefits of acquisitions will depend in part upon our and our subsidiaries' ability to integrate these businesses in an efficient and effective manner. The integration of companies that have previously operated independently may result in significant challenges, and we and our subsidiaries may be unable to accomplish the integration smoothly or successfully. The integration of acquired businesses may also require the dedication of significant management resources, which may temporarily distract management's attention from the day-to-day operations of the Company. In addition, the process of integrating operations may cause an interruption of, or loss of momentum in, the activities of one or more of our or our subsidiaries' businesses and the loss of key personnel from us or the acquired businesses. Our and our subsidiaries' strategy is, in part, predicated on the ability to realize cost savings and to increase revenues through the acquisition of businesses that add to the breadth and depth of our products and services. Achieving these cost savings and revenue increases is dependent upon a number of factors, many of which are beyond our control.

The Seasonality of Our Sales and New Store Openings Can Have a Significant Impact on Our Financial Results from Quarter to Quarter.

Our sales and earnings are seasonal, with significantly higher sales and earnings occurring during key holidays and summer vacation season than at other times of the year, which causes fluctuations in our quarterly results of operations. In addition, quarterly results have been, and in the future are likely to be, affected by the timing of new store openings and the sale 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 the results that may be achieved in other quarters or for a full fiscal year.

The Retailing of Confectionery and Frozen Dessert Products is Highly Competitive and Many of Our Competitors Have Competitive Advantages Over Us.

The retailing of confectionery and frozen dessert products is highly competitive. We and our franchisees compete with numerous businesses that offer similar products. Many of these competitors have greater name recognition and financial, marketing and other resources than we do. In addition, there is intense competition among retailers for real estate sites, store personnel and qualified franchisees. Competitive market conditions could have a material adverse effect on us and our results of operations and our ability to expand successfully.

Changes in Consumer Tastes and Trends Could Have a Material Adverse Effect on Our Operations

The sale of our products is affected by changes in consumer tastes and eating habits, including views regarding consumption of chocolate and frozen yogurt. Numerous other factors that we cannot control, such as economic conditions, demographic trends, traffic patterns and weather conditions, influence the sale of our products. Changes in any of these factors could have a material adverse effect on us and our results of operations.

We Are Subject to Federal, State and Local Regulation.

We are subject to regulation by the Federal Trade Commission and must comply with certain state laws governing the offer, sale and termination of franchises and the refusal to renew franchises. Many state laws also regulate substantive aspects of the franchisor-franchisee relationship by, for example, requiring the franchisor to deal with its franchisees in good faith, prohibiting interference with the right of free association among franchisees and regulating discrimination among franchisees in charges, royalties or fees. Franchise laws continue to develop and change, and changes in such laws could impose additional costs and burdens on franchisors. Our failure to obtain approvals to sell franchises and the adoption of new franchise laws, or changes in existing laws, could have a material adverse effect on us and our results of operations.

Each of our Company-owned and franchised stores is subject to licensing and regulation by the health, sanitation, safety, building and fire agencies in the state or municipality where located. Difficulties or failures in obtaining required licenses or approvals from such agencies could delay or prevent the opening of a new store. We and our franchisees are also subject to laws governing our relationships with employees, including minimum wage requirements, overtime, working and safety conditions and citizenship requirements. Because a significant number of our employees are paid at rates related to the federal minimum wage, increases in the minimum wage would increase our labor costs. The failure to obtain required licenses or approvals, or an increase in the minimum wage rate, employee benefits costs (including costs associated with mandated health insurance coverage) or other costs associated with employees, could have a material adverse effect on us and our results of operations.

Companies engaged in the manufacturing, packaging and distribution of food products are subject to extensive regulation by various governmental agencies. A finding of a failure to comply with one or more regulations could result in the imposition of sanctions, including the closing of all or a portion of our facilities for an indeterminate period of time, and could have a material adverse effect on us and our results of operations.

Information Technology System Failures, Breaches of our Network Security or Inability to Upgrade or Expand our Technological Capabilities Could Interrupt our Operations and Adversely Affect our Business.

We and our franchisees rely on our computer systems and network infrastructure across our operations, including point-of-sale processing at our stores. Our and our franchisees' operations depend upon our and our franchisees' ability to protect our computer equipment and systems against damage from physical theft, fire, power loss, telecommunications failure or other catastrophic events, as well as from internal and external cybersecurity breaches, viruses and other disruptive problems. Any damage or failure of our computer systems or network infrastructure that causes an interruption in our operations could have a material adverse effect on our business and subject us or our franchisees to litigation or to actions by regulatory authorities.

A party who is able to compromise the security measures on our networks or the security of our infrastructure could, among other things, misappropriate our proprietary information and the personal information of our customers and employees, cause interruptions or malfunctions in our or our franchisee's operations, cause delays or interruptions to our ability to operate, cause us to breach our legal, regulatory or contractual obligations, create an inability to access or rely upon critical business records or cause other disruptions in our operations. These breaches may result from human errors, equipment failure, or fraud or malice on the part of employees or third parties.

We expend financial resources to protect against such threats and may be required to further expend financial resources to alleviate problems caused by physical, electronic, and cyber security breaches. As techniques used to breach security are growing in frequency and sophistication and are generally not recognized until launched against a target, regardless of our expenditures and protection efforts, we may not be able to implement security measures in a timely manner or, if and when implemented, these measures could be circumvented. Any breaches that may occur could expose us to increased risk of lawsuits, loss of existing or potential future customers, harm to our reputation and increases in our security costs, which could have a material adverse effect on our financial performance and operating results.

In the event of a breach resulting in loss of data, such as personally identifiable information or other such data protected by data privacy or other laws, we may be liable for damages, fines and penalties for such losses under applicable regulatory frameworks despite not handling the data. Further, the regulatory framework around data custody, data privacy and breaches varies by jurisdiction and is an evolving area of law. We may not be able to limit our liability or damages in the event of such a loss.

We are also continuing to expand, upgrade and develop our information technology capabilities, including our point-of-sale systems, as well as the adoption of cloud services for e-mail, intranet, and file storage. If we are unable to successfully upgrade or expand our technological capabilities, we may not be able to take advantage of market opportunities, manage our costs and transactional data effectively, satisfy customer requirements, execute our business plan or respond to competitive pressures. Additionally, unforeseen problems with our point-of-sale system may affect our operational abilities and internal controls and we may incur additional costs in connection with such upgrades and expansion.

If We, our Business Partners, or our Franchisees Are Unable to Protect our Customers' Data, We Could Be Exposed to Data Loss, Litigation, Liability and Reputational Damage.

In connection with credit and debit card sales, we and our franchisees transmit confidential credit and debit card information by way of secure private retail networks. A number of retailers have experienced actual or potential security breaches in which credit and debit card information may have been stolen. Although we and our franchisees use private networks, third parties may have the technology or know-how to breach the security of the customer information transmitted in connection with credit and debit card sales, and our and our franchisees' security measures and those of our and our franchisees' technology vendors may not effectively prohibit others from obtaining improper access to this information. If a person were able to circumvent these security measures, he or she could destroy or steal valuable information or disrupt our and our franchisees' operations. Any security breach could expose us and our franchisees to risks of data loss and liability and could seriously disrupt our and our franchisees' operations and any resulting negative publicity could significantly harm our reputation. We may also be subject to lawsuits or other proceedings in the future relating to these types of incidents. Proceedings related to theft of credit and debit card information may be brought by payment card providers, banks, and credit unions that issue cards, cardholders (either individually or as part of a class action lawsuit), and federal and state regulators. Any such proceedings could harm our reputation, distract our management team members from running our business and cause us to incur significant unplanned liabilities, losses and expenses.

We also sell and accept for payment gift cards, and our customer loyalty program provides rewards that can be redeemed for purchases. Like credit and debit cards, gift cards, and rewards earned by our customers are vulnerable to theft, whether physical or electronic. We believe that, due to their electronic nature, rewards earned through our customer loyalty program are primarily vulnerable to hacking. Customers affected by any loss of data or funds could litigate against us, and security breaches or even unsuccessful attempts at hacking could harm our reputation, and guarding against or responding to hacks could require significant time and resources.

We also receive and maintain certain personal information about our customers, including information received through our marketing programs, franchisees and business partners. The use of this information by us is regulated at the federal and state levels. If our security and information systems are compromised or our employees fail to comply with these laws and regulations and this information is obtained by unauthorized persons or used inappropriately, it could adversely affect our reputation, as well as the results of operations, and could result in litigation against us or the imposition of penalties. In addition, our ability to accept credit and debit cards as payment in our stores and online depends on us maintaining our compliance status with standards set by the PCI Security Standards Council. These standards, set by a consortium of the major credit card companies, require certain levels of system security and procedures to protect our customers' credit and debit card information as well as other personal information. Privacy and information security laws and regulations change over time, and compliance with those changes may result in cost increases due to necessary system and process changes.

We Are Subject to Periodic Litigation, Which Could Result in Unexpected Expense of Time and Resources.

From time to time, we are called upon to defend ourselves against lawsuits relating to our business. Due to the inherent uncertainties of litigation, we cannot accurately predict the ultimate outcome of any such proceedings. An unfavorable outcome in any current or future legal proceedings could have an adverse impact on our business, and financial results. In addition, any significant litigation in the future, regardless of its merits, could divert management's attention from our operations and result in substantial legal fees. Any litigation could result in substantial costs and a diversion of management's attention and resources that are needed to successfully run our business.

Changes in Health Benefit Claims and Healthcare Reform Legislation Could Have a Material Adverse Effect on Our Operations

We accrue for costs to provide self-insured benefits for our employee health benefits program. We accrue for self-insured health benefits based on historical claims experience and we maintain insurance coverage to prevent financial losses from catastrophic health benefit claims. We monitor pending and enacted legislation in an effort to evaluate the effects of such legislation upon our business. Our financial position or results of operations could be materially adversely impacted should we experience a material increase in claims costs or a change in healthcare legislation that impacts our business. Our accrued liability for self-insured employee health benefits at February 28, 2019 and February 28, 2018 was $140,000 and $158,000, respectively.

Our Expansion Into New Markets May Present Increased Risks Due To Our Unfamiliarity With Those Areas And Our Target Customers' Unfamiliarity With Our Brands.

Consumers in any new markets we enter will not be familiar with our brands, and we will need to build brand awareness in those markets through significant investments in advertising and promotional activity. We may find it more difficult in our markets to secure desirable locations and to hire, motivate and keep qualified employees.

Issues Or Concerns Related To The Quality And Safety Of Our Products, Ingredients Or Packaging Could Cause A Product Recall And/Or Result In Harm To The Company's Reputation, Negatively Impacting Our Results of Operations.

In order to sell our products, we need to maintain a good reputation with our customers and consumers. Issues related to the quality and safety of our products, ingredients or packaging could jeopardize our Company's image and reputation. Negative publicity related to these types of concerns, or related to product contamination or product tampering, whether valid or not, could decrease demand for our products or cause production and delivery disruptions. We may need to recall products if any of our products become unfit for consumption. In addition, we could potentially be subject to litigation or government actions, which could result in payments of fines or damages. Costs associated with these potential actions could negatively affect our results of operations.

Disruption To Our Manufacturing Operations Or Supply Chain Could Impair Our Ability To Produce Or Deliver Finished Products, Resulting In A Negative Impact On Our Results of Operations.

All of our manufacturing operations are located in Durango, Colorado. Disruption to our manufacturing operations or our supply chain could result from a number of factors, including: natural disaster, pandemic outbreak of disease, weather, fire or explosion, terrorism or other acts of violence, labor strikes or other labor activities, unavailability of raw or packaging materials, and operational and/or financial instability of key suppliers and other vendors or service providers. We believe that we take adequate precautions to mitigate the impact of possible disruptions. We have strategies and plans in place to manage disruptive events if they were to occur. However, if we are unable, or find that it is not financially feasible, to effectively plan for or mitigate the potential impacts of such disruptive events on our manufacturing operations or supply chain, our financial condition and results of operations could be negatively impacted.

If We Face Labor Shortages or Increased Labor Costs, our Results of Operations and our Growth Could Be Adversely Affected.

Labor is a primary component of operating our business. If we experience labor shortages or increased labor costs because of increased competition for employees, higher employee turnover rates, or increases in the federally-mandated or state-mandated minimum wage, change in exempt and non-exempt status, or other employee benefits costs (including costs associated with health insurance coverage or workers' compensation insurance), operating expenses could increase and our growth could be adversely affected.

We have a substantial number of hourly employees who are paid wage rates at or based on the applicable federal or state minimum wage and increases in the minimum wage will increase our labor costs. The federal minimum wage has been $7.25 per hour since July 24, 2009. Federally-mandated, state-mandated or locally-mandated minimum wages may be raised in the future. As of the date hereof, many states and the District of Columbia have set a minimum wage level higher than the federal minimum wage, including Colorado, where we employ the majority of our employees and minimum wage as of the date hereof is $11.10. We may be unable to increase our prices in order to pass future increased labor costs on to our customers, in which case our margins would be negatively affected.

Our Financial Results May Be Adversely Impacted By The Failure To Successfully Execute Or Integrate Acquisitions, Divestitures And Joint Ventures.

From time to time, we may evaluate potential acquisitions, divestitures or joint ventures that align with our strategic objectives. The success of such activity depends, in part, upon our ability to identify suitable buyers, sellers or business partners; perform effective assessments prior to contract execution; negotiate contract terms; and, if applicable, obtain government approval. These activities may present certain financial, managerial, staffing and talent, and operational risks, including diversion of management's attention from existing core businesses; difficulties integrating or separating businesses from existing operations; and challenges presented by acquisitions or joint ventures which may not achieve sales levels and profitability that justify the investments made. If the acquisitions, divestitures or joint ventures are not successfully implemented or completed, there could be a negative impact on our results of operations.

Anti-Takeover Provisions In Our Certificate Of Incorporation And Bylaws May Delay Or Prevent A Third Party Acquisition Of The Company, Which Could Decrease The Value Of Our Common Stock.

Effective March 1, 2015, we reorganized to create a holding company structure and the new holding company is organized in the State of Delaware. Our new certificate of incorporation and bylaws contain provisions that could make it more difficult for a third party to acquire us without the consent of our Board of Directors. These provisions will:

- limit the business at special meetings to the purpose stated in the notice of the meeting;
- authorize the issuance of "blank check" preferred stock, which is preferred stock with voting or other rights or preferences that could impede a takeover attempt and that the Board of Directors can create and issue without prior stockholder approval;
- establish advance notice requirements for submitting nominations for election to the Board of Directors and for proposing matters that can be acted upon by stockholders at a meeting;
- require the affirmative vote of the "disinterested" holders of a majority of our common stock to approve certain business combinations involving an "interested stockholder" or its affiliates, unless either minimum price criteria and procedural requirements are met, or the transaction is approved by a majority of our "continuing directors" (known as "fair price provisions").

Although we believe all of these provisions will make a higher third-party bid more likely by requiring potential acquirers to negotiate with the Board of Directors, these provisions will apply even if an initial offer may be considered beneficial by some stockholders and therefore could delay and/or prevent a deemed beneficial offer from being considered. These provisions could also discourage proxy contests and make it more difficult for our stockholders to elect directors and take other corporate actions, which may prevent a change of control or changes in our management that a stockholder might consider favorable. In addition, Section 203 of the Delaware General Corporation Law may discourage, delay, or prevent a change in control of us. Any delay or prevention of a change of control or change in management that stockholders might otherwise consider to be favorable could cause the market price of our common stock to decline.

Our Common Stock Price May Be Volatile or May Decline Regardless of our Operating Performance.

Volatility in the market price of our common stock may prevent you from being able to sell your shares at or above the price you paid for such shares. Many factors, which are outside our control, may cause the market price of our common stock to fluctuate significantly, including those described elsewhere in this “Risk Factors” section and this Annual Report, as well as the following:

- our operating and financial performance and prospects;
- our quarterly or annual earnings or those of other companies in our industry compared to market expectations;
- conditions that impact demand at our stores and for our products;
- future announcements concerning our business or our competitors’ businesses;
- the public’s reaction to our press releases, other public announcements and filings with the SEC;
- the size of our public float, and the trading volume of our common stock;
- coverage by or changes in financial estimates by securities analysts or failure to meet their expectations;
- market and industry perception of our success, or lack thereof, in pursuing our growth strategy;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- changes in laws or regulations which adversely affect our industry or us;
- changes in accounting standards, policies, guidance, interpretations or principles;
- changes in senior management or key personnel;
- issuances, exchanges or sales, or expected issuances, exchanges or sales of our capital stock;
- changes in our dividend policy;
- adverse resolution of new or pending litigation against us; and
- changes in general market, economic and political conditions in the United States and global economies or financial markets, including those resulting from natural disasters, terrorist attacks, acts of war and responses to such events.

As a result, volatility in the market price of our common stock may prevent investors from being able to sell their common stock at or above the price they paid for such shares. These broad market and industry factors may materially reduce the market price of our common stock, regardless of our operating performance. In addition, price volatility may be greater if the public float and trading volume of our common stock is low. As a result, you may suffer a loss on your investment.

Our Ability to Pay Dividends on our Common Stock is Subject to the Discretion of our Board of Directors.

We have in the past made a regular quarterly cash dividend to our common stockholders. However, the payment of future dividends on our common stock will be subject to the discretion of our Board of Directors and will depend on, among other things, our results of operations, financial condition, capital requirements, and on such other factors as our Board of Directors may in its discretion consider relevant and in the best long-term interest of stockholders. Additionally, any change in the level of our dividends or the suspension of the payment thereof could adversely affect the market price of our common stock. For additional information on our payments of dividends, see "Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities—Dividends" under Part II of this Annual Report.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our manufacturing operations and corporate headquarters are located at a 53,000 square foot manufacturing facility, which we own, in Durango, Colorado. During FY 2019, our factory produced approximately 2.19 million pounds of chocolate candies, which was a decrease of approximately 13.9% from the approximately 2.55 million pounds produced in FY 2018. During FY 2008, we conducted a study of factory capacity. As a result of this study, we believe the factory has the capacity to produce approximately 5.3 million pounds per year, subject to certain assumptions about product mix. In January 1998, we acquired a two-acre parcel adjacent to our factory to ensure the availability of adequate space to expand the factory as volume demands.

U-Swirl's principal offices are the same as the Company's and located at 265 Turner Drive, Durango, Colorado 81303.

As of February 28, 2019, the Company had obligations for three non-cancelable leases of five to ten years for Rocky Mountain Chocolate Factory Company-owned stores having varying expiration dates from July 2019 to January 2026, some of which contain optional five or ten-year renewal rights. We do not deem any individual store lease to be significant in relation to our overall operations.

The leases for our U-Swirl Company-owned cafés range from approximately 1,600 to 3,000 square feet and have varying expiration dates from August 2019 to September 2024, some of which contain optional five or 10-year renewal rights. We currently have five café leases in place, which range between $3,500 and $8,100 per month, exclusive of common area maintenance charges and taxes.

For information as to the amount of our rental obligations under leases on both Company-owned and franchised stores, see Note 5 "Commitments and Contingencies" to our consolidated financial statements included in Item 8 of this Annual Report.

ITEM 3. LEGAL PROCEEDINGS

The Company is party to various other 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 4. MINE SAFETY DISCLOSURES

Not Applicable.

PART II.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock trades on the Nasdaq Global Market under the trading symbol "RMCF."

Holders

On May 10, 2019, there were approximately 300 record holders of our common stock. We believe that there are more than 800 beneficial owners of our common stock.

Dividends

The Company paid a quarterly cash dividend of $0.12 per common share on March 15, 2019 to stockholders of record on March 5, 2019. Future declarations of dividends will depend on, among other things, our results of operations, financial condition, cash flows and capital requirements, and on such other factors as the Board of Directors may in its discretion consider relevant and in the best long-term interest of stockholders. We are subject to various financial covenants related to our line of credit and other long-term debt, however, those covenants do not restrict the Board of Director's discretion of the future declaration of cash dividends.

Stock Repurchase Program

On July 15, 2014, the Company publicly announced a plan to purchase up to $3.0 million of its common stock in the open market or in private transactions, whenever deemed appropriate by management. On January 13, 2015, the Company announced a plan to purchase up to an additional $2,058,000 of its common stock under the repurchase plan, and on May 21, 2015, the Company announced a further increase to the repurchase plan by authorizing the purchase of up to an additional $2,090,000 of its common stock under the repurchase plan. The Company did not repurchase any common stock under the repurchase plan during FY 2019. As of February 28, 2019, approximately $638,000 remains available under the repurchase plan for further stock repurchases.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data presented below for the fiscal years ended February 28 or 29, 2015 through 2019, are derived from the consolidated financial statements of the Company, which have been audited by Plante & Moran, PLLC, our independent registered public accounting firm during the fiscal year ended February 28, 2019 or EKS&H LLLP, our independent registered public accounting firm for the fiscal years ended February 28 or 29, 2015 through 2018. The selected financial data should be read in conjunction with the consolidated financial statements and related notes thereto included elsewhere in this Annual Report and in Item 7. “Management's Discussion and Analysis of Financial Condition and Results of Operations” below.

All material inter-Company balances have been eliminated upon consolidation.

(Amounts in thousands, except per share data)

	Fiscal Years Ended February 28 or 29,				
Selected Statement of Operations Data	2019	2018	2017	2016	2015
Total revenues	$ 34,545	$ 38,075	$ 38,296	$ 40,457	$ 41,508
Operating income	3,006	5,221	5,524	3,713	5,965
Net income	$ 2,239	$ 2,964	$ 3,450	$ 4,426	$ 3,938
Basic Earnings per Common Share	$ 0.38	$ 0.50	$ 0.59	$ 0.75	$ 0.64
Diluted Earnings per Common Share	$ 0.37	$ 0.50	$ 0.58	$ 0.73	$ 0.61
Weighted average common shares outstanding	5,931	5,884	5,843	5,894	6,144
Weighted average common shares outstanding, assuming dilution	5,983	5,980	5,994	6,095	6,413
Selected Balance Sheet Data					
Working capital	$ 9,530	$ 7,364	$ 7,091	$ 7,433	$ 9,371
Total Assets	26,222	28,941	29,418	30,316	34,138
Long-term debt	-	1,176	2,529	3,831	5,083
Stockholders' equity	20,390	19,557	18,829	18,479	19,738
Cash Dividend Declared per Common Share	$ 0.48	$ 0.48	$ 0.48	$ 0.48	$ 0.45

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes thereto, included elsewhere in this Annual Report on Form 10-K. In addition to historical consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results may differ materially from those contained in or implied by any forward-looking statements. See "Cautionary Note Regarding Forward-Looking Statements." Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Annual Report on Form 10-K, particularly in Item 1A. "Risk Factors."

Overview

Rocky Mountain Chocolate Factory, Inc., a Delaware corporation, and its subsidiaries (including its operating subsidiary with the same name, Rocky Mountain Chocolate Factory, Inc., a Colorado corporation ("RMCF") (collectively, the "Company," "we," "us," or "our") is 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 wholly-owned subsidiary, U-Swirl International, Inc. ("U-Swirl"), franchises and operates self-serve frozen yogurt stores. Our revenues and profitability are derived principally from our franchised/license system of retail stores that feature chocolate, frozen yogurt and other confectionary products. We also sell our candy in selected locations outside of our system of retail stores and license the use of our brand with certain consumer products. As of March 31, 2019, there were two Company-owned, 90 licensee-owned and 245 franchised Rocky Mountain Chocolate Factory stores operating in 37 states, Canada, South Korea, Panama, and the Philippines. As of March 31, 2019, U-Swirl operated four Company-owned stores and 68 franchised and 30 licensed stores located in 26 states and Qatar. U-Swirl operates self-serve frozen yogurt cafes under the names "U-Swirl," "Yogurtini," "CherryBerry," "Yogli Mogli Frozen Yogurt," "Fuzzy Peach Frozen Yogurt," "Let's Yo!" and "Aspen Leaf Yogurt".

Current Trends and Outlook

Our business was significantly affected by the global recession during 2008-2009. We continued to experience this difficult environment throughout FY 2010 and FY 2011. The environment somewhat improved from FY 2012 to FY 2019, though we do not believe that the challenges have fully reversed. The economic recovery has had a less positive impact upon retail as consumers shift shopping to online. Locations that have historically been favorable locations for our franchisees, such as regional malls and outlet centers, have continued to struggle in the current environment. As a result, we intend to continue to focus on managing the business in a seasoned, disciplined and controlled manner.

The financing that our franchisees have historically relied upon was substantially affected by the changes in banking and lending requirements in the years after the global recession. Limited financing alternatives for domestic franchise growth led us to pursue a strategy of expansion through co-branding with complimentary concepts such as ice cream and frozen yogurt, international development, sale of our products to specialty markets, licensing the Rocky Mountain Chocolate Factory brand for use with other appropriate consumer products, and selected entry of Rocky Mountain Chocolate Factory branded products into other wholesale channels, along with business acquisitions as primary drivers of growth. This is a trend that continued in FY 2019 and we expect to continue into the foreseeable future.

Going forward in FY 2020, we are taking a conservative view of market conditions in the United States. We intend to continue to focus on our long-term objectives while seeking to maintain flexibility to respond to market conditions, including the pursuit of international growth opportunities to reduce our dependence on the domestic economy.

We are subject to seasonal fluctuations in sales because of key holidays and the location of our franchisees, which have traditionally been located in resort or tourist locations, and the nature of the products we sell, which are highly seasonal. As we expanded our geographical diversity to include regional centers and our franchise offerings to include frozen desserts, we have seen some moderation to our seasonal sales mix. Seasonal fluctuation in sales causes fluctuations in quarterly results of operations. Historically, the strongest sales of our products have occurred during key holidays and summer vacation seasons. Additionally, 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.

The most important factors in continued growth in our earnings are ongoing unit growth, increased same store sales and increased same store pounds purchased from the factory.

Our ability to successfully achieve expansion of our franchise systems depends on many factors not within our control including the availability of suitable sites for new store establishment and the availability of qualified franchisees to support such expansion.

Efforts to reverse the decline in same store pounds purchased from the factory by franchised stores and to increase total factory sales depend on many factors, including new store openings, competition, the receptivity of our franchise system to our product introductions and promotional programs. In FY 2019, same store pounds purchased from the factory by franchised and co-branded licensed stores declined approximately 1.2% in the first quarter, declined approximately 2.2% in the second quarter, declined approximately 1.9% in the third quarter, increased approximately 1.7% in the fourth quarter, and declined 0.5% overall in FY 2019 as compared to the same periods in FY 2018.

In May 2009, we announced the expansion of the co-branding test relationship with Cold Stone Creamery. We and Cold Stone Creamery, Inc. have agreed to expand the co-branding relationship to more than a hundred potential locations, based upon the performance of several test locations, operating under the test agreement announced in October 2008. We have additionally agreed to develop co-branded locations through U-Swirl and their associated brands. We believe that if this co-branding strategy continues to prove financially viable it could represent a significant future growth opportunity. As of February 28, 2019, Cold Stone licensees operated 91 co-branded locations, our U-Swirl franchisees operated 9 co-branded locations and we have co-branded 3 of our Company-owned cafés.

In April 2012, we announced our intent to pursue growth through international licensing. Since 2012, we have continued to develop internationally through the execution of license agreements in the countries of South Korea, the Republic of Panama, Vietnam, and the Republic of the Philippines. Through our U-Swirl subsidiary we have additional international development agreements covering Canada and Qatar.

Results of Operations

Fiscal 2019 Compared To Fiscal 2018

Results Summary

Basic earnings per share decreased 24.0% from $0.50 per share in FY 2018 to $0.38 per share in FY 2019. Revenues decreased 9.3% from $38.1 million for FY 2018 to $34.5 million for FY 2019. Operating income decreased 42.4% from $5.2 million in FY 2018 to $3.0 million in FY 2019. Net income decreased 24.5% from $3.0 million in FY 2018 to $2.2 million in FY 2019. The decrease in operating income and net income was due primarily to lower revenue and lower margins partially offset by a decrease in operating expenses and a lower effective income tax rate.

REVENUES

($'s in thousands)	For the Year Ended February 28, 2019	2018	$ Change	% Change
Factory sales	$ 24,179.5	$ 26,056.6	$ (1,877.1)	(7.2)%
Retail sales	3,384.3	4,111.2	(726.9)	(17.7)%
Franchise fees	335.0	681.6	(346.6)	(50.9)%
Royalty and marketing fees	6,646.6	7,225.3	(578.7)	(8.0)%
Total	$ 34,545.4	$ 38,074.7	$ (3,529.3)	(9.3)%

Factory Sales

The decrease in factory sales for FY 2019 compared to FY 2018 was primarily due to a 23.1% decrease in shipments of product to customers outside our network of franchised retail stores, partially offset by a 1.0% increase in shipments to our network of franchised and licensed stores. The decrease in shipments of product to customers outside our network of franchised and licensed stores was primarily the result of a decrease in purchases by the Company's largest customer during FY 2019, with revenue from such customer decreasing to approximately $3.1 million, or 9.1%, of the Company's revenues during FY 2019, compared to $5.1 million, or 13.4% of the Company's revenues during FY 2018 for this same customer. Same-store pounds purchased by franchise and co-branded license locations decreased 0.5% during FY 2019 compared with FY 2018.

Retail Sales

The decrease in retail sales was primarily due to changes in retail units in operation resulting from the closure of certain underperforming Company-owned locations. Same store sales at all Company-owned stores and cafés increased 1.4% during FY 2019 compared with FY 2018.

Royalties, Marketing Fees and Franchise Fees

The decrease in royalties and marketing fees for FY 2019 compared to FY 2018 resulted primarily from a 9.1% decrease in franchise units in operation. The average number of total franchise stores in operation decreased from 317 during FY 2018 to 288 during FY 2019. This decrease is the result of domestic store closures exceeding domestic store openings. Same store sales at all franchise stores and cafés in operation increased 0.6% during FY 2019 compared to FY 2018. Franchise fee revenues decreased in FY 2019 compared to FY 2018 primarily as a result of $359,000 in international license fees being recognized during FY 2018 with no comparable fees recognized during FY 2019.

COSTS AND EXPENSES

Cost of Sales

($'s in thousands)	For the Year Ended February 28, 2019	2018	$ Change	% Change
Cost of sales - factory	$ 19,360.5	$ 19,703.6	$ (343.1)	(1.7)%
Cost of sales - retail	1,239.0	1,473.1	(234.1)	(15.9)%
Franchise costs	1,980.8	2,097.6	(116.8)	(5.6)%
Sales and marketing	2,210.8	2,489.5	(278.7)	(11.2)%
General and administrative	3,432.6	3,904.6	(472.0)	(12.1)%
Retail operating	1,934.9	2,389.3	(454.4)	(19.0)%
Total	$ 30,158.6	$ 32,057.7	$ (1,899.1)	(5.9)%

Gross Margin

($'s in thousands)	For the Year Ended February 28, 2019	2018	$ Change	% Change
Factory gross margin	$ 4,819.0	$ 6,353.0	$ (1,534.0)	(24.1)%
Retail gross margin	2,145.3	2,638.1	(492.8)	(18.7)%
Total	$ 6,964.3	$ 8,991.1	$ (2,026.8)	(22.5)%

Gross Margin

(Percent)	For the Year Ended February 28, 2019	2018	% Change	% Change
Factory gross margin	19.9%	24.4%	(4.5)%	(18.4)%
Retail gross margin	63.4%	64.2%	(0.8)%	(1.2)%
Total	25.3%	29.8%	(4.5)%	(15.1)%

Adjusted Gross Margin

($'s in thousands)	For the Year Ended February 28, 2019	2018	$ Change	% Change
Factory gross margin	$ 4,819.0	$ 6,353.0	$ (1,534.0)	(24.1)%
Plus: depreciation and amortization	555.9	523.0	32.9	6.3%
Factory adjusted gross margin	5,374.9	6,876.0	(1,501.1)	(21.8)%
Retail gross margin	2,145.3	2,638.1	(492.8)	(18.7)%
Total Adjusted Gross Margin	$ 7,520.2	$ 9,514.1	$ (1,993.9)	(21.0)%
Factory adjusted gross margin	22.2%	26.4%	(4.2)%	(15.9)%
Retail gross margin	63.4%	64.2%	(0.8)%	(1.2)%
Total Adjusted Gross Margin	27.3%	31.5%	(4.2)%	(13.3)%

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

Cost of Sales and Gross Margin

Factory gross margin decreased 450 basis points during FY 2019 compared to FY 2018 due primarily to lower efficiencies associated with a 13.9% decrease in production volume and higher costs associated with inventory obsolescence. Costs associated with inventory obsolescence were generally the result of the initiation of product rationalization resulting from lower volume and underperforming products. The decrease in Company-owned store margin is due primarily to a decrease in Company-owned café revenue from the sale of yogurt and the associated higher margins.

Franchise Costs

The decrease in franchise costs for FY 2019 compared to FY 2018 is due primarily to a decrease in professional fees and lower costs associated with lower international development in FY 2019 compared to FY 2018. As a percentage of total royalty and marketing fees and franchise fee revenue, franchise costs increased to 28.4% during FY 2019 from 26.5% during FY 2018. This increase as a percentage of royalty, marketing and franchise fees is primarily a result of an 11.7% decrease in total royalty and marketing fees and franchise fee revenue during FY 2019 compared to FY 2018.

Sales and Marketing

The decrease in sales and marketing costs during FY 2019 compared to FY 2018 is primarily due to lower marketing-related compensation and lower marketing-related costs associated with U-Swirl franchise locations. Marketing costs for U-Swirl franchise locations declined because of lower marketing fee revenues resulting from fewer franchise stores in operation.

General and Administrative

The decrease in general and administrative costs during FY 2019 compared to FY 2018 is due primarily to lower professional fees, the result of resolving legal proceedings, and lower compensation costs. During FY 2019, approximately $103,000 of U-Swirl general and administrative costs were consolidated within our results, compared with approximately $307,000 during FY 2018. As a percentage of total revenues, general and administrative expenses decreased to 9.9% in FY 2019 compared to 10.3% in FY 2018.

Retail Operating Expenses

Retail operating expenses decreased during FY 2019 compared to FY 2018 due primarily to changes in units in operation, resulting from the sale of certain Company-owned units and the closure of a certain underperforming Company-owned location, offset by the acquisition of a franchised location. Retail operating expenses, as a percentage of retail sales, decreased to 57.2% during FY 2019 from 58.1% during FY 2018. This is primarily the result of a change in units in operation.

Depreciation and Amortization

Depreciation and amortization, exclusive of depreciation and amortization included in cost of sales, was $1,154,000 during FY 2019, an increase of 45.0% from $796,000 incurred during FY 2018. This increase was the result of a change in management's estimates related to the future value of U-Swirl intangibles and the associated acceleration of amortization expense. During the year ended February 28, 2019 the Company reviewed its estimates of the future economic life of certain intangible assets. As a result of this review, the Company accelerated the rate of amortization of certain intangible assets to better reflect their expected future value. Depreciation and amortization included in cost of sales increased 6.3% from $523,000 during FY 2018 to $556,000 during FY 2019. This increase was the result of an increase in production assets in service.

Other Income (Expense)

Net interest expense was $50,300 in FY 2019 compared to net interest expense of $96,700 in FY 2018. This change was the result of lower average outstanding debt from a promissory note entered into in January 2014 to fund business acquisitions by U-Swirl.

Income Tax Expense

We realized an income tax expense of $717,000 in FY 2019 compared to an income tax expense of $2,160,000 during FY 2018. As described further in Note 6 to the consolidated financial statements, the decrease in the effective tax rate is primarily due to the revaluation of deferred tax assets and liabilities to the lower enacted U.S. corporate tax rate of 21% under the recent Tax Cuts and Jobs Act recognized during FY 2018, with no comparable revaluation recognized during FY 2019. Additionally, the decrease in the effective tax rate during FY 2019 compared to 2018 was due to the lower enacted U.S. corporate tax rate of 21% under the Tax Cuts and Jobs Act being effective for all of FY 2019 and only two months of FY 2018.

Fiscal 2018 Compared To Fiscal 2017

A discussion of our results of operations for FY 2018 in comparison to FY 2017 can be found in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the Fiscal Year Ended February 28, 2018.

Liquidity and Capital Resources

As of February 28, 2019, working capital was $9.5 million compared with $7.4 million as of February 28, 2018. The increase in working capital was due primarily to the impact of the adoption of ASU 2014-09, "REVENUE FROM CONTRACTS WITH CUSTOMERS" ("ASC 606") during FY 2019 and our operating results less the payment of $2.8 million in cash dividends, $1.4 million in debt repayments and the purchase of $614,000 of property and equipment. We have historically generated excess operating cash flow. We review our working capital needs and projections and when we believe that we have greater working capital than necessary we have historically utilized that excess working capital to repurchase common stock and pay dividends to our stockholders.

Cash and cash equivalent balances decreased from $6.1 million as of February 28, 2018 to $5.4 million as of February 28, 2019 as a result of cash flows generated by operating activities being less than cash flows used in financing and investing activities. Our current ratio was 3.0 to 1.0 at February 28, 2019 compared to 1.9 to 1.0 at February 28, 2018. We monitor current and anticipated future levels of cash and cash equivalents in relation to anticipated operating, financing and investing requirements.

During FY 2019, we had net income of $2.2 million. Operating activities provided cash of $4.0 million, with the principal adjustment to reconcile net income to net cash provided by operating activities being depreciation and amortization of $1.7 million and stock compensation expense of $520,000. During FY 2018, we had net income of $3.0 million. Operating activities provided cash of $4.8 million, with the principal adjustment to reconcile net income to net cash provided by operating activities being depreciation and amortization of $1.3 million and stock compensation expense of $0.6 million.

During FY 2019, investing activities used cash of $506,000, primarily due to the purchases of property and equipment of $614,000 the result of investment in factory infrastructure improvements, partially offset by proceeds received on notes receivable of $102,000. In comparison, investing activities used cash of $340,000 during FY 2018 primarily due to the purchases of property and equipment of $545,000 the result of investment in factory infrastructure improvements, partially offset by proceeds received on notes receivable of $231,000.

Financing activities used cash of $4.2 million during FY 2019 and used cash of $4.1 million during the prior year. The increase in cash used in financing activities was primarily due to an increase in the amount of debt service being applied to principal, the result of lower interest expense.

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 February 28, 2019. The credit line is secured by substantially all of the Company's assets, except retail store assets. Interest on borrowings is at LIBOR plus 2.25% (4.7% at February 28, 2019). Additionally, the line of credit is subject to various financial ratio and leverage covenants. At February 28, 2019, the Company was in compliance with all such covenants. The credit line is subject to renewal in September 2019 and the Company believes it is likely to be renewed on terms similar to the current terms.

The Company's long-term debt is comprised of a promissory note used to finance prior business acquisitions by SWRL (unpaid balance as of February 28, 2019, $1.2 million). The promissory note allowed the Company to borrow up to a maximum of $7.0 million to finance business acquisitions and bears interest at a fixed annual rate of 3.75%. This promissory note matures in January 2020. Additionally, the promissory note is subject to various financial ratio and leverage covenants. As of February 28, 2019, we were in compliance with all such covenants.

The table below presents significant contractual obligations of the Company at February 28, 2019.
(Amounts in thousands)

Contractual Obligations	Total	Less than 1 year	2-3 Years	4-5 years	More Than 5 years
Notes payable	$ 1,176	$ 1,176	$ -	$ -	$ -
Operating leases	2,949	758	1,333	683	175
Purchase contracts	880	880	-	-	-
Other long-term obligations	231	135	96	-	-
Total	$ 5,236	$ 2,949	$ 1,429	$ 683	$ 175

For FY 2020, the Company anticipates making capital expenditures of approximately $900,000, which will be used to maintain and improve existing factory and administrative infrastructure. The Company believes that cash flow from operations will be sufficient to fund capital expenditures and working capital requirements for FY 2020. If necessary, the Company has an available bank line of credit to help meet these requirements.

Off-Balance Sheet Arrangements

Operating leases: Our Company-owned stores are occupied pursuant to non-cancelable leases of five to ten years having varying expiration dates, some of which contain optional renewal rights. We also lease warehouse facilities to support our manufacturing operations and we lease most of our transportation equipment. We do not deem any individual lease to be significant in relation to our overall operations.

Purchase obligations: As of February 28, 2019, we had purchase obligations of approximately $880,000. These purchase obligations primarily consist of contractual obligations for future purchases of commodities for use in our manufacturing.

Impact of Inflation

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

Depreciation expense is based on the historical cost to the Company of its 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.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of our consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosures. Estimates and assumptions include, but are not limited to, the carrying value of accounts and notes receivable from franchisees, inventories, the useful lives of fixed assets, goodwill, and other intangible assets, income taxes, contingencies and litigation. We base our estimates on analyses, of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

We believe that the following represent our more critical estimates and assumptions used in the preparation of our consolidated financial statements, although not all inclusive.

Accounts and Notes Receivable - In the normal course of business, we extend credit to customers, primarily franchisees, that satisfy pre-defined credit criteria. We believe that we have a limited concentration of credit risk primarily because our receivables are secured by the assets of the franchisees to which we ordinarily extend credit, including, but not limited to, their franchise rights and inventories. An allowance for doubtful accounts is determined through analysis of the aging of accounts receivable, assessments of collectability based on historical trends, and an evaluation of the impact of current and projected economic conditions. The process by which we perform our analysis is conducted on a customer by customer, or franchisee by franchisee, basis and takes into account, among other relevant factors, sales history, outstanding receivables, customer financial strength, as well as customer specific and geographic market factors relevant to projected performance. The Company monitors the collectability of its accounts receivable on an ongoing basis by assessing the credit worthiness of its customers and evaluating the impact of reasonably likely changes in economic conditions that may impact credit risks. Estimates with regard to the collectability of accounts receivable are reasonably likely to change in the future.

We recorded an average expense of approximately $149,000 per year for potential uncollectible accounts over the three-year period ended February 28, 2019. Write-offs of uncollectible accounts net of recoveries averaged approximately $209,500 over the same period. The provision for uncollectible accounts is recognized as general and administrative expense in the Statements of Income. Over the past three years, the allowances for doubtful notes and accounts have ranged from 10.0% to 10.7% of gross receivables.

Revenue Recognition - We recognize revenue on sales of products to franchisees and other customers at the time of delivery. Beginning in FY 2019, upon adoption of ASC 606, the Company began recognizing franchise fees and license fees over the term of the associated agreement, which is generally a period of 10-15 years. Prior to FY 2019, franchise fee revenue was recognized upon opening of the franchise store, or upon execution of an international license agreement. We recognize a marketing and promotion fee of one percent (1%) of the Rocky Mountain Chocolate Factory and U-Swirl franchised stores' gross retail sales and a royalty fee based on gross retail sales. The Company recognizes no royalty on franchised stores' retail sales of products purchased from the Company and recognizes a ten percent (10%) royalty on all other sales of product sold at franchise locations. Royalty fees for U-Swirl cafés are based on the rate defined in the acquired contracts for the franchise rights and range from 2.5% to 6% of gross retail sales. Rebates received from purveyors that supply products to our franchisees are included in franchise royalties and fees. Product rebates are recognized in the period in which they are earned. Rebates related to Company-owned locations are offset against operating costs.

Inventories - Our inventories are stated at the lower of cost or net realizable value and are reduced by an allowance for slow-moving, excess, discontinued and shelf-life expired inventories. Our estimate for such allowance is based on our review of inventories on hand compared to estimated future usage and demand for our products. Such review encompasses not only potentially perishable inventories but also specialty packaging, much of it specific to certain holiday seasons. If actual future usage and demand for our products are less favorable than those projected by our review, inventory reserve adjustments may be required. We closely monitor our inventory, both perishable and non-perishable, and related shelf and product lives. Historically we have experienced low levels of obsolete inventory or returns of products that have exceeded their shelf life. Over the three-year period ended February 28, 2019, the Company recorded expense averaging $228,900 per year for potential inventory losses, or approximately 1.1% of total cost of sales for that period.

Consolidation – The consolidated financial statements in this Annual Report include the accounts of the Company and its subsidiaries. On January 14, 2013 we acquired a controlling interest in U-Swirl. Prior to January 14, 2013, our consolidated financial statements exclude the financial information of U-Swirl. Beginning on January 14, 2013 and continuing through February 28, 2019, the results of operations, assets and liabilities of U-Swirl have been included in our consolidated financial statements. All material inter-Company balances have been eliminated upon consolidation.

Goodwill – Goodwill consists of the excess of purchase price over the fair market value of acquired assets and liabilities. Effective March 1, 2002, under ASC Topic 350, all goodwill with indefinite lives is no longer subject to amortization. ASC Topic 350 requires that an impairment test be conducted annually or in the event of an impairment indicator. We previously entered into a loan and security agreement with SWRL to cover the purchase price and other costs associated with acquisitions of SWRL (the "SWRL Loan Agreement"). Borrowings under the SWRL Loan Agreement were secured by all of the assets of SWRL, including all of the outstanding stock of its wholly-owned subsidiary, U-Swirl. As a result of certain defaults under the SWRL Loan Agreement, we issued a demand for payment of all obligations under the SWRL Loan Agreement. On February 29, 2016, RMCF repossessed all stock in U-Swirl pledged as collateral on the SWRL Loan Agreement. As of February 29, 2016 U-Swirl had $1,930,529 of Goodwill recorded as a result of past business acquisitions. We performed a test of impairment as a result of the change in ownership and the result of our test indicated a full impairment of the U-Swirl goodwill. Our testing and impairment is described in Note 13 to the financial statements.

Franchise Rights – Franchise rights consists of the purchase price paid in consideration of certain rights associated with franchise agreements. These franchise agreements provide for future payments to the franchisor of royalty and marketing fees. We consider franchise rights to have a 20 year life.

Other accounting estimates inherent in the preparation of our consolidated financial statements include estimates associated with its evaluation of the recoverability of deferred tax assets, as well as those used in the determination of liabilities related to litigation and taxation. Various assumptions and other factors underlie the determination of these significant estimates. The process of determining significant estimates is fact specific and takes into account factors such as historical experience, current and expected economic conditions, and product mix. The Company constantly re-evaluates these significant factors and makes adjustments where facts and circumstances dictate. Historically, actual results have not significantly deviated from those determined using the estimates described above.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company does not engage in commodity futures trading or hedging activities and does not enter into derivative financial instruments for trading or other speculative purposes. The Company also does not engage in transactions in foreign currencies or in interest rate swap transactions that could expose the Company to market risk. However, the Company is exposed to some commodity price and interest rate risks.

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 February 28, 2019, based on future contractual obligations for chocolate products, we estimate that a 10% increase or decrease in the prices of contracted ingredients would result in an $88,000 favorable or unfavorable price benefit or cost resulting from our commodity purchase contracts.

The Company has a $5 million bank line of credit that bears interest at a variable rate. As of February 28, 2019, no amount was outstanding under the line of credit. We do not believe that we are exposed to any material interest rate risk related to this line of credit.

The Company also entered into a $7.0 million promissory note with interest at a fixed rate of 3.75% annually to finance the previous acquisitions by SWRL. As of February 28, 2019, $1.2 million was outstanding under this promissory note. We do not believe that we are exposed to any material interest rate risk related to this promissory note.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of Rocky Mountain Chocolate Factory, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Rocky Mountain Chocolate Factory, Inc. (the "Company") as of February 28, 2019, the related consolidated statement of income, stockholders' equity, and cash flows for the year ended February 28, 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of February 28, 2019 and the results of its operations and its cash flows for the year ended February 28, 2019, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the Company adopted Accounting Standards Codification (ASC) Topic 606, "Revenue from Contracts with Customers," using the modified retrospective adoption method on March 1, 2018.

Basis for Opinion

The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Change in Accounting Principle

As discussed in Note 1 and 17 to the financial statements, the Company adopted Accounting Standards Codification (ASC) Topic 606, "Revenue from Contracts with Customers," using the modified retrospective adoption method on March 1, 2018.

We have audited the impact to the 2018 financial statements as disclosed under the modified retrospective method as a result of the adoption of ASC Topic 606, "Revenue from Contracts with Customers", as described in Note 1 and 17 to the financial statements. In our opinion, the impacts are appropriate and have been properly disclosed. We were not engaged to audit, review, or apply any procedures to the 2018 financial statements of the Company other than with respect to the impacts disclosed and, accordingly, we do not express an opinion or any other form of assurance on the 2018 financial statements taken as a whole.

/s/ Plante & Moran, PLLC

Denver, Colorado

May 8, 2019

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of Rocky Mountain Chocolate Factory, Inc.

Opinion on the Financial Statements

We have audited the accompanying balance sheet of Rocky Mountain Chocolate Factory, Inc. (the "Company") as of February 28, 2018, the related statements of income, stockholders' equity, and cash flows for each of the years in the two-year period ended February 28, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of February 28, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the two-year period ended February 28, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ EKS&H LLLP

Denver, Colorado

May 15, 2018

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

	FOR THE YEARS ENDED FEBRUARY 28,		
	2019	2018	2017
Revenues			
Sales	$ 27,563,794	$ 30,167,760	$ 29,876,507
Franchise and royalty fees	6,981,653	7,906,935	8,419,870
Total Revenue	34,545,447	38,074,695	38,296,377
Costs and Expenses			
Cost of sales	20,599,551	21,176,711	20,735,739
Franchise costs	1,980,781	2,097,555	2,067,530
Sales and marketing	2,210,800	2,489,483	2,658,421
General and administrative	3,432,618	3,904,560	4,005,142
Retail operating	1,934,891	2,389,296	2,404,003
Depreciation and amortization, exclusive of depreciation and amortization expense of $555,926, $523,034, and $447,651, respectively, included in cost of sales	1,153,873	796,221	841,058
Costs associated with Company-owned store closures	226,981	-	60,000
Total costs and expenses	31,539,495	32,853,826	32,771,893
Income from Operations	3,005,952	5,220,869	5,524,484
Other Income (Expense)			
Interest expense	(70,787)	(121,244)	(170,351)
Interest income	20,496	24,578	41,572
Other expense, net	(50,291)	(96,666)	(128,779)
Income Before Income Taxes	2,955,661	5,124,203	5,395,705
Income Tax Provision	716,862	2,160,295	1,945,589
Consolidated Net Income	$ 2,238,799	$ 2,963,908	$ 3,450,116
Basic Earnings per Common Share	$ 0.38	$ 0.50	$ 0.59
Diluted Earnings per Common Share	$ 0.37	$ 0.50	$ 0.58
Weighted Average Common Shares			
Outstanding - Basic	5,931,431	5,884,337	5,843,245
Dilutive Effect of Employee			
Stock Awards	51,207	96,099	150,447
Weighted Average Common Shares			
Outstanding - Diluted	5,982,638	5,980,436	5,993,692

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

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

	AS OF FEBRUARY 28, 2019	2018
Assets		
Current Assets		
Cash and cash equivalents	$ 5,384,027	$ 6,072,984
Accounts receivable, less allowance for doubtful accounts of $489,502 and $479,472, respectively	3,993,262	3,897,334
Notes receivable, current portion, less current portion of the valuation allowance of $0 and $9,000, respectively	110,162	105,540
Refundable income taxes	190,201	342,863
Inventories, less reserve for slow moving inventory of $371,147 and $357,706, respectively	4,270,357	4,842,474
Other	318,126	310,173
Total current assets	14,266,135	15,571,368
Property and Equipment, Net	5,786,139	6,166,240
Other Assets		
Notes receivable, less current portion and valuation allowance of $0 and $17,500, respectively	281,669	235,983
Goodwill, net	1,046,944	1,046,944
Franchise rights, net	3,678,920	4,433,927
Intangible assets, net	498,337	587,377
Deferred income taxes	607,421	835,463
Other	56,576	63,333
Total other assets	6,169,867	7,203,027
Total Assets	$ 26,222,141	$ 28,940,635
Liabilities and Stockholders' Equity		
Current Liabilities		
Current maturities of long term debt	$ 1,176,488	$ 1,352,893
Accounts payable	897,074	1,647,991
Accrued salaries and wages	655,853	644,005
Gift card liabilities	742,289	3,057,131
Other accrued expenses	293,094	325,034
Dividend payable	714,939	708,652
Contract liabilities	256,094	471,910
Total current liabilities	4,735,831	8,207,616
Long-Term Debt, Less Current Maturities	-	1,176,416
Contract Liabilities, Less Current Portion	1,096,478	-
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; 50,000 authorized; -0- shares issued and outstanding	-	-
Undesignated series; 200,000 shares authorized; -0- shares issued and outstanding	-	-
Common stock, $.001 par value, 46,000,000 shares authorized, 5,957,827 shares and 5,903,436 shares issued and outstanding, respectively	5,958	5,903
Additional paid-in capital	6,650,864	6,131,147
Retained earnings	13,733,010	13,419,553
Total stockholders' equity	20,389,832	19,556,603
Total Liabilities and Stockholders' Equity	$ 26,222,141	$ 28,940,635

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

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	FOR THE YEARS ENDED FEBRUARY 28,		
	2019	2018	2017
Common Stock			
Balance at beginning of year	$ 5,903	$ 5,854	$ 5,839
Repurchase and retirement of common stock	-	-	(35)
Issuance of common stock	6	5	2
Exercise of stock options, vesting of restricted stock units and other	49	44	48
Balance at end of year	5,958	5,903	5,854
Additional Paid-In Capital			
Balance at beginning of year	6,131,147	5,539,357	5,340,190
Repurchase and retirement of common stock	-	-	(351,548)
Issuance of common stock	55,971	59,095	20,418
Exercise of stock options, vesting of restricted stock units and other	463,746	532,695	564,425
Tax (expense) benefit from employee stock transactions	-	-	(34,128)
Balance at end of year	6,650,864	6,131,147	5,539,357
Retained Earnings			
Balance at beginning of year	13,419,553	13,283,646	13,132,879
Net income attributable to RMCF stockholders	2,238,799	2,963,908	3,450,116
Cash dividends declared	(2,851,271)	(2,828,001)	(2,806,583)
Correction of immaterial error[1]	-	-	(492,766)
Adoption of ASC 606[2]	925,929	-	-
Balance at end of year	13,733,010	13,419,553	13,283,646
Total Stockholders' Equity	20,389,832	19,556,603	18,828,857
Common Shares			
Balance at beginning of year	5,903,436	5,854,372	5,839,396
Repurchase and retirement of common stock	-	-	(35,108)
Issuance of common stock	5,333	5,000	2,000
Exercise of stock options, vesting of restricted stock units and other	49,058	44,064	48,084
Balance at end of year	5,957,827	5,903,436	5,854,372

[1] As revised. Refer to Note 16 for information on immaterial correction of errors in prior period.

[2] Refer to Note 17 for information on the adoption of ASC 606.

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

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

	FOR THE YEARS ENDED FEBRUARY 28,		
	2019	2018	2017
Cash Flows From Operating Activities			
Net Income	$ 2,238,799	$ 2,963,908	$ 3,450,116
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,709,799	1,319,255	1,288,709
Provision for obsolete inventory	325,478	166,868	138,125
Provision for loss on accounts and notes receivable	155,600	225,858	100,049
Asset impairment and store closure losses	67,822	-	-
Loss on sale or disposal of property and equipment	36,024	38,496	37,112
Expense recorded for stock compensation	519,772	591,839	584,893
Deferred income taxes	(78,934)	23,411	262,248
Changes in operating assets and liabilities:			
Accounts receivable	(390,663)	(229,948)	(128,404)
Refundable income taxes	157,544	(295,000)	(47,863)
Inventories	41,310	(365,323)	(2,735)
Other current assets	(8,225)	(54,091)	29,442
Accounts payable	(545,588)	96,491	(87,657)
Accrued liabilities	(84,191)	242,578	(293,402)
Contract Liabilities	(129,527)	33,270	(9,619)
Net cash provided by operating activities	4,015,020	4,757,612	5,321,014
Cash Flows from Investing Activities			
Addition to notes receivable	-	(14,293)	(133,202)
Proceeds received on notes receivable	102,256	230,637	318,219
Purchase of intangible assets	-	(8,508)	(312,947)
Proceeds from (cost of) sale or distribution of assets	13,498	(7,926)	39,045
Purchases of property and equipment	(613,786)	(544,956)	(1,238,472)
(Increase) decrease in other assets	(8,140)	5,529	34,479
Net cash used in investing activities	(506,172)	(339,517)	(1,292,878)
Cash Flows from Financing Activities			
Payments on long-term debt	(1,352,821)	(1,302,432)	(1,253,392)
Repurchase of common stock	-	-	(351,583)
Tax expense of stock option exercise	-	-	(34,128)
Dividends paid	(2,844,984)	(2,821,874)	(2,804,786)
Net cash used in financing activities	(4,197,805)	(4,124,306)	(4,443,889)
Net Decrease in Cash and Cash Equivalents	(688,957)	293,789	(415,753)
Cash and Cash Equivalents, Beginning of Period	6,072,984	5,779,195	6,194,948
Cash and Cash Equivalents, End of Period	$ 5,384,027	$ 6,072,984	$ 5,779,195

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

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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").

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 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.

The following table summarizes the number of stores operating under the Rocky Mountain Chocolate Factory brand and its subsidiaries at February 28, 2019:

	Sold, Not Yet Open	Open	Total
Rocky Mountain Chocolate Factory			
Company-owned stores	-	2	2
Franchise stores - Domestic stores and kiosks	4	183	187
International license stores	1	64	65
Cold Stone Creamery - co-branded	11	91	102
U-Swirl (Including all associated brands)			
Company-owned stores	-	1	1
Company-owned stores - co-branded	-	3	3
Franchise stores - Domestic stores	-	87	87
Franchise stores - Domestic - co-branded	-	9	9
International license stores	-	2	2
Total	16	442	458

Consolidation

Management accounts for the activities of the Company and its subsidiaries, and the accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. As described above, on January 14, 2013, the Company acquired a controlling interest in SWRL. Prior to January 14, 2013, the Company's consolidated financial statements excluded the financial information of SWRL. Beginning on January 14, 2013, the results of operations, assets and liabilities of SWRL have been included in these consolidated financial statements. The Company foreclosed on all of the outstanding stock of U-Swirl International, Inc. as of February 29, 2016 in full satisfaction of the amounts owed under a loan and security agreement with SWRL to cover the purchase price and other costs associated with the acquisitions (the "SWRL Loan Agreement"). This resulted in U-Swirl becoming a wholly-owned subsidiary of the Company as of February 29, 2016 and concurrently the Company ceased to have financial control of U-Swirl, Inc. as of February 29, 2016. As of February 29, 2016, U-Swirl, Inc. had no assets. All intercompany balances and transactions have been eliminated in consolidation.

Cash Equivalents

The Company considers all highly liquid instruments purchased with an original maturity of six months or less to be cash equivalents. The Company continually monitors its positions with, and the credit quality of, the financial institutions with which it invests. As of the balance sheet date, and periodically throughout the year, the Company has maintained balances in various operating accounts in excess of federally insured limits. This amount was approximately $4.9 million at February 28, 2019.

Accounts and Notes Receivable

In the normal course of business, the Company extends credit to customers, primarily franchisees that satisfy pre-defined credit criteria. The Company believes that it has limited concentration of credit risk primarily because its receivables are secured by the assets of the franchisees to which the Company ordinarily extends credit, including, but not limited to, their franchise rights and inventories. An allowance for doubtful accounts is determined through analysis of the aging of accounts receivable, assessments of collectability based on historical trends, and an evaluation of the impact of current and projected economic conditions. The process by which the Company performs its analysis is conducted on a customer by customer, or franchisee by franchisee, basis and takes into account, among other relevant factors, sales history, outstanding receivables, customer financial strength, as well as customer specific and geographic market factors relevant to projected performance. The Company monitors the collectability of its accounts receivable on an ongoing basis by assessing the credit worthiness of its customers and evaluating the impact of reasonably likely changes in economic conditions that may impact credit risks. Estimates with regard to the collectability of accounts receivable are reasonably likely to change in the future. At February 28, 2019, the Company had $391,831 of notes receivable outstanding and an allowance for doubtful accounts of $0 associated with these notes. The notes require monthly payments and bear interest rates ranging from 4.5% to 6%. The notes mature through November 2023 and approximately $375,000 of notes receivable are secured by the assets financed.

Inventories

Inventories are stated at the lower of cost or net realizable value. An inventory reserve is established to reduce the cost of obsolete, damaged and excess inventories to the lower of cost or net realizable value based on actual differences. This inventory reserve is determined through analysis of items held in inventory, and, if the recorded value is higher than the market value, the Company records an expense to reduce inventory to its actual market value. The process by which the Company performs its analysis is conducted on an item by item basis and takes into account, among other relevant factors, market value, sales history and future sales potential. Cost is determined using the first-in, first-out method.

Property and Equipment and Other Assets

Property and equipment are recorded at cost. Depreciation and amortization are computed using the straight-line method based upon the estimated useful life of the asset, which range from five to thirty-nine years. Leasehold improvements are amortized on the straight-line method over the lives of the respective leases or the service lives of the improvements, whichever is shorter.

The Company reviews its long-lived assets through analysis of estimated fair value, including identifiable intangible assets, whenever events or changes indicate the carrying amount of such assets may not be recoverable. The Company’s policy is to review the recoverability of all assets, at a minimum, on an annual basis.

Income Taxes

The Company provides for income taxes pursuant to the liability method. The liability method requires recognition of deferred income taxes based on temporary differences between financial reporting and income tax bases of assets and liabilities, using current enacted income tax rates and regulations. These differences will result in taxable income or deductions in future years when the reported amount of the asset or liability is recovered or settled, respectively. Considerable judgment is required in determining when these events may occur and whether recovery of an asset, including the utilization of a net operating loss or other carryforward prior to its expiration, is more likely than not. Due to historical U-Swirl losses, prior to FY 2016 the Company established a full valuation allowance on the Company’s deferred tax assets. During FY 2016 the Company took possession of the outstanding equity in U-Swirl. As a result of the Company’s ownership increasing to 100%, the Company began filing consolidated income tax returns in FY 2017. Because of this change, the Company has recognized the full value of deferred tax assets that had full valuation allowances prior to FY 2016. During the fourth quarter of FY 2017 the Company further evaluated the value of deferred tax assets and determined that the assets are restricted due to a limitation on the deductibility of future losses in accordance with Section 382 of the Internal Revenue Code as a result of the foreclosure transaction. The correction of this immaterial error to the Company’s balance sheet is further described in Note 16. The Company's temporary differences are listed in Note 6.

Gift Card Breakage

The Company and its franchisees sell gift cards that are redeemable for product in stores. The Company manages the gift card program, and therefore collects all funds from the activation of gift cards and reimburses franchisees for the redemption of gift cards in their stores. A liability for unredeemed gift cards is included in accounts payable and accrued liabilities in the balance sheets.

There are no expiration dates on the Company’s gift cards, and the Company does not charge any service fees. While the Company’s franchisees continue to honor all gift cards presented for payment, the Company may determine the likelihood of redemption to be remote for certain cards due to long periods of inactivity. The Company has historically accumulated gift card liabilities and has not recognized breakage associated with the gift card liability. The adoption of ASU 2014-09, “REVENUE FROM CONTRACTS WITH CUSTOMERS” (“ASC 606”) during FY 2019 requires the use of the “proportionate” method for recognizing breakage, which the Company has not historically utilized. Upon adoption of ASC 606 the Company began recognizing breakage from gift cards when the gift card is redeemed by the customer or the Company determines the likelihood of the gift card being redeemed by the customer is remote (“gift card breakage”). The determination of the gift card breakage rate is based upon Company-specific historical redemption patterns. Accrued gift card liability was $742,289 and $3,057,131 at February 28, 2019 and 2018, respectively. The Company recognized breakage of $139,188 and $0 during FY 2019 and FY 2018, respectively. See Note 17 to the financial statements for a complete description of the adjustments recorded upon the adoption of ASC 606.

Goodwill

Goodwill arose from three transaction types. The first type was the result of the incorporation of the Company after its inception as a partnership. The goodwill recorded was the excess of the purchase price of the Company over the fair value of its assets. The Company has allocated this goodwill equally between its Franchising and Manufacturing operations. The second type was the purchase of various retail stores, either individually or as a group, for which the purchase price was in excess of the fair value of the assets acquired. Finally, goodwill arose from business acquisitions, where the fair value of the consideration given for acquisition exceeded the fair value of the identified assets net of liabilities.

The Company performs a goodwill impairment test on an annual basis or more frequently when events or circumstances indicate that the carrying value of a reporting unit more likely than not exceeds its fair value. Recoverability of goodwill is evaluated through comparison of the fair value of each of the Company's reporting units with its carrying value. To the extent that a reporting unit's carrying value exceeds the implied fair value of its goodwill, an impairment loss is recognized. On February 29, 2016 RMCF repossessed all stock in U-Swirl International, Inc. pledged as collateral on the SWRL Loan Agreement. This was the result of SWRL's inability to repay the SWRL Loan Agreement and inability to cure defaults of financial covenants. As of February 29, 2016, U-Swirl had $1,930,529 of goodwill recorded as a result of past business acquisitions. In the fourth quarter of FY 2016, RMCF performed a test of impairment as a result of the change in ownership and the result of the Company's test indicated a full impairment of the U-Swirl goodwill. The Company's testing and impairment is described in Note 13 to the financial statements.

Franchise Rights

Franchise rights arose from the entry into agreements to acquire substantially all of the franchise rights of Yogurtini, CherryBerry, Fuzzy Peach, Let's Yo! and Yogli Mogli. Franchise rights are amortized over a period of 20 years.

Insurance and Self-Insurance Reserves

The Company uses a combination of insurance and self-insurance plans to provide for the potential liabilities for workers' compensation, general liability, property insurance, director and officers' liability insurance, vehicle liability and employee health care benefits. Liabilities associated with the risks that are retained by the Company are estimated, in part, by considering historical claims experience, demographic factors, severity factors and other assumptions. While the Company believes that its assumptions are appropriate, the estimated accruals for these liabilities could be significantly affected if future occurrences and claims differ from these assumptions and historical trends.

Sales

Sales of products to franchisees and other customers are recognized at the time of delivery. Sales of products to franchisees and other customers are made at standard prices, without any bargain sales of equipment or supplies. Sales of products at retail stores are recognized at the time of sale.

Rebates

Rebates received from purveyors that supply products to the Company's franchisees are included in franchise royalties and fees. Product rebates are recognized in the period in which they are earned. Rebates related to Company-owned locations are offset against operating costs.

Shipping Fees

Shipping fees charged to customers by the Company's trucking department are reported as sales. Shipping costs incurred by the Company for inventory are reported as cost of sales or inventory.

Franchise and Royalty Fees

Beginning in FY 2019, upon adoption of adoption of ASC 606, the Company began recognizing franchise fees over the term of the associated franchise agreement, which is generally a period of 10 to 15 years. Prior to FY 2019, franchise fee revenue was recognized upon opening of the franchise store. In addition to the initial franchise fee, the Company also recognizes a marketing and promotion fee of one percent (1%) of franchised stores' gross retail sales and a royalty fee based on gross retail sales. The Company recognizes no royalty on franchised stores' retail sales of products purchased from the Company and recognizes a ten percent (10%) royalty on all other sales of product sold at franchise locations. Royalty fees for U-Swirl cafés are based on the rate defined in the acquired contracts for the franchise rights and range from 2.5% to 6% of gross retail sales.

In certain instances, the Company is required to pay a portion of franchise fee revenue, or royalty fees to parties the Company has contracted with to assist in developing and growing a brand. The agreements generally include Development Agents, or commissioned brokers who are paid a portion of the initial franchise fee, a portion of the ongoing royalty fees, or both. When such agreements exist, the Company reports franchise fee and royalty fee revenues net of the amount paid, or due, to the agent/broker.

Use of Estimates

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities, the disclosure of contingent assets and liabilities, at the date of the consolidated financial statements, and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Vulnerability Due to Certain Concentrations

Revenue from one customer of our manufacturing segment represented approximately $3.1 million or 9% of our total revenues during the year ended February 28, 2019 compared to revenue of approximately $5.1 million or 13% of our total revenues during the year ended February 28, 2018. Our future results may be adversely impacted by further decreases in the purchases of this customer or the loss of this customer entirely.

Stock-Based Compensation

At February 28, 2019, the Company had one stock-based compensation plan, the Company's 2007 Equity Incentive Plan, for employees and non-employee directors which authorized the granting of stock awards.

The Company recognized $519,772, $591,839, and $584,893 related to equity-based compensation expense during the years ended February 28, 2019, 2018 and 2017, respectively. Compensation costs related to share-based compensation are generally recognized over the vesting period.

Beginning March 1, 2017, the Company adopted ASU No. 2019-09, which requires recognition of excess tax benefits and tax deficiencies in the income statement. Prior to March 1, 2017 tax benefits or expense resulting from the difference in the compensation cost recognized for stock options are reported as financing cash flows in the accompanying Statements of Cash Flows. The excess tax expense included in net cash provided by financing activities for the years ended February 28, 2017 was $34,128.

During FY 2019 and 2018, the Company granted no restricted stock units. There were no stock options granted to employees during FY 2019 or FY 2018. The restricted stock unit grants generally vest 17 to 20% annually over a period of five to six years. The Company recognized $463,795 of consolidated stock-based compensation expense related to grants made in prior years during FY 2019 compared with $532,739 in FY 2018 and $564,473 in FY 2017. Total unrecognized stock-based compensation expense of non-vested, non-forfeited shares granted, as of February 28, 2019 was $114,183, which is expected to be recognized over the weighted average period of 0.4 years.

The Company issued 2,000 fully vested, unrestricted shares of stock to non-employee directors during the year ended February 28, 2019 compared to no shares issued during the year ended February 28, 2018 and 2,000 issued during the year ended February 28, 2017. In connection with these non-employee director stock issuances, the Company recognized $24,480, $0 and $20,420 of stock-based compensation expense during year ended February 28, 2019, 2018 and 2017, respectively.

During the year ended February 28, 2018, the Company issued 5,000 shares of common stock under the Company's equity incentive plan to an independent contractor providing information technology consulting services to the Company. These shares were issued as a part of the compensation for services rendered to the Company by the contractor. Associated with this unrestricted stock award, the Company recognized $59,100 in stock-based compensation expense during the year ended February 28, 2018. During the year ended February 28, 2019, the Company issued 3,333 shares of common stock under the Company's equity incentive plan to the former Vice President of Creative Services. These shares were issued in consideration of services rendered prior to retirement and based on the number of unvested restricted stock units that were forfeited upon retirement. Associated with this unrestricted stock award, the Company recognized $31,497 in stock-based compensation expense during the year ended February 28, 2019.

Earnings Per Share

Basic earnings per share is computed as net earnings divided by the weighted average number of common shares outstanding during each year. Diluted earnings per share reflects the potential dilution that could occur from common shares issuable through stock options and restricted stock units. Following the expiration of all outstanding options, during FY 2017, no stock options were excluded from diluted shares.

Advertising and Promotional Expenses

The Company expenses advertising costs as incurred. Total advertising expense for RMCF amounted to $275,441, $355,678, and $279,698 for the fiscal years ended February 28, 2019, 2018 and 2017, respectively. Total advertising expense for U-Swirl and its brands amounted to $168,000, $222,093, and $335,771 for the fiscal years ended February 28, 2019, 2018 and 2017, respectively.

Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, trade receivables, payables, notes payable and notes receivable. The fair value of all instruments approximates the carrying value, because of the relatively short maturity of these instruments.

Recent Accounting Pronouncements

In August 2018, the Securities and Exchange Commission (the "SEC") adopted amendments to certain disclosure requirements in Securities Act Release No. 33-10532, Disclosure Update and Simplification. These amendments eliminate, modify, or integrate into other SEC requirements certain disclosure rules. Among the amendments is the requirement to present an analysis of changes in stockholders' equity in the interim financial statements included in Quarterly Reports on Form 10-Q. The analysis, which can be presented as a footnote or separate statement, is required for the current and comparative quarter and year-to-date interim periods. The amendments are effective for all filings made on or after November 5, 2018. In light of the anticipated timing of effectiveness of the amendments and expected proximity of effectiveness to the filing date for most filers' quarterly reports, the SEC's Division of Corporate Finance issued a Compliance and Disclosure Interpretation related to Exchange Act Forms, ("CDI – Question 105.09"), that provides transition guidance related to this disclosure requirement. CDI – Question 105.09 states that the SEC would not object if the filer's first presentation of the changes in shareholders' equity is included in its Quarterly Report on Form 10-Q for the quarter that begins after the effective date of the amendments. As such, the Company adopted these SEC amendments on November 30, 2018 and will present the analysis of changes in stockholders' equity in its interim financial statements in its May 31, 2019 Quarterly Report on Form 10-Q. The Company does not anticipate that the adoption of these SEC amendments will have a material effect on the Company's financial position, results of operations, cash flows or stockholders' equity.

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

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires the recognition of lease assets and lease liabilities on the balance sheet by lessees for those leases currently classified as operating leases under ASC 840 "Leases." These amendments also require qualitative disclosures along with specific quantitative disclosures. These amendments are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company will adopt this guidance effective with the three month period ending May 31, 2019 (the first quarter of Fiscal Year 2020). The Company can elect to record a cumulative-effect adjustment as of the beginning of the year of adoption or apply a modified retrospective transition approach. The Company expects that substantially all of its operating lease commitments will be subject to the new guidance and will be recognized as operating lease liabilities and right-of-use assets upon adoption. The Company anticipates ASU 2016-02 will have a material impact on the consolidated balance sheet. The impact of ASU 2016-02 is non-cash in nature, as such, it will not affect the Company's cash flows. The cumulative adjustment to be recorded as right-of-use assets and operating lease liabilities, upon adoption, is expected to be in the range of $3,500,000 to $3,900,000.

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

The Company adopted ASC 606 as of March 1, 2018, using the modified retrospective method. This method allows the new standard to be applied retrospectively through a cumulative catch-up adjustment recognized upon adoption. As a result, comparative information in the Company's financial statements has not been restated and continues to be reported under the accounting standards in effect for those periods. See Note 17 to these financial statements for additional details regarding the adjustments recorded upon adoption of this standard.

NOTE 2 - INVENTORIES

Inventories consist of the following at February 28:

	2019	2018
Ingredients and supplies	$ 2,612,954	$ 2,764,727
Finished candy	1,983,854	2,371,610
U-Swirl food and packaging	44,696	63,843
Reserve for slow moving inventory	(371,147)	(357,706)
Total inventories	$ 4,270,357	$ 4,842,474

NOTE 3 - PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following at February 28:

	2019	2018
Land	$ 513,618	$ 513,618
Building	5,031,395	4,905,103
Machinery and equipment	10,263,119	10,686,631
Furniture and fixtures	864,944	1,067,788
Leasehold improvements	1,131,659	1,568,260
Transportation equipment	422,458	434,091
Asset impairment	(30,000)	(62,891)
	18,197,193	19,112,600
Less accumulated depreciation	(12,411,054)	(12,946,360)
Property and equipment, net	$ 5,786,139	$ 6,166,240

NOTE 4 - LINE OF CREDIT AND LONG-TERM DEBT

Line of Credit

At February 28, 2019, the Company had a $5.0 million working capital line of credit from Wells Fargo Bank, N.A., collateralized by substantially all of the Company's assets with the exception of the Company's retail store assets. Draws may be made under the line at 50% of eligible accounts receivable plus 50% of eligible inventories. Interest on borrowings is at LIBOR plus 2.25% (4.7% at February 28, 2019). At February 28, 2019, $5.0 million was available for borrowings under the line of credit, subject to borrowing base limitations. Additionally, the line of credit is subject to various financial ratio and leverage covenants. At February 28, 2019, the Company was in compliance with all such covenants. The credit line is subject to renewal in September 2019 and the Company believes it is likely to be renewed on terms similar to current terms. At February 28, 2019 and 2018 there was no amount outstanding under this line of credit.

Effective January 16, 2014, the Company entered into a business loan agreement with Wells Fargo Bank, N.A. (the "Wells Fargo Loan Agreement") for a $7.0 million long-term line of credit to be used to loan money to SWRL to fund the purchase price of business acquisitions by SWRL (the "Wells Fargo Loan"). The Company made its first draw of approximately $6.4 million on the Wells Fargo Loan on January 16, 2014 and the first draw was the amount outstanding at February 28, 2014. Interest on the Wells Fargo Loan is at a fixed rate of 3.75% and the maturity date is January 15, 2020. The Wells Fargo Loan may be prepaid without penalty at any time by the Company. The Wells Fargo Loan is collateralized by substantially all of the Company's assets. Additionally, the Wells Fargo Loan is subject to various financial ratio and leverage covenants. As of February 28, 2019, the Company was in compliance with all such covenants. The Wells Fargo Loan Agreement also contains customary representations and warranties, covenants and acceleration provisions in the event of a default by the Company.

Long-term debt consists of the following at February 28:

	2019	2018
Note payable in monthly installments of principal and interest at 3.75% per annum through December 2019 collateralized by sustantially all business assets	$ 1,176,488	$ 2,529,309
Less current maturities	1,176,488	1,352,893
Long-term obligations	$ -	$ 1,176,416

NOTE 5 – COMMITMENTS AND CONTINGENCIES

Operating Leases

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.

The following is a schedule by year of future minimum rental payments required under such leases for the years ending February 28 or 29:

2020	$ 318,000
2021	259,000
2022	249,000
2023	243,000
2024	249,000
Thereafter	175,000
Total	$ 1,493,000

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. The Company's current policy is not to act as primary lessee on any further franchised locations, except in rare instances. At February 28, 2019, the Company was the primary lessee at four of the Company's 313 domestic franchised stores.

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's liability as primary lessee on sublet franchise outlets, all of which is fully offset by sublease rentals, is as follows for the years ending February 28 or 29:

2020	$ 92,000
2021	75,000
2022	21,000
Total	$ 188,000

The following is a schedule of lease expense for all retail operating leases for the three years ended February 28:

	2019	2018	2017
Minimum rentals	$ 1,030,536	$ 1,270,240	$ 944,938
Less sublease rentals	(572,000)	(603,000)	(318,000)
Contingent rentals	22,800	26,100	25,200
	$ 481,336	$ 693,340	$ 652,138

In FY 2019, the Company renewed an operating lease for warehouse space in the immediate vicinity of its manufacturing operation. The following is a schedule, by year, of future minimum rental payments required under such lease for the years ending February 28 or 29:

2020	$ 116,000
2021	121,000
2022	125,000
2023	129,000
2024	33,000
Total	$ 524,000

The Company also leases trucking equipment under operating leases. The following is a schedule by year of future minimum rental payments required under such leases for the years ending February 28 or 29:

2020	$ 323,000
2021	323,000
2022	257,000
2023	29,000
Total	$ 932,000

The following is a schedule of lease expense for trucking equipment operating leases for the three years ended February 28:

2019	2018	2017
325,229	225,992	220,791

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 February 28, 2019, the Company was contracted for approximately $880,000 of raw materials under such agreements.

NOTE 6 - INCOME TAXES

Income tax expense (benefit) is comprised of the following for the years ended February 28:

	2019	2018	2017
Current			
Federal	$ 653,226	$ 1,916,720	$ 1,411,127
State	142,570	220,164	272,214
Total Current	795,796	2,136,884	1,683,341
Deferred			
Federal	(67,410)	55,658	240,233
State	(11,524)	(32,247)	22,015
Total Deferred	(78,934)	23,411	262,248
Total	$ 716,862	$ 2,160,295	$ 1,945,589

A reconciliation of the statutory federal income tax rate and the effective rate as a percentage of pretax income is as follows for the years ended February 28 or 29:

	2019	2018	2017
Statutory rate	21.0%	31.9%	34.0%
State income taxes, net of federal benefit	3.4%	2.4%	3.6%
Domestic production deduction	0.0%	(0.9)%	(1.1)%
Work opportunity tax credits	(0.7)%	(0.2)%	(0.4)%
Other	0.5%	0.8%	0.0%
Impact of tax reform	0.0%	8.2%	0.0%
Effective rate - provision (benefit)	24.2%	42.2%	36.1%

The components of deferred income taxes at February 28 are as follows:

	2019	2018
Deferred Tax Assets		
Allowance for doubtful accounts and notes	$ 120,368	$ 124,469
Inventories	91,265	86,938
Accrued compensation	87,930	130,049
Loss provisions and deferred income	492,468	817,945
Self-insurance accrual	34,426	38,868
Amortization	217,481	520,379
Restructuring charges	98,693	98,728
U-Swirl accumulated net loss	325,253	258,173
Valuation allowance	(98,693)	(98,728)
Net deferred tax assets	$ 1,369,191	$ 1,976,821
Deferred Tax Liabilities		
Depreciation and amortization	(682,542)	(1,066,113)
Prepaid expenses	(79,228)	(75,245)
Deferred Tax Liabilities	(761,770)	(1,141,358)
Net deferred tax assets	$ 607,421	$ 835,463

The following table summarizes deferred income tax valuation allowances as of February 28:

	2019	2018
Valuation allowance at beginning of period	$ 98,728	$ 148,494
Tax expense (benefits) realized by valuation allowance	(35)	-
Tax benefits released from valuation allowance	-	-
Impact of tax reform	-	(49,766)
Valuation allowance at end of period	$ 98,693	$ 98,728

Income tax expense and the effective income tax rate for the year ended February 28, 2019 decreased from the year ended February 28, 2018, primarily as a result of the revaluation of deferred tax assets and liabilities to the lower enacted U.S. corporate tax rate of 21% under the Tax Cuts and Jobs Act recognized during the year ended February 28, 2018 and the lower enacted U.S. corporate tax rate of 21% under the Tax Cuts and Jobs Act effective for the year ended February 28, 2019. The revaluation of deferred tax assets and liabilities resulted in income tax expense of approximately $421,000 recognized in consideration of the lower enacted rate for the year ended February 28, 2018.

The Company files income tax returns in the U.S. federal and various state taxing jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal and state tax examinations in its major tax jurisdictions for periods before FY 2013. The Company’s federal income tax returns have been examined for the years ended February 28, 2015 and 2014 and the examination did not result in any changes to the income tax returns filed for these years. The Company’s federal income tax returns are being examined for the years ended February 28 or 29, 2017 and 2016.

Realization of the Company's deferred tax assets is dependent upon the Company generating sufficient taxable income, in the appropriate tax jurisdictions, in future years to obtain benefit from the reversal of net deductible temporary differences. The amount of deferred tax assets considered realizable is subject to adjustment in future periods if estimates of future taxable income are changed. Management believes that, with the exception of the deferred tax asset related to restructuring charges, it is more likely than not that RMCF will realize the benefits of its deferred tax assets as of February 28, 2019.

The Company accounts for uncertainty in income taxes by recognizing the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Company measures the tax benefits recognized in the consolidated financial statements from such a position based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. The application of income tax law is inherently complex. As such, the Company is required to make judgments regarding income tax exposures. Interpretations of and guidance surrounding income tax law and regulations change over time and may result in changes to the Company's judgments which can materially affect amounts recognized in the balance sheets and statements of operations. The result of the assessment of the Company's tax positions did not have an impact on the consolidated financial statements for the years ended February 28, 2019 or 2018. The Company does not have any significant unrecognized tax benefits and does not anticipate a significant increase or decrease in unrecognized tax benefits within the next twelve months. Amounts are recognized for income tax related interest and penalties as a component of general and administrative expense in the statement of income and are immaterial for years ended February 28, 2019 and 2018.

As of February 29, 2016, the Company foreclosed on the outstanding equity of U-Swirl and U-Swirl was consolidated for income tax purposes. SWRL, along with U-Swirl has historically filed its own consolidated federal income tax return and reported its own Federal net operating loss carry forward. As of February 28, 2015, SWRL had recorded a full valuation allowance related to the realization of its deferred income tax assets. As of February 29, 2016, a portion of the U-Swirl deferred tax assets were recognized as a result of it becoming more likely than not that some of these assets would be realized in the future as a result of RMCF and U-Swirl filing a consolidated income tax return.

In accordance with Section 382 of the Internal Revenue Code, deductibility of SWRL's and U-Swirl's Federal net operating loss carryovers may be subject to annual limitation in the event of a change in control. The Company has performed a preliminary evaluation as to whether a change in control has taken place, and have concluded that there was a change of control with respect to the net operating losses of U-Swirl when the Company acquired its controlling ownership interest in January 2013 and again in February 2016 when the Company foreclosed on the stock of U-Swirl. The initial limitations will continue to limit deductibility of SWRL's and U-Swirl's net operating loss carryovers, but the annual loss limitation will be deductible to RMCF and U-Swirl International Inc. upon the filing of joint tax returns in FY 2017 and future years.

The Company estimates that the potential future tax deductions of U-Swirl's Federal net operating losses, limited by section 382, to be approximately $1,323,000 with a resulting deferred tax asset of approximately $325,000. U-Swirl's Federal net operating loss carryovers will expire at various dates beginning in 2026.

NOTE 7 – STOCKHOLDERS' EQUITY

Cash Dividend

The Company paid a quarterly cash dividend of $0.12 per common share on March 16, 2018 to stockholders of record on March 6, 2018. The Company paid a quarterly cash dividend of $0.12 per share of common stock on June 15, 2018 to stockholders of record on June 5, 2018. The Company paid a quarterly cash dividend of $0.12 per share of common stock on September 14, 2018 to stockholders of record on September 4, 2018. The Company paid a quarterly cash dividend of $0.12 per share of common stock on December 7, 2018 to stockholders of record on November 23, 2018. The Company declared a quarterly cash dividend of $0.12 per share of common stock on February 14, 2019, which was paid on March 15, 2019 to stockholders of record on March 5, 2019.

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.

Stock Repurchases

On July 15, 2014, the Company publicly announced a plan to repurchase up to $3.0 million of its common stock in the open market or in private transactions, whenever deemed appropriate by management. On January 13, 2015, the Company announced a plan to purchase up to an additional $2,058,000 of its common stock under the repurchase plan, and on May 21, 2015, the Company announced a further increase to the repurchase plan by authorizing the purchase of up to an additional $2,090,000 of its common stock under the repurchase plan. During FY 2017, the Company repurchased 35,108 shares under the repurchase plan at an average price of $10.01 per share. The Company did not repurchase any shares during the years ended February 28, 2019 or 2018. As of February 28, 2019, approximately $638,000 remains available under the repurchase plan for further stock repurchases.

NOTE 8 - STOCK COMPENSATION PLANS

In FY 2014, stockholders approved an amendment and restatement of the 2007 Equity Incentive Plan (as amended and restated, the "2007 Plan"). The 2007 Plan allows awards of stock options, stock appreciation rights, stock awards, restricted stock and stock units, performance shares and performance units, and other stock- or cash-based awards.

The following table summarizes stock awards under the 2007 Plan as of February 28, 2019:

Original share authorization:	300,000
Prior plan shares authorized and incorporated in the 2007 Plan:	85,340
Additional shares authorized through 2007 Plan amendment:	300,000
Available for award:	685,340
Cancelled/forfeited:	199,859
Shares awarded as unrestricted shares, stock options or restricted stock units:	(557,409)
Shares available for award:	327,790

Information with respect to stock option awards outstanding under the 2007 Plan at February 28, 2019, and changes for the three years then ended was as follows:

	Twelve Months Ended February 28:		
	2019	2018	2017
Outstanding stock options at beginning of year:	-	-	12,936
Granted	-	-	-
Exercised	-	-	-
Cancelled/forfeited	-	-	(12,936)
Outstanding stock options as of February 28:	-	-	-
Weighted average exercise price	n/a	n/a	n/a
Weighted average remaining contractual term (in years)	n/a	n/a	n/a

Information with respect to restricted stock unit awards outstanding under the 2007 Plan at February 28, 2019, and changes for the three years then ended was as follows:

	Twelve Months Ended February 28:		
	2019	2018	2017
Outstanding non-vested restricted stock units at beginning of year:	77,594	123,658	181,742
Granted	-	-	-
Vested	(49,058)	(44,064)	(48,084)
Cancelled/forfeited	(3,534)	(2,000)	(10,000)
Outstanding non-vested restricted stock units as of February 28:	25,002	77,594	123,658
Weighted average grant date fair value	$ 12.05	$ 12.16	$ 12.21
Weighted average remaining vesting period (in years)	0.38	1.27	2.23

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - OPERATING SEGMENTS

The Company classifies its business interests into five reportable segments: Rocky Mountain Chocolate Factory, Inc. 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. 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 differences in products and services:

FY 2019	Franchising	Manufacturing	Retail	U-Swirl	Other	Total
Total revenues	$ 5,361,528	$ 25,324,024	$ 1,272,009	$ 3,737,606	$ -	$ 35,695,167
Intersegment revenues	(5,236)	(1,144,484)	-	-	-	(1,149,720)
Revenue from external customers	5,356,292	24,179,540	1,272,009	3,737,606	-	34,545,447
Segment profit (loss)	2,288,871	4,310,722	(52,009)	(32,391)	(3,559,532)	2,955,661
Total assets	1,182,355	12,267,458	1,001,419	5,264,989	6,505,920	26,222,141
Capital expenditures	3,548	526,402	9,617	16,512	57,707	613,786
Total depreciation & amortization	$ 46,369	$ 573,846	$ 32,762	$ 952,178	$ 104,644	$ 1,709,799

FY 2018	Franchising	Manufacturing	Retail	U-Swirl	Other	Total
Total revenues	$ 6,004,897	$ 27,491,089	$ 1,876,021	$ 4,142,085	$ -	$ 39,514,092
Intersegment revenues	(4,882)	(1,434,515)	-	-	-	(1,439,397)
Revenue from external customers	6,000,015	26,056,574	1,876,021	4,142,085	-	38,074,695
Segment profit (loss)	2,623,081	5,791,980	(37,102)	542,073	(3,795,829)	5,124,203
Total assets	1,157,158	12,729,659	1,134,876	8,125,171	5,793,771	28,940,635
Capital expenditures	15,429	429,545	33,056	11,899	55,027	544,956
Total depreciation & amortization	$ 46,087	$ 540,033	$ 32,567	$ 576,162	$ 124,406	$ 1,319,255

FY 2017	Franchising	Manufacturing	Retail	U-Swirl	Other	Total
Total revenues	$ 5,951,055	$ 26,678,514	$ 1,710,734	$ 5,216,076	$ -	$ 39,556,379
Intersegment revenues	(5,332)	(1,254,670)	-	-	-	(1,260,002)
Revenue from external customers	5,945,723	25,423,844	1,710,734	5,216,076	-	38,296,377
Segment profit (loss)	2,495,709	5,609,957	128,024	1,017,395	(3,855,380)	5,395,705
Total assets	1,216,241	12,900,070	1,101,461	9,124,822	5,075,762	29,418,356
Capital expenditures	15,480	966,619	17,047	40,924	198,402	1,238,472
Total depreciation & amortization	$ 54,053	$ 463,996	$ 14,755	$ 622,654	$ 133,251	$ 1,288,709

Revenue from one customer of the Company's Manufacturing segment represented approximately $3.1 million, or 9.1 percent, of the Company's revenues from external customers during the year ended February 28, 2019, compared to $5.1 million, or 13.4 percent of the Company's revenues from external customers during the year ended February 28, 2018.

NOTE 10 - SUPPLEMENTAL CASH FLOW INFORMATION

For the three years ended February 28 or 29:

Cash paid for:	2019	2018	2017
Interest, net	$ 52,102	$ 102,640	$ 129,927
Income taxes	638,252	2,431,884	1,997,751
Non-cash Operating Activities			
Accrued Inventory	52,918	258,247	531,017
Non-cash Financing Activities			
Dividend payable	$ 714,939	$ 708,652	702,525

NOTE 11 - EMPLOYEE BENEFIT PLAN

The Company has a 401(k) plan called the Rocky Mountain Chocolate Factory, Inc. 401(k) Plan. Eligible participants are permitted to make contributions up to statutory limits. The Company makes a matching contribution, which vests ratably over a 3-year period, and is 25% of the employee's contribution up to a maximum of 1.5% of the employee's compensation. During the years ended February 28, 2019, 2018 and 2017, the Company's contribution was approximately $70,000, $68,000, and $66,000, respectively, to the plan.

NOTE 12 – SUMMARIZED QUARTERLY DATA (UNAUDITED)

Following is a summary of the quarterly results of operations for the fiscal years ended February 28, 2019 and 2018:

	Fiscal Quarter				
2019	First	Second	Third	Fourth	Total
Total revenue	$ 8,366,085	$ 7,800,088	$ 8,949,747	$ 9,429,527	$ 34,545,447
Gross margin	1,916,807	1,852,435	1,882,975	1,312,026	6,964,243
Net income	576,944	750,815	525,361	385,679	2,238,799
Basic earnings per share	0.10	0.13	0.09	0.06	0.38
Diluted earnings per share	$ 0.10	$ 0.13	$ 0.09	$ 0.06	$ 0.37

	Fiscal Quarter				
2018	First	Second	Third	Fourth	Total
Total revenue	$ 9,346,447	$ 8,266,691	$ 9,961,572	$ 10,499,985	$ 38,074,695
Gross margin	2,191,974	2,210,910	2,311,579	2,276,586	8,991,049
Net income	813,672	928,284	751,056	470,896	2,963,908
Basic earnings per share	0.14	0.16	0.13	0.08	0.50
Diluted earnings per share	$ 0.14	$ 0.16	$ 0.13	$ 0.08	$ 0.50

NOTE 13 – GOODWILL AND INTANGIBLE ASSETS

Intangible assets consist of the following at February 28:

		2019		2018	
	Amortization Period (in years)	Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Intangible assets subject to amortization					
Store design	10	$ 220,778	$ 214,152	$ 220,778	$ 212,653
Packaging licenses	3 - 5	120,830	120,830	120,830	120,830
Packaging design	10	430,973	430,973	430,973	430,973
Trademark/Non-competition agreements	5 - 20	715,339	223,628	715,339	136,087
Franchise rights	20	5,979,637	2,300,717	5,979,637	1,545,710
Total		7,467,557	3,290,300	7,467,557	2,446,253
Intangible assets not subject to amortization					
Franchising segment-					
Company stores goodwill		$ 1,099,328	$ 267,020	$ 1,099,328	$ 267,020
Franchising goodwill		295,000	197,682	295,000	197,682
Manufacturing segment-goodwill		295,000	197,682	295,000	197,682
Trademark		20,000	-	20,000	-
Total goodwill		1,709,328	662,384	1,709,328	662,384
Total Intangible Assets		$ 9,176,885	$ 3,952,684	$ 9,176,885	$ 3,108,637

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

Amortization expense related to intangible assets totaled $844,320, $446,050, and $427,840 during the fiscal years ended February 28 or 29, 2019, 2018 and 2017, respectively.

During the year ended February 28, 2019 the Company reviewed its estimates of the future economic life of certain intangible assets. As a result of this review, the Company accelerated the rate of amortization of certain intangible assets to better reflect their expected future value. Consistent with the treatment of a change in estimate, the new rate of amortization of intangible assets will be applied to future periods.

At February 28, 2019, annual amortization of intangible assets, based upon the Company's existing intangible assets and current useful lives, is estimated to be the following:

2020	$	706,177
2021		594,229
2022		490,060
2023		411,607
2024		345,642
Thereafter		1,629,542
Total	$	4,177,257

NOTE 14 – COSTS ASSOCIATED WITH COMPANY-OWNED STORE CLOSURES

Costs associated with Company-owned store closures at February 28, 2019, 2018 and 2017 were comprised of the following:

	2019	2018	2017
Loss on distribution of assets	$ 81,981	$ -	$ -
Lease settlement costs	145,000	-	60,000
Total	$ 226,981	$ -	$ 60,000

NOTE 15 – SUBSEQUENT EVENTS

On May 28, 2019, the Company announced that its Board of Directors has declared a first quarter FY2020 cash dividend of $0.12 per common share outstanding. The cash dividend will be payable June 14, 2019 to shareholders of record at the close of business June 4, 2019.

In March 2019, the Company's Compensation Committee awarded 270,000 restricted stock units to eligible employees of the Company. The awards vest over a period of five to six years and have a grant date fair value of $2,536,100. Expense associated with these awards will be recognized over the vesting period.

NOTE 16 – IMMATERIAL REVISION OF PREVIOUSLY REPORTED INCOME TAXES AND DEFERRED TAX LIABILITIES

In the fourth quarter of FY 2017, the Company identified an immaterial error related to the overstatement of the income tax benefit and related deferred income tax asset accounts that impacted the Company's previously issued annual consolidated financial statements. The adjustment relates to the foreclosure upon the interest in U-Swirl and the realization of U-Swirl deferred tax assets and refundable income taxes.

The Company determined that this error was not material to any of the Company's prior annual consolidated financial statements and therefore, amendments of previously filed reports were not required. As such, a revision for the correction is reflected in the February 28, 2017 financial information of the applicable prior periods in this Form 10-K. The error resulted in corrections to beginning retained earnings, accrued liabilities and deferred tax assets of $(492,766), $192,233 and $(300,533), respectively, on the Consolidated Balance Sheet as of February 28, 2017.

NOTE 17 – ADOPTION OF ASU 2014-09, "REVENUE FROM CONTRACTS WITH CUSTOMERS" ("ASC 606")

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

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

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

Gift Cards

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

Impact to Prior Periods

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

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

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

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The adoption of ASC 606 impacted the Company's previously reported financial statements as follows:

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

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	For the Years Ended February 28,		
	2019	2018	2017
Franchise Fees contained within the Statement of Income:	$ 335,028	$ 681,613	$ 324,718
Adjustment required to conform revenue to prior period method:	(53,528)	-	-
Comparable franchise fees:	$ 281,500	$ 681,613	$ 324,718

On February 28, 2019, 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:

2020	$ 256,093
2021	204,071
2022	190,524
2023	176,394
2024	137,477
Thereafter	388,013
Total	$ 1,352,572

NOTE 18 – DISAGGREGATION OF REVENUE

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

For the Year Ended February 28, 2019

Revenues recognized over time under ASC 606:

	Franchising	Manufacturing	Retail	U-Swirl	Total
Revenues recognized over time under ASC 606:					
Franchise fees	$ 199,362	$ -	$ -	$ 135,666	$ 335,028

Revenues recognized at a point in time:

	Franchising	Manufacturing	Retail	U-Swirl	Total
Factory sales	-	24,179,540	-	-	24,179,540
Retail sales	-	-	1,272,009	2,112,245	3,384,254
Royalty and marketing fees	5,156,930	-	-	1,489,695	6,646,625
Total	$ 5,356,292	$ 24,179,540	$ 1,272,009	$ 3,737,606	$ 34,545,447

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures and Changes in Internal Control Over Financial Reporting

Limitations on Controls and Procedures — Because of their inherent limitations, disclosure controls and procedures and internal control over financial reporting (collectively, "Control Systems") may not prevent or detect all failures or misstatements of the type sought to be avoided by Control Systems. Also, projections of any evaluation of the effectiveness of the Company's Control Systems to future periods are subject to the risk that such controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Management, including the Company's Chief Executive Officer (the "CEO") and Chief Financial Officer (the "CFO"), does not expect that the Company's Control Systems will prevent all errors or all fraud. A Control System, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the Control System are met. Further, the design of a Control System must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all Control Systems, no evaluation can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These reports by management, including the CEO and CFO, on the effectiveness of the Company's Control Systems express only reasonable assurance of the conclusions reached.

Disclosure Controls and Procedures — The Company maintains 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 the Company is made known to the officers who certify the Company's 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 the Company's reports that are filed or submitted under the Exchange Act, are recorded, processed, summarized, and reported within the time periods specified in the SEC'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, under the supervision and with the participation of the CEO and CFO, has evaluated the effectiveness, as of February 28, 2019, of the Company's disclosure controls and procedures. Based on that evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures were effective as of February 28, 2019.

Management's Annual Report on Internal Control over Financial Reporting — Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act). The Company's internal control over financial reporting is a process designed under supervision of the Company's principal executive officer and principal financial officer to provide reasonable assurance regarding the reliability of financial reporting and preparation of the Company's consolidated financial statements for external purposes in accordance with generally accepted accounting principles. Management, with the participation of the CEO and CFO, has evaluated the effectiveness, as of February 28, 2018, of the Company's internal control over financial reporting. In making this evaluation, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in its publication Internal Control-Integrated Framework (2013). Based on that evaluation, management has concluded that the Company's internal control over financial reporting was effective as of February 28, 2019.

Changes in Internal Control over Financial Reporting—There were no changes in the Company's internal control over financial reporting that occurred during the quarter ended February 28, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is incorporated herein by reference from our Definitive Proxy Statement for our 2019 Annual Meeting of Stockholders, to be filed no later than 120 days after February 28, 2019.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated herein by reference from our Definitive Proxy Statement for our 2019 Annual Meeting of Stockholders, to be filed no later than 120 days after February 28, 2019.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Except for the information below, the information required by this item is incorporated herein by reference from our Definitive Proxy Statement for our 2019 Annual Meeting of Stockholders, to be filed no later than 120 days after February 28, 2019.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information with respect to the Company's equity compensation plan, as of February 28, 2019, which consists solely of the Company's 2007 Equity Incentive Plan.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (1)	Weighted-average exercise price of outstanding options, warrants and rights (1)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column(a)) (2)
	(a)	(b)	(c)
Equity compensation plans approved by security holders	25,002	n/a	327,790
Equity compensation plans not approved by security holders	-0-	-0-	-0-
Total	25,002	n/a	327,790

(1) Awards outstanding under the 2007 Equity Incentive Plan as of February 28, 2019 consist of 25,002 unvested restricted stock units. The weighted-average exercise price is calculated solely with respect to the outstanding stock options.

(2) Represents shares remaining available under the Company's 2007 Equity Incentive Plan. Shares available for future issuances under the 2007 Equity Incentive Plan may be issued in the form of stock options, stock appreciation rights, restricted stock and stock units, performance shares and performance units, and other stock- and cash-based awards.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated herein by reference from our Definitive Proxy Statement for our 2019 Annual Meeting of Stockholders, to be filed no later than 120 days after February 28, 2019.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is incorporated herein by reference from our Definitive Proxy Statement for our 2019 Annual Meeting of Stockholders, to be filed no later than 120 days after February 28, 2019.

PART IV.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this Annual Report:

1. Financial Statements

2. Financial Statement Schedule

SCHEDULE II - Valuation and Qualifying Accounts

	Balance at Beginning of Period	Additions Charged to Costs & Exp.	Deductions	Balance at End of Period
Year Ended February 28, 2019				
Valuation Allowance for Accounts and Notes Receivable	505,972	143,214	159,684	489,502
Year Ended February 29, 2018				
Valuation Allowance for Accounts and Notes Receivable	536,093	166,868	196,989	505,972
Year Ended February 28, 2017				
Valuation Allowance for Accounts and Notes Receivable	670,471	138,125	272,503	536,093

3. Exhibits

The following exhibits are filed with, or incorporated by reference, in this Annual Report.

Exhibit Number	Description	Incorporated by Reference to
3.1	Amended and Restated Certificate of Incorporation of Rocky Mountain Chocolate Factory, Inc., a Delaware corporation	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	Exhibit 3.2 to the Current Report on Form 8-K filed on March 2, 2015
3.3	Amended and Restated Bylaws of Rocky Mountain Chocolate Factory, Inc., a Delaware corporation	Exhibit 3.3 to the Current Report on Form 8-K filed on March 2, 2015
4.1	Description of Capital Stock	Filed herewith
10.1**	Form of Employment Agreement (Officers)	Exhibit 10.1 to the Annual Report on Form 10-K for the fiscal year ended February 28, 2007 (File No. 000-14749)
10.2	Form of Franchise Agreement for Rocky Mountain Chocolate Factory	Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended May 31, 2010 (File No. 000-14749)
10.3**	2007 Equity Incentive Plan (As Amended and Restated)	Exhibit 10.1 to the Current Report on Form 8-K filed on August 9, 2013 (File No. 000-14749)
10.4**	Form of Indemnification Agreement (Directors)	Exhibit 10.7 to the Annual Report on Form 10-K for the fiscal year ended February 28, 2007 (File No. 000-14749)
10.5**	Form of Indemnification Agreement (Officers)	Exhibit 10.8 to the Annual Report on Form 10-K for the fiscal year ended February 28, 2007 (File No. 000-14749)
10.6*	Master License Agreement, dated August 17, 2009, between Kahala Franchise Corp. and Rocky Mountain Chocolate Factory, Inc., a Colorado corporation	Exhibit 10.3 to the Quarterly Report on Form 10-Q of the Registrant for the quarter ended August 31, 2009 (File No. 000-14749)
10.7	Revolving Line of Credit Note, dated September 13, 2017, between Rocky Mountain Chocolate Factory, Inc. and Wells Fargo Bank, National Association	Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended August 31, 2017
10.8	Business Loan Agreement, dated August 2, 2013, between Wells Fargo Bank and Rocky Mountain Chocolate Factory, Inc., a Colorado corporation	Exhibit 10.2 to the Quarterly Report on Form 10-Q for the quarter ended August 31, 2013 (File No. 000-14749)
10.9	Business Loan Agreement, dated December 27, 2013, between Wells Fargo Bank and Rocky Mountain Chocolate Factory, Inc., a Colorado corporation	Exhibit 99.3 to the Current Report on Form 8-K filed on January 22, 2014 (File No. 000-14749)
10.10*	Master License Agreement, dated April 27, 2012, between RMCF Asia, Ltd. and Rocky Mountain Chocolate Factory, Inc., a Colorado corporation	Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended May 31, 2012 (File No. 000-14749)

Exhibit Number	Description	Incorporated by Reference to
10.11	Voting Agreement, dated January 14, 2013, among U-Swirl, Inc., Henry Cartwright, Ulderico Conte, Terry Cartwright, Rocky Mountain Chocolate Factory, Inc., a Colorado corporation, and Aspen Leaf Yogurt, LLC	Exhibit 99.4 to the Current Report on Form 8-K filed January 14, 2013 (File No. 000-14749)
10.12	Investor Rights Agreement, dated January 14, 2013, between U-Swirl, Inc. and Rocky Mountain Chocolate Factory, Inc., a Colorado corporation	Exhibit 99.5 to the Current Report on Form 8-K filed January 14, 2013 (File No. 000-14749)
10.13	Investor Rights Agreement, dated January 14, 2013 between U-Swirl, Inc. and Aspen Leaf Yogurt, LLC	Exhibit 99.6 to the Current Report on Form 8-K filed January 14, 2013 (File No. 000-14749)
10.14**	Second Restated Employment Agreement, dated February 26, 2019, between Rocky Mountain Chocolate Factory, Inc., a Delaware corporation, and Bryan J. Merryman.	Filed herewith
10.15**	Retirement Separation and General Release Agreement, dated February 26, 2019, between Rocky Mountain Chocolate Factory, Inc., a Delaware corporation, and Franklin E. Crail.	Filed herewith
21.1	Subsidiaries of the Registrant	Filed herewith
23.1	Consent of Independent Registered Public Accounting Firm	Filed herewith
23.2	Consent of Independent Registered Public Accounting Firm	Filed herewith
31.1	Certification Pursuant To Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.1	Certification Pursuant To Section 906 Of The Sarbanes-Oxley Act of 2002	Furnished herewith
101.INS	XBRL Instance Document	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith

* Contains material that has been omitted pursuant to a request for confidential treatment and such material has been filed separately with the SEC.

** Management contract or compensatory plan.

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: May 29, 2019

/s/ Bryan J. Merryman
BRYAN J. MERRYMAN
Chief Executive Officer, Chief Financial Officer, Treasurer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: May 29, 2019

/s/ Bryan J. Merryman
BRYAN J. MERRYMAN
Chief Executive Officer, Chief Financial Officer, Treasurer and Director
(Principal Executive, Financial and Accounting Officer)

Date: May 29, 2019

/s/ Brett P. Seabert
Brett P. Seabert, Director

Date: May 29, 2019

/s/ Clyde Wm. Engle
CLYDE Wm. ENGLE, Director

Date: May 29, 2019

/s/ Scott G. Capdevielle
SCOTT G. CAPDEVIELLE, Director

Date: May 29, 2019

/s/ Franklin E. Crail
FRANKLIN E. CRAIL, Director

DESCRIPTION OF CAPITAL STOCK

Rocky Mountain Chocolate Factory, Inc. (the "Company") is incorporated in the State of Delaware. The rights of stockholders of the Company are generally be governed by Delaware law and the Company's amended and restated certificate of incorporation (the "certificate of incorporation"), certificate of designations of Series A Junior Participating Preferred Stock (the "certificate of designations") and amended and restated bylaws (the "bylaws"). The following is a summary of the material provisions of the certificate of incorporation, certificate of designations and bylaws. This summary is not complete and is qualified by reference to Delaware statutory and common law and the full texts of the certificate of incorporation, certificate of designations and bylaws, copies of which are filed with the Securities and Exchange Commission ("SEC").

General

The authorized capital stock of the Company consists of 46,000,000 shares of common stock, $0.001 par value per share, and 250,000 shares of preferred stock, $0.001 par value per share.

Common Stock

The holders of common stock are entitled to one vote per share on all matters to be voted on by the common stockholders. The holders of the Company's common stock are not entitled to cumulative voting in the election of directors. Therefore, holders of a majority of the shares voting for the election of directors can elect all directors. Subject to preferences of any outstanding shares of preferred stock, the holders of common stock are entitled to receive ratably any dividends the Board of Directors may declare out of funds legally available for the payment of dividends. If the Company is liquidated, dissolved or wound up, the holders of common stock are entitled to share pro rata in all assets remaining after payment of, or provision for, the Company's liabilities and liquidation preferences of any outstanding shares of preferred stock. Holders of common stock have no pre-emptive rights or rights to convert their common stock into any other securities. There are no redemption or sinking fund provisions applicable to the common stock.

Preferred Stock

The Board of Directors has the authority, without further action by the stockholders, to issue up to 250,000 shares of preferred stock from time to time in one or more series, of which 50,000 shares of preferred stock have been designated as "Series A Junior Participating Preferred Stock" as described below. The Board of Directors also has the authority to fix the designations, voting powers, preferences, privileges, rights and limitations of any series of preferred stock, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights of the common stock. The Board of Directors, without stockholder approval, can issue preferred stock with voting, conversion or other rights that could adversely affect the voting power and other rights of the holders of common stock. The issuance of preferred stock may decrease the market price of the Company's common stock.

Series A Junior Participating Preferred Stock

The rights, preferences and privileges of the Series A Junior Participating Preferred Stock of the Company (the "Series A Preferred Stock") are set forth in the certificate of designations.

Pursuant to the rights of the Series A Preferred Stock, subject to the rights of holders of any shares of any series of preferred stock or other class of capital stock ranking prior and superior, the holders of Series A Preferred Stock are entitled to receive, when, as and if declared by the Board of Directors out of the assets of the Company legally available therefor, (i) quarterly dividends payable in cash on the last day of each fiscal quarter in each year, commencing on the first dividend payment date after the first issuance of a share or fraction of a share of Series A Preferred Stock, in an amount of $0.01 per share less amount of all cash dividends declared on the Series A Preferred Stock pursuant to the following clause (ii) since the immediately preceding dividend payment date or, with respect to the first dividend payment date, since the first issuance of any share or fraction of a share of Series A Preferred Stock, and (ii) dividends payable in cash on the payment date for each cash dividend declared on the common stock in an amount per share equal to 1,000 (as adjusted, the "Formula Number") multiplied times the cash dividends then to be paid on each share of common stock. In addition, if the Company shall pay any dividend or make any distribution on the common stock payable in assets, securities or other forms of non-cash consideration (other than dividends or distributions solely in shares of common stock), then, in each such case, the Company shall simultaneously pay or make on each outstanding share of Series A Preferred Stock a dividend or distribution in like kind equal to the Formula Number then in effect multiplied times such dividend or distribution on each share of the common stock.

Holders of Series A Preferred Stock have the right to vote on all matters submitted to a vote of shareholders with each share of Series A Preferred Stock entitled to the number of votes equal to the Formula Number multiplied by the maximum number of votes per share which any holder of common stock has with respect to any matter. Except as otherwise provided by law, holders of Series A Preferred Stock and holders of common stock generally vote together as one class on all matters submitted to a vote of shareholders. Holders of Series A Preferred Stock are entitled to certain voting rights with respect to directors of the Company if the payment of six quarterly dividends are in default.

Unless otherwise provided in the rights attaching to a designated series of preferred stock, the Series A Preferred Stock rank junior to any other series of preferred stock as to the payment of dividends and distribution of assets on liquidation, dissolution or winding up, and rank senior to the common stock.

Upon any liquidation, dissolution or winding up of the Company, no distributions shall be made to holders of shares ranking junior to the Series A Preferred Stock unless, prior thereto, the holders of Series A Preferred Stock shall have received an amount equal to accrued and unpaid dividends and distributions, whether or not declared, to the date of such payment, plus an amount equal to the greater of (1) $1.00 per share or (2) an aggregate amount per share equal to the Formula Amount multiplied by the aggregate amount to be distributed per share to holders of common stock or to the holders of shares ranking on parity with the Series A Preferred Stock, except distributions made ratably on the Series A Preferred Stock and all other such parity shares in proportion to the total amount to which the holders of all such shares are entitled upon such liquidation, dissolution or winding up.

If the Company enters into any consolidation, merger, combination or other transaction in which shares of common stock are exchanged for or changed into cash, other securities and/or any other property, then any Series A Preferred Stock issued and outstanding shall at the same time be similarly exchanged or changed in an amount per share equal to Formula Amount multiplied by the aggregate amount of cash, securities and/or other property, as the case may be, into which or for which each share of common stock is changed or exchanged.

The Series A Preferred Stock is not redeemable, provided that the Company may purchase or otherwise acquire outstanding shares of Series A Preferred Stock in the open market or by offer to any holder or holders of shares of Series A Preferred Stock. The Series A Preferred Stock shall not be subject to or entitled to the operation of a retirement or sinking fund.

Rights Plan

On March 1, 2015, the Company and Computershare Trust Company, N.A. (the “Rights Agent”), entered into a Rights Agreement (the “Rights Agreement”). The following summary of the principal terms of the Rights Agreement is a general description only. It does not purport to be complete and is qualified in its entirety by reference to the Rights Agreement, a copy of which has been filed with the SEC.

On March 1, 2015, the Board of Directors authorized and declared a dividend of one Right (a “Right”) for each outstanding share of common stock. The dividend was paid on March 1, 2015 (the “Record Date”) to the holders of record of common stock at the close of business on that date. In addition, the Company has authorized the issuance of one Right with respect to each share of common stock that shall become outstanding between the Record Date and the earliest of the Distribution Date, the Redemption Date and the Final Expiration Date (as such terms are hereinafter defined). When exercisable, each Right entitles the registered holder to purchase from the Company one one-thousandth of a share of Series A Junior Participating Preferred Stock, par value $0.001 per share, of the Company (the “Series A Junior Participating Preferred Stock”), at a price of $30 per one one-thousandth of a share of Series A Junior Participating Preferred Stock (the “Purchase Price”), subject to adjustment.

Until the earlier to occur of (i) 10 days following a public announcement that a person or group of affiliated or associated persons (an "Acquiring Person") has acquired beneficial ownership of 15 percent or more of the outstanding common stock and (ii) 10 business days (or such later date as may be determined by action of the Board of Directors prior to such time as any person or group of affiliated or associated persons becomes an Acquiring Person) following the commencement of, or first public announcement of an intention to commence, a tender offer or exchange offer the consummation of which would result in the beneficial ownership by a person or group of affiliated or associated persons of 15 percent or more of the outstanding common stock (the earlier of such dates being herein referred to as the "Distribution Date"), the Rights will be evidenced, with respect to any of the common stock certificates outstanding as of the Record Date, by such common stock certificate with a copy of the Summary of Rights attached thereto. No person who is the beneficial owner of 15 percent or more of the common stock on the date of the Rights Agreement shall be deemed to be an Acquiring Person unless and until such person becomes the beneficial owner of any additional common stock and, immediately after the acquisition of such additional shares, is the beneficial owner of 15 percent or more of the common stock.

The Rights Agreement provides that, until the Distribution Date (or earlier redemption or expiration of the Rights), the Rights will be transferred with and only with the common stock. Until the Distribution Date (or earlier redemption or expiration of the Rights), new common stock certificates issued after the Record Date, upon transfer or new issuance of common stock, will contain a notation incorporating the Rights Agreement by reference. Until the Distribution Date (or earlier redemption or expiration of the Rights), the surrender for transfer of any certificates for common stock outstanding on or after the Record Date, even without such notation or a copy of the Summary of Rights being attached thereto, will also constitute the transfer of the Rights associated with the common stock represented by such certificate. As soon as practicable following the Distribution Date, separate certificates evidencing the Rights (the "Right Certificates") will be mailed to holders of record of the common stock as of the close of business on the Distribution Date and such separate Right Certificates alone will evidence the Rights.

The Rights are not exercisable until the Distribution Date. The Rights will expire on March 1, 2025 (the "Final Expiration Date"), unless the Final Expiration Date is extended or unless the Rights are earlier redeemed or exchanged by the Company, in each case, as described below.

The Purchase Price payable, and the number of Series A Junior Participating Preferred Stock or other securities or property issuable, upon exercise of the Rights are subject to adjustment from time to time to prevent dilution (i) in the event of a stock dividend on, or a subdivision, combination or reclassification of, the Series A Junior Participating Preferred Stock, (ii) upon the grant to holders of the Series A Junior Participating Preferred Stock of certain rights or warrants to subscribe for or purchase Series A Junior Participating Preferred Stock at a price, or securities convertible into Series A Junior Participating Preferred Stock with a conversion price, less than the then current market price of the Series A Junior Participating Preferred Stock or (iii) upon the distribution to holders of the Series A Junior Participating Preferred Stock of evidences of indebtedness or assets (excluding regular periodic cash dividends paid out of earnings or retained earnings or dividends payable in Series A Junior Participating Preferred Stock) or of subscription rights or warrants (other than those referred to above).

The number of outstanding Rights and the number of one one-thousandth of a share of Series A Junior Participating Preferred Stock issuable upon exercise of each Right are also subject to adjustment in the event of a stock split of the common stock or a stock dividend on the common stock payable in shares of common stock or subdivisions, consolidations or combinations of the common stock occurring, in any such case, prior to the Distribution Date.

Series A Junior Participating Preferred Stock purchasable upon exercise of the Rights will not be subject to redemption by the Company. Each share of Series A Junior Participating Preferred Stock will be entitled to a minimum preferential quarterly dividend payment of $0.01 per share but will be entitled to an aggregate dividend of 1,000 multiplied times the dividend declared per share of common stock. In the event of liquidation, the holder of the Series A Junior Participating Preferred Stock will be entitled to a minimum preferential liquidation payment of $1.00 per share but will be entitled to an aggregate payment of 1,000 multiplied times the payment made per share of common stock. Each share of Series A Junior Participating Preferred Stock will have 1,000 votes, voting together with the common stock. Finally, in the event of any merger, consolidation or other transaction in which shares of common stock are exchanged, each share of Series A Junior Participating Preferred Stock will be entitled to receive 1,000 multiplied times the amount received per share of common stock. These rights are protected by customary antidilution provisions.

Because of the nature of the Series A Junior Participating Preferred Stock dividend, liquidation and voting rights, the value of the one one-hundredth interest in a share of Series A Junior Participating Preferred Stock purchasable upon exercise of each Right should approximate the value of one share of common stock.

In the event that any person or group of affiliated or associated persons becomes an Acquiring Person, proper provision shall be made so that each holder of a Right, other than Rights beneficially owned by the Acquiring Person (which will thereafter be null and void and nontransferable), will thereafter have the right to receive upon exercise that number of shares of common stock having a market value of two times the exercise price of the Right. In the event that the Company is acquired in a merger or other business combination transaction or 50 percent or more of its consolidated assets or earning power are sold after a person or group of affiliated or associated persons has become an Acquiring Person, proper provision will be made so that each holder of a Right will thereafter have the right to receive, upon the exercise thereof at the then current exercise price of the Right, that number of shares of common stock of the acquiring company which at the time of such transaction will have a market value of two times the exercise price of the Right.

At any time after any person or group of affiliated or associated persons becomes an Acquiring Person and prior to the acquisition by such person or group of 50 percent or more of the outstanding shares of common stock, the Board of Directors may exchange the Rights (other than Rights owned by such person or group which will have become null and void and nontransferable), in whole or in part, at an exchange ratio of one share of common stock, or one one-hundredth of a share of Series A Junior Participating Preferred Stock (or of a share of a class or series of the Company's preferred stock having equivalent rights, preferences and privileges), per Right (subject to adjustment).

With certain exceptions, no adjustment in the Purchase Price will be required until cumulative adjustments require an adjustment of at least one percent in such Purchase Price. The Company may, but shall not be required to, issue fractions of a share of Series A Junior Participating Preferred Stock (other than one one-hundredth of a share of Series A Junior Participating Preferred Stock or any integral multiple thereof, which may, at the election of the Company, be evidenced by depositary receipts) and in lieu thereof, an adjustment in cash will be made based on the market price of the Series A Junior Participating Preferred Stock on the last trading day prior to the date of exercise.

At any time prior to the close of business on the tenth day following a public announcement that an Acquiring Person has become such an Acquiring Person, the Board of Directors may redeem the Rights in whole, but not in part, at a price of $0.01 per Right (the "Redemption Price"). The redemption of the Rights may be made effective at such time, on such basis and with such conditions as the Board of Directors in its sole discretion may establish. The time at which the Rights are redeemed by the Company is herein referred to as the "Redemption Date." Immediately upon any redemption of the Rights, the right to exercise the Rights will terminate and the only right thereafter of the holders of Rights will be to receive the Redemption Price.

At any time prior to the Distribution Date and subject to the last sentence of this paragraph, the terms of the Rights may be amended by the Board of Directors without the consent of the holders of the Rights, including without limitation an amendment to lower certain thresholds described above to not less than the greater of (i) the sum of 0.001 percent and the largest percentage of the outstanding shares of common stock then known by the Company to be beneficially owned by any person or group of affiliated or associated persons and (ii) 10 percent. From and after the Distribution Date and subject to applicable law, the terms of the Rights may be amended by the Board of Directors of the Company without the consent of the holders of the Rights to, among other things, make any other provisions in regard to matters under the Rights Agreement that the Company may deem necessary or desirable and that shall not adversely affect the interests of the holders of the Rights (other than an Acquiring Person or an affiliate or associate of an Acquiring Person). The terms of the Rights may not be amended to (i) reduce the Redemption Price (except as required by antidilution provisions) or (ii) provide for an earlier Final Expiration Date.

Until a Right is exercised, the holder thereof, as such, will have no rights as a stockholder of the Company, including, without limitation, the right to vote or to receive dividends.

The Series A Junior Participating Preferred Stock ranks, with respect to the payment of dividends and as to distributions of assets upon liquidation, dissolution or winding up of the Company, junior to all other series of preferred stock of the Company, unless the Board of Directors of the Company shall specifically determine otherwise in fixing the powers, preferences and relative, participating, optional and other special rights of the shares of any such other series and the qualifications, limitations and restrictions thereof.

As of March 1, 2015, there were 6,022,031 shares of common stock issued and outstanding, and an aggregate of an additional 315,653 shares of common stock reserved for issuance under the Company's equity plans. One Right was distributed to holders of common stock for each share of common stock owned of record by them on March 1, 2015. One Right will be issued with respect to each share of common stock that shall become outstanding between the Record Date and the earliest of the Distribution Date, the Redemption Date and the Final Expiration Date. In certain circumstances, the Company may issue Rights with respect to shares of common stock issued following the Distribution Date and prior to the earlier of the Redemption Date and the Final Expiration Date. The Board of Directors initially reserved for issuance upon exercise of the Rights 50,000 Series A Junior Participating Preferred Stock, which number is subject to adjustment from time to time in accordance with the Rights Agreement.

The Rights approved by the Board of Directors are designed to protect and maximize the value of the outstanding equity interests in the Company in the event of an unsolicited attempt by an acquirer to take over the Company in a manner or on terms not approved by the Board of Directors. Takeover attempts frequently include coercive tactics to deprive the Board of Directors and the Company's stockholders of any real opportunity to determine the destiny of the Company. The Rights have been declared by the Board of Directors in order to deter such tactics, including a gradual accumulation of shares in the open market of 15% or greater position to be followed by a merger or a partial or two-tier tender offer that does not treat all stockholders equally. These tactics unfairly pressure stockholders, squeeze them out of their investment without giving them any real choice and deprive them of the full value of their shares.

The Rights are not intended to prevent a takeover of the Company and will not do so. Subject to the restrictions described above, the Rights may be redeemed by the Company at $0.01 per Right at any time prior to the Distribution Date. Accordingly, the Rights should not interfere with any merger or business combination approved by the Board of Directors.

However, the Rights may have the effect of rendering more difficult or discouraging an acquisition of the Company deemed undesirable by the Board of Directors. The Rights may cause substantial dilution to a person or group that attempts to acquire the Company on terms or in a manner not approved by the Board of Directors, except pursuant to an offer conditioned upon the negation, purchase or redemption of the Rights.

Issuance of the Rights does not in any way weaken the financial strength of the Company or interfere with its business plans. The issuance of the Rights themselves has no dilutive effect, will not affect reported earnings per share, should not be taxable to the Company or to its stockholders, and will not change the way in which the Company's shares are presently traded. The Board of Directors believes that the Rights represent a sound and reasonable means of addressing the complex issues of corporate policy created by the current takeover environment.

Board of Directors

The Board of Directors is not classified.

Preemptive Rights

Under Delaware law, a stockholder is not entitled to pre-emptive rights to subscribe for additional issuances of common stock or any other class of series of common stock or any security convertible into such stock in proportion to the shares that are owned unless there is a provision to the contrary in the certificate of incorporation. The certificate of incorporation does not provide that stockholders are entitled to pre-emptive rights.

Anti-Takeover Effects of Certain Provisions of the Certificate of Incorporation, the Bylaws and Delaware Law

Provisions of the certificate of incorporation, the bylaws and Delaware law could have the effect of delaying or preventing a third party from acquiring the Company, even if the acquisition would benefit stockholders. These provisions may delay, defer or prevent a tender offer or takeover attempt of the Company that a stockholder might consider in the stockholder's best interest, including those attempts that might result in a premium over the market price for the shares held by its stockholders. These provisions are intended to enhance the likelihood of continuity and stability in the composition of the Board of Directors and in the policies formulated by the Board of Directors and to reduce the Company's vulnerability to an unsolicited proposal for a takeover that does not contemplate the acquisition of all of the Company's outstanding shares, or an unsolicited proposal for the Company's restructuring or sale of all or part of its business. See also "—Rights Plan."

Authorized but Unissued Shares of Common Stock and Preferred Stock

The Company's authorized but unissued shares of common stock and preferred stock are available for the Board of Directors to issue without stockholder approval. As noted above, the Board of Directors, without stockholder approval, has the authority under the certificate of incorporation to issue preferred stock with rights superior to the rights of the holders of common stock. As a result, preferred stock could be issued quickly, could adversely affect the rights of holders of common stock and could be issued with terms calculated to delay or prevent a change of control or make removal of management more difficult. The Company may use the additional authorized shares of common or preferred stock for a variety of corporate purposes, including future public offerings to raise additional capital, corporate acquisitions and employee benefit plans. The existence of authorized but unissued shares of common stock and preferred stock could render more difficult or discourage an attempt to obtain control of the Company by means of a proxy contest, tender offer, merger or other transaction.

Stockholder Action; Special Meetings of Stockholders

The certificate of incorporation provides that any action required or permitted to be taken by stockholders at an annual meeting or special meeting of the stockholders may only be taken at an annual or special meeting before which it is properly brought, and not by written consent without a meeting. The certificate of incorporation also provides that special meetings of stockholders may be called only by Board of Directors or by the chairman of the Board of Directors.

Advance Notice Requirements for Stockholders Proposals and Director Nominations

The bylaws provide that stockholders seeking to bring business before a meeting of stockholders, or to nominate candidates for election as directors at a meeting of stockholders, must provide the Company with timely written notice of their proposal. The bylaws also specify requirements as to the form and content of a stockholder's notice. These provisions may preclude stockholders from bringing matters before an annual meeting of stockholders or from making nominations for directors at an annual meeting of stockholders.

Amendment to the Certificate of Incorporation and the Bylaws

The certificate of incorporation may generally be amended by a majority of its stockholders, except with respect to provisions regarding the Board of Directors and stockholder meetings, which may only be amended upon approval of holders of at least 66-2/3% of the Company's outstanding voting stock. The bylaws may generally be amended by the Board of Directors or by stockholders upon approval of holders of at least 66-2/3% of the Company's outstanding voting stock.

Forum Selection

The certificate of incorporation provides that, unless the Company consents in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware shall be the sole and exclusive forum for (i) any derivative action or proceeding brought on the Company's behalf, (ii) any action asserting a claim of breach of a fiduciary duty, (iii) any action asserting a claim against the Company arising pursuant to the Delaware General Corporation Law ("DGCL"), the certificate of incorporation or the bylaws or (iv) any action asserting a claim against the Company that is governed by the internal affairs doctrine. Any person or entity purchasing or otherwise acquiring any interest in shares of capital stock of the Company shall be deemed to have notice of and consented to this forum selection provision. Although the Company has included a choice of forum clause in the certificate of incorporation, it is possible that a court could rule that such clause is inapplicable or unenforceable.

Litigation Costs

The bylaws provide that, to the fullest extent permitted by law, in the event that (i) any current or prior stockholder of the Company or anyone on their behalf ("Claiming Party") initiates or asserts any claim or counterclaim ("Claim") or joins, offers substantial assistance to, or has a direct financial interest in any Claim against the Company and/or any director, officer, employee or affiliate, and (ii) the Claiming Party (or the third party that received substantial assistance from the Claiming Party or in whose Claim the Claiming Party had a direct financial interest) does not obtain a judgment on the merits that substantially achieves, in substance and amount, the full remedy sought, then each Claiming Party shall be obligated jointly and severally to reimburse the Company and any such director, officer, employee or affiliate, the greatest amount permitted by law of all fees, costs and expenses of every kind and description (including but not limited to, all reasonable attorneys' fees and other litigation expenses) that the parties may incur in connection with such Claim.

This fee-shifting bylaw is not limited to specific types of actions, but is rather potentially applicable to the fullest extent permitted by law. There are several types of remedies that a Claiming Party may seek in connection with an action or proceeding against the Company , including declaratory or injunctive relief, or monetary damages. If a Claiming Party is not successful in obtaining a judgment that achieves in substance, such as in the case of a Claim for declaratory or injunctive relief, or amount, such as in the case of a Claim for monetary damages, the Company's and its directors', officers', employees' and affiliates' litigation expenses may be shifted to the Claiming Party.

Fee-shifting bylaws are relatively new and untested. The case law and potential legislative action on fee-shifting bylaws are evolving and there exists considerable uncertainty regarding the validity of, and potential judicial and legislative responses to, such bylaws. For example, it is unclear whether the Company's ability to invoke this fee-shifting bylaw in connection with Claims under the federal securities laws would be pre-empted by federal law. Similarly, it is unclear how courts might apply the standard that a Claiming Party must obtain a judgment that substantially achieves, in substance and amount, the full remedy sought. The application of this fee-shifting bylaw in connection with such Claims, if any, will depend in part on future developments of the law. There can be no assurance that the Company will or will not invoke this fee-shifting bylaw in any particular dispute, including any Claims under federal securities laws.

If a current or prior stockholder that brings any Claim is unable to obtain the required judgment, the attorneys' fees and other litigation expenses that might be shifted to a Claiming Party are potentially significant. This fee-shifting bylaw, therefore, may dissuade or discourage current or prior stockholders (and their attorneys) from initiating lawsuits or claims against the Company or its directors, officers, employees or affiliates, including Claims that that may otherwise be in the best interests of stockholders of the Company as a whole. In addition, it may impact the fees, contingency or otherwise, required by potential plaintiffs' attorneys to represent the Company's stockholders or otherwise discourage plaintiffs' attorneys from representing the Company's stockholders at all. As a result, this fee-shifting bylaw may limit the ability of stockholders to affect the management and direction of the Company, particularly through litigation or the threat of litigation.

Delaware Anti-Takeover Statute

The Company is subject to the provisions of Section 203 of the DGCL, an anti-takeover law. Subject to exceptions, the statute prohibits a publicly-held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless:

- prior to such date, the Board of Directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;

- upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced (excluding for purposes of determining the number of shares outstanding, those shares owned by (1) persons who are directors and also officers and (2) employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer); or

- on or after such date, the business combination is approved by the Board of Directors and authorized at an annual or special meeting of stockholders and not by written consent, by the affirmative vote of at least 66-2/3% of the outstanding voting stock which is not owned by the interested stockholder.

For purposes of Section 203, a "business combination" includes a merger, asset sale or other transaction resulting in a financial benefit to the interested stockholder, with an "interested stockholder" being defined as a person who, together with affiliates and associates, owns, or within three years prior to the date of determination whether the person is an "interested stockholder," did own, 15% or more of the corporation's voting stock.

Transfer Agent

The transfer agent for the common stock is Computershare Trust Company, N.A., 350 Indiana Street, Suite 750, Golden, Colorado 80401.

Nasdaq Global Market Listing

The common stock is listed on the Nasdaq Global Market under the trading symbol "RMCF."

SECOND RESTATED EMPLOYMENT AGREEMENT

This Second Restated Employment Agreement ("Agreement"), dated as of February 26, 2019 is between Rocky Mountain Chocolate Factory, Inc., a Delaware corporation ("Employer"), and Bryan J. Merryman ("Employee").

R E C I T A L S:

A. Employee is employed by Employer, and Employer and Employee have entered into a written agreement dated as of May 21, 1999 (the "Prior Agreement"), to specify the terms and conditions of Employee's employment with Employer.

B. Employee has been promoted to the position of President and Chief Executive Officer of the Company, and Employer and Employee desire to replace the Prior Agreement with this Agreement.

C. Employer considers the maintenance of a sound management team essential to protecting and enhancing its best interests and those of its stockholders, and Employee is a key executive of Employer and an integral member of its management team.

NOW, THEREFORE, in consideration of Employee's past and future employment with Employer and other good and valuable consideration, the parties agree as follows:

SECTION 1. Employment. Employer hereby employs Employee, and Employee hereby accepts employment, upon the terms and subject to the conditions hereinafter set forth.

SECTION 2. Duties. Employee shall be employed as President and Chief Executive Officer of the Company, or such other position to which he may be appointed by the Board of Directors. Employee agrees to devote his full time and best efforts to the performance of the duties attendant to his executive position with Employer.

SECTION 3. Term. The initial term of employment of Employee hereunder shall commence on the date of this Agreement (the "Commencement Date") and continue until the first anniversary of the Commencement Date, unless earlier terminated pursuant to Section 6 or Section 10. The term of employment of Employee hereunder will be automatically extended on a month-to-month basis after the end of the initial term unless either Employer or Employee shall give the other written notice of its election not to renew this Agreement at least 30 days prior to the end of the initial one-year term or at least 20 days prior to the end of any calendar month thereafter.

SECTION 4. Compensation and Benefits. In consideration for the services of Employee hereunder, Employer shall compensate Employee as follows:

(a) Base Salary. Until the termination of Employee's employment hereunder, Employer shall pay Employee, semi-monthly in arrears, a base salary at an annual rate of not less than $355,000 (as it may be increased from time to time, the "Base Salary"). The Base Salary as then in effect may not be decreased at any time during the term of Employee's employment hereunder and shall be reviewed annually by Employer. Any increase in the Base Salary shall be in the sole discretion of the Compensation Committee of the Board of Directors of the Company.

(b) Management Incentive Bonus. Employee shall be eligible to receive from Employer such annual incentive bonuses as may be determined by the Compensation Committee of the Board of Directors or as may be provided in incentive bonus plans adopted from time to time by Employer.

(c) Vacation. Employee shall be entitled to 15 days of paid vacation per year at the reasonable and mutual convenience of Employer and Employee. Unless otherwise approved by the Compensation Committee of the Board of Directors of the Company, accrued vacation not taken in any calendar year shall not be carried forward or used in any subsequent calendar year.

(d) Insurance Benefits. Employer shall provide accident, health, dental, disability and life insurance for Employee under the group accident, health, dental, disability and life insurance plans maintained by Employer for its full-time, salaried employees.

SECTION 5. Expenses. The parties anticipate that in connection with the services to be performed by Employee pursuant to the terms of this Agreement, Employee will be required to make payments for travel, entertainment of business associates and similar expenses. Employer shall reimburse Employee for all reasonable expenses of types authorized by Employer and incurred by Employee in the performance of his duties hereunder. Employee shall comply with such budget limitations and approval and reporting requirements with respect to expenses as Employer may establish from time to time.

SECTION 6. Termination.

(a) General. Employee's employment hereunder shall commence on the Commencement Date and continue until the end of the term specified in Section 3, except that the employment of Employee hereunder shall terminate prior to such time in accordance with the following:

(i) Death or Disability. Upon the death of Employee during the term of his employment hereunder or, at the option of Employer, in the event of Employee's Disability, upon 30 days' notice to Employee.

(ii) For Cause. For "Cause" immediately upon written notice by Employer to Employee. A termination shall be for Cause if

(1) Employee commits a criminal act involving moral turpitude;

(2) Employee commits a material breach of any of the covenants, terms and provisions hereof or an act of gross negligence or willful misconduct resulting in a material loss or detriment to Employer; or

(3) Employee fails on a continuing basis, in the judgment of the Board of Directors of the Company, adequately to perform his duties as an officer of Employer, and such failure is not cured within 20 days after he receives notice of such failure from Employer.

(iii) Without Cause. Without Cause upon notice by Employer to Employee. Without limiting the foregoing, for purposes of Section 6(b)(ii) Employee's employment hereunder shall be deemed to have been terminated by Employer without Cause pursuant to this Section 6(a)(iii) (a) upon the expiration of the term of Employee's employment specified in Section 3, if Employer has given the notice of nonrenewal contemplated by the last sentence of Section 3, or (b) if Employee's employment is Constructively Terminated by Employer.

(b) Severance Pay and Bonuses.

(i) Termination Upon Death or Disability. Employee shall not be entitled to any severance pay or other compensation upon termination of his employment hereunder pursuant to Section 6(a)(i) except for the following (which shall be paid promptly after termination, except as specified in subsection (4) below):

(1) his Base Salary accrued but unpaid as of the date of termination;

(2) unpaid expense reimbursements under Section 5 for expenses incurred in accordance with the terms hereof prior to termination;

(3) compensation for accrued, unused vacation as of the date of termination, determined in accordance with Employer's policies and procedures then in effect; and

(4) any bonus to which Employee would have been entitled for the Bonus Period if he were still employed hereunder on the last day of the Bonus Period. Any such bonus shall be paid to Employee (or to his estate, as the case may be) at the same time bonuses are paid in respect of the Bonus Period to other employees of Employer entitled to receive bonuses for the Bonus Period. In the event the determination of Employee's bonus in respect of the Bonus Period involves any subjective assessment, such assessment shall be made in a manner most favorable to Employee. The term "Bonus Period" means the full fiscal year or other applicable bonus period during which Employee's employment hereunder was terminated (or during which Employee became Disabled, in the event of a termination for Disability).

(ii) Termination Without Cause, Separation Payments. In the event Employee's employment hereunder is terminated pursuant to Section 6(a)(iii), Employer shall pay Employee Separation Payments as Employee's sole remedy in connection with such termination. "Separation Payments" are payments made at the monthly rate of Employee's Base Salary in effect immediately preceding the date of termination. Separation Payments shall be made for 12 months after the date of termination (the "Separation Payment Period") and shall be paid by Employer in equal monthly payments in arrears. Subject to Section 11(p), Separation Payments shall be reduced by the amount of any personal services income earned by Employee from other sources during the Separation Payment Period. Separation Payments shall be made for the number of months specified above without regard to the number of months remaining in the term of this Agreement. Notwithstanding the foregoing, Employer's obligation to make, and Employee's right to receive, Separation Payments shall terminate immediately upon any violation by Employee of any covenant contained in Section 8 or 9 hereof. Employer shall also promptly pay Employee the following:

(1) his Base Salary accrued but unpaid as of the date of termination;

(2) unpaid expense reimbursements under Section 5 for expenses incurred in accordance with the terms hereof prior to termination; and

(3) compensation for accrued, unused vacation as of the date of termination, determined in accordance with Employer's policies and procedures then in effect.

This Section 6(b)(ii) is subject to the provisions of Section 10(j) dealing with the coordination of payments in the event of a Change In Control.

(iii) Termination For Cause, Voluntary Termination. Employee shall not be entitled to Separation Payments or any other severance pay or other compensation upon termination of his employment hereunder pursuant to Section 6(a)(ii), or upon Employee's voluntary termination of his employment hereunder, except for the following (which shall be paid promptly after termination):

(1) his Base Salary accrued but unpaid as of the date of termination;

(2) unpaid expense reimbursements under Section 5 for expenses incurred in accordance with the terms hereof prior to termination; and

(3) compensation for accrued, unused vacation as of the date of termination, determined in accordance with Employer's policies and procedures then in effect.

(c) Acceleration of Restricted Stock Units. In the event Employee's employment hereunder is terminated pursuant to Section 6(a)(iii), subject to Section 11(p), all Restricted Stock Units granted to Employee under the Equity Incentive Plan and outstanding at the time of such termination shall be fully vested and shall thereafter be settled in accordance with the terms thereof and the applicable provisions of the Equity Incentive Plan. The Board of Directors or the Compensation Committee of the Board of Directors of the Company shall take such action as shall be necessary to authorize and provide for the foregoing.

SECTION 7. Inventions; Assignment.

(a) Inventions Defined. All rights to discoveries, inventions, improvements, designs, work product and innovations (including without limitation all data and records pertaining thereto) that relate to the business of Employer, whether or not specifically within Employee's duties or responsibilities and whether or not patentable, copyrightable or reduced to writing, that Employee may discover, invent, create or originate during the term of his employment hereunder or otherwise, and for a period of six months thereafter, either alone or with others and whether or not during working hours or by the use of the facilities of Employer ("Inventions"), shall be the exclusive property of Employer. Employee shall promptly disclose all Inventions to Employer, shall execute at the request of Employer any assignments or other documents Employer may deem necessary to protect or perfect its rights therein, and shall assist Employer, at Employer's expense, in obtaining, defending and enforcing Employer's rights therein. Employee hereby appoints Employer as his attorney-in-fact to execute on his behalf any assignments or other documents deemed necessary by Employer to protect or perfect its rights to any Inventions.

(b) Covenant to Assign and Cooperate. Without limiting the generality of the foregoing, Employee shall assign and transfer, and does hereby assign and transfer, to Employer the world-wide right, title and interest of Employee in the Inventions. Employee agrees that Employer may file copyright registrations and apply for and receive patents (including without limitation Letters Patent in the United States) for the Inventions in Employer's name in such countries as may be determined solely by Employer. Employee shall communicate to Employer all facts known to Employee relating to the Inventions and shall cooperate with Employer's reasonable requests in connection with vesting title to the Inventions and related copyrights and patents exclusively in Employer and in connection with obtaining, maintaining, protecting and enforcing Employer's exclusive copyrights and patent rights in the Inventions.

(c) Successors and Assigns. Employee's obligations under this Section 7 shall inure to the benefit of Employer and its successors and assigns and shall survive the expiration of the term of this Agreement for such time as may be necessary to protect the proprietary rights of Employer in the Inventions.

(d) Consideration and Expenses. Employee shall perform his obligations under this Section 7 at Employer's expense, but without any additional or special compensation therefor.

SECTION 8. Confidential Information.

(a) Acknowledgment of Proprietary Interest. Employee acknowledges that all Confidential Information is a valuable, special and unique asset of Employer's business, access to and knowledge of which are essential to the performance of Employee's duties hereunder. Employee acknowledges the proprietary interest of Employer in all Confidential Information. Employee agrees that all Confidential Information learned by Employee during his employment with Employer or otherwise, whether developed by Employee alone or in conjunction with others or otherwise, is and shall remain the exclusive property of Employer. Employee further acknowledges and agrees that his disclosure of any Confidential Information will result in irreparable injury and damage to Employer.

(b) Confidential Information Defined. "Confidential Information" means all confidential and proprietary information of Employer, written, oral or computerized, as it may exist from time to time, including without limitation(i) information derived from reports, investigations, experiments, research and work in progress, (ii) methods of operation, (iii) market data,(iv) proprietary computer programs and codes, (v) drawings, designs, plans and proposals, (vi) marketing and sales programs, (vii) franchisee and supplier lists and any other information about Employer's relationships with others, (viii) historical financial information and financial projections, (ix) pricing, product rotation and similar formulae and policies, (x) all other concepts, ideas, materials and information prepared or performed for or by Employer and (xi) all information related to the business, products, purchases or sales of Employer or any of its franchisees, suppliers and customers, other than information that is made publicly available by Employer.

(c) Covenant Not To Divulge Confidential Information. Employer is entitled to prevent the disclosure of Confidential Information. As a portion of the consideration for the employment of Employee and for the compensation being paid to Employee by Employer, Employee agrees at all times during the term of his employment hereunder and thereafter to hold in strict confidence and not to disclose or allow to be disclosed to any person, firm or corporation, other than to persons engaged by Employer to further the business of Employer, and not to use except in the pursuit of the business of Employer, the Confidential Information, without the prior written consent of Employer. This Section 8 shall survive and continue in full force and effect in accordance with its terms after, and will not be deemed to be terminated by, any termination of this Agreement or of Employee's employment with Employer for any reason.

(d) Return of Materials at Termination. In the event of any termination or cessation of his employment with Employer for any reason, Employee shall promptly deliver to Employer all property of Employer, including without limitation all documents, data and other information containing, derived from or otherwise pertaining to Confidential Information. Employee shall not take or retain any property of Employer, including without limitation any documents, data or other information, or any reproduction or excerpt thereof, containing, derived from or pertaining to any Confidential Information. The obligation of confidentiality set forth in this Section 8 shall continue notwithstanding Employee's delivery of such documents, data and information to Employer.

SECTION 9. Noncompetition.

(a) Covenant Not To Compete. Employee acknowledges that during the term of his employment Employer has agreed to provide to him, and he shall receive from Employer, special training and knowledge, including without limitation the Confidential Information. Employee acknowledges that the Confidential Information is valuable to Employer and, therefore, its protection and maintenance constitutes a legitimate interest to be protected by Employer by the enforcement of the covenant not to compete contained in this Section 9. Employee also acknowledges that such covenant not to compete is ancillary to other enforceable agreements of the parties, including without limitation the agreements regarding Confidential Information in Section 8 and the agreements regarding the payment of Separation Payments and other severance pay and of the Termination Payment in Section 10, respectively. Therefore, during the term of this Agreement and for a period of two years (unless extended pursuant to the terms of this Section 9) after termination of Employee's employment hereunder (including, without limitation, a Triggering Termination as defined in Section 10), Employee shall not directly or indirectly

(i) engage, alone or as a shareholder, partner, member, manager, director, officer, employee of or consultant to any other business organization that engages or is planning to engage, anywhere in the United States or Canada or in any other geographic area in or with respect to which Employee has any duties or responsibilities during the term of his employment with Employer, in any business activities that relate to the manufacture or retail sale of chocolate candy, including but not limited to the sale through franchisees (the "Designated Industry"); or

(ii) solicit or encourage any director, officer, employee of or consultant to Employer to end his relationship with Employer or commence any such relationship with any competitor of Employer.

Notwithstanding the foregoing, (1) Employee's noncompetition obligations hereunder shall not preclude Employee from owning less than five percent of the voting power or economic interest in any publicly traded corporation conducting business activities in the Designated Industry and (2) an entity shall not be deemed to be engaged in the Designated Industry unless its revenue from the manufacture and/or retail sale of chocolate candy (including sales through franchisees) represents 25% or more of its total revenue for its full fiscal quarter immediately preceding the date of termination of Employee's employment hereunder (or the date of his association with such entity, if earlier) or any of the eight immediately subsequent fiscal quarters of such entity.

(b) Extension of Duration; Survival. If Employee violates any covenant contained in this Section 9, Employer shall not, as a result of such violation or the time involved in obtaining legal or equitable relief therefor, be deprived of the benefit of the full period of any such covenant. Accordingly, the covenants of Employee contained in this Section 9 shall be deemed to have the duration specified in Section 9(a), which period shall be extended by a number of days equal to the sum of (i) the total number of days Employee is in violation of any of the covenants contained in this Section 9 prior to the commencement of any litigation relating thereto and (ii) the total number of days the parties are involved in such litigation, through the date of entry by a court of competent jurisdiction of a final judgment enforcing the covenants of Employee in this Section 9. This Section 9 shall survive and continue in full force and effect in accordance with its terms after, and will not be deemed to be terminated by, any termination of this Agreement or of Employee's employment with Employer for any reason.

(c) Severability. If at any time the provisions of this Section 9 are determined to be invalid or unenforceable by reason of being vague or unreasonable as to area, duration or scope of activity, this Section 9 shall be considered divisible and shall be immediately amended to only such area, duration and scope of activity as shall be determined to be reasonable and enforceable by the court or other body having jurisdiction over the matter, and Employee agrees that this Section 9 as so amended shall be valid and binding as though any invalid or unenforceable provision had not been included herein.

SECTION 10. Termination of Employment in Connection With a Change In Control.

(a) Applicability. Employer recognizes that the possibility of a Change In Control of Employer may result in the departure or distraction of management to the detriment of Employer and its stockholders, and Employer has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of key members of Employer's management team, including Employee, to their assigned duties. Accordingly, the provisions of this Section 10 shall apply in lieu of all conflicting provisions in this Agreement in the event Employee's employment with Employer is terminated in a Triggering Termination. Each of the following events constitutes a "Triggering Termination" when Employee's employment with Employer is:

(i) terminated by Employer or Employee for any reason other than death, or for no reason, or terminated upon the expiration of Employee's initial or any renewal term of employment specified in Section 3, within the 12-month period following a Change In Control;

(ii) terminated by Employer for any reason other than the commission of a felony by Employee, or terminated upon the expiration of Employee's initial or any renewal term of employment specified in Section 3, during an Applicable Period;

(iii) Constructively Terminated by Employer during an Applicable Period; or

(iv) terminated in an Agreement Termination pursuant to this Section 10(a)(iv).

(1) An "Agreement Termination" shall occur when Employee's employment hereunder is terminated by Employee in anticipation of a Change In Control to the extent that his continued employment with Employer is not pursuant to the terms of this Agreement (other than as provided herein with respect to an Agreement Termination) and thereafter is only on an at-will basis. Employee's determination to effect an Agreement Termination must be based on a good faith judgment of Employee and any two or more Concurring Persons, in light of the circumstances as then known or understood by them, that a Change In Control is going to occur within five business days, but it is not required as a condition to such good faith judgment that:

(I) Employee or any Concurring Person conduct any investigation or consult with any other person or group (except only for Employee's requirement to obtain the concurrence or approval of Concurring Persons);

(II) no condition remains to be satisfied before the Change In Control can occur; or

(III) the Board of Directors of Employer has taken any action to approve or facilitate the Change In Control.

(2) The concurrence or approval of the Concurring Persons is limited to the occurrence and timing of the Change In Control and is not made regarding the propriety of Employee's effecting an Agreement Termination.

(3) In consideration of the right to effect an Agreement Termination and receive the Termination Payment, Employee agrees that, upon (and notwithstanding) his exercise of such right, he shall continue, without interruption until such Change In Control occurs (unless his at-will employment with Employer is sooner terminated or Constructively Terminated by Employer, as described in Sections 10(a)(ii) and (iii), or Employee dies or his employment with Employer is terminated due to Disability), to devote his full time and best efforts as an at-will employee of Employer to the performance of the same duties that he performed for Employer, holding the same office or position with Employer as he held before the Agreement Termination. Employee's obligation set forth in the preceding sentence is referred to herein as the "Continued Performance Obligation."

(4) Employee shall have no obligation to comply with Section 8(d) until he has no further Continued Performance Obligation. If the anticipated Change In Control does not occur within ten business days following the exercise of his right to effect an Agreement Termination, then such Agreement Termination shall be void and ineffective, and Employee's employment under all the terms of this Agreement (including without limitation his compensation and benefits, duties, position and rights regarding any other actual or expected Change In Control) shall be deemed to have continued without interruption.

(5) If Employee fails to satisfy his Continued Performance Obligation, and such failure continues for more than one business day after receipt by Employee of written notice from Employer of such failure, then

(I) such Agreement Termination shall be void and ineffective, and Employee shall be deemed to have voluntarily terminated his employment hereunder before a Change In Control; and

(II) Employee shall not be eligible to receive the Termination Payment or a Gross Up Payment.

(b) Termination Payment.

(i) Amount.

(1) Upon the occurrence of a Triggering Termination, Employee shall become entitled to receive a termination payment (the "Termination Payment) in an amount equal to 2.99 times the sum of the following items:

(I) Employee's annualized base compensation determined by using the highest annual base compensation rate in effect at any time during Employee's employment with Employer; and

(II) two times the Target Bonus that would be payable to Employee by Employer for the bonus period in which the Change In Control occurred; provided that the amount determined under this Section 10(b)(i)(l)(II) shall not be less than 25% of the amount determined under Section 10(b)(i)(l)(I);

(2) In addition to the Termination Payment, Employer shall promptly pay the following amounts described in this Section 10(b)(i)(2) following the date of the Triggering Termination:

(I) Employee's Base Salary accrued but unpaid as of the date of the Triggering Termination;

(II) reimbursement under Section 5 for unpaid expenses incurred in the performance of his duties hereunder prior to the date of the Triggering Termination;

(III) any other benefit accrued but unpaid as of the date of the Triggering Termination; and

(IV) a lump sum cash payment in the amount of $18,000, which represents the estimated cost to Employee of obtaining accident, health, dental, disability and life insurance coverage for the 18-month period following the expiration of his continuation (COBRA) rights; provided that this Section 10(b)(i)(2)(IV) shall be applied without regard to, and the amount payable under this Section 10(b)(i)(2)(IV) is in addition to, any continuation (COBRA) rights or conversion rights under any plan provided by Employer, which rights are not affected by any provision hereof.

(ii) Time for Payment; Interest. Except as otherwise provided in Section 10(j) and subject to Section 11(p), Employer shall pay the Termination Payment to Employee for 12 months after the date of termination in equal monthly payments in arrears. Employer's obligation to pay to Employee any amounts under this Section 10, including without limitation the Termination Payment and any Gross Up Payment due under Section 10(d), shall bear interest at the rate of 18% per annum or, if different, the maximum rate allowed by law until paid by Employer, and all accrued and unpaid interest shall bear interest at the same rate, all of which interest shall be compounded daily.

(iii) Payment Authority. Any officer of Employer (other than Employee) is authorized to issue and execute a check, initiate a wire transfer or otherwise effect payment on behalf of Employer to satisfy Employer's obligations to pay all amounts due to Employee under this Section 10.

(iv) Termination. Employer's obligation to pay the Termination Payment shall not be affected by the manner in which Employee's employment hereunder is terminated. Without limiting the generality of the foregoing, Employer shall be obligated to pay the Termination Payment and any Gross Up Payment regardless of whether Employee's termination of employment is voluntary, involuntary, for cause, without cause, in violation of any employment agreement or other agreement in effect at the time of the Change In Control (except as provided in Section 10(a)(iv)(5)(I) with respect to Employee's failure to satisfy his Continued Performance Obligation in the event of an Agreement Termination) or due to Employee's retirement or Disability. Employee's notice of his termination of employment hereunder in connection with a Change In Control may be made by any means and to any officer of Employer (other than Employee).

(c) Change In Control. A “Change In Control” means a change in control of Employer after the date of this Agreement in any one of the following circumstances: (i) there shall have occurred an event that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A (or in response to any similar item on any similar schedule or form) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), whether or not Employer is then subject to such reporting requirement; (ii) any “person” (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) (an “Acquiring Person”) shall have become the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of Employer representing 20% or more of the combined voting power of Employer’s then outstanding voting securities (a “Share Acquisition”); (iii) Employer is a party to a merger, consolidation, sale of assets or other reorganization, or a proxy contest, as a consequence of which members of the Board of Directors in office immediately prior to such transaction or event constitute less than a majority of the Board of Directors thereafter; or (iv) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors (including for this purpose any new director whose election or nomination for election by Employer’s stockholders was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such period) cease for any reason to constitute at least a majority of the Board of Directors; provided, however, that an event described in clause (i) or (ii) shall not be deemed a Change In Control if such event is approved, prior to its occurrence or within 60 days thereafter by at least two-thirds of the members of the Board of Directors in office immediately prior to such occurrence. In addition to the foregoing, a Change In Control shall be deemed to have occurred if, after the occurrence of a Share Acquisition that has been approved by a two-thirds vote of the Board as contemplated in the proviso to the preceding sentence, the Acquiring Person shall have become the beneficial owner, directly or indirectly, of securities of Employer representing an additional 5% or more of the combined voting power of Employer’s then outstanding voting securities (a “Subsequent Share Acquisition”) without the approval prior thereto or within 60 days thereafter of at least two-thirds of the members of the Board of Directors who were in office immediately prior to such Subsequent Share Acquisition and were not appointed, nominated or recommended by, and do not otherwise represent the interests of, the Acquiring Person on the Board. Each subsequent acquisition by an Acquiring Person of securities of Employer representing an additional 5% or more of the combined voting power of Employer’s then outstanding voting securities shall also constitute a Subsequent Share Acquisition (and a Change In Control unless approved as contemplated by the preceding sentence) if the approvals contemplated by this paragraph were given with respect to the initial Share Acquisition and all prior Subsequent Share Acquisitions by such Acquiring Person. The Board approvals contemplated by the two preceding sentences and by the proviso to the first sentence of this paragraph may contain such conditions as the members of the Board granting such approval may deem advisable and appropriate, the subsequent failure or violation of which shall result in the rescission of such approval and cause a Change In Control to be deemed to have occurred as of the date of the Share Acquisition or Subsequent Share Acquisition, as the case may be. Notwithstanding the foregoing, a Change In Control shall not be deemed to have occurred for purposes of clause (ii) of the first sentence of this paragraph with respect to any Acquiring Person meeting the requirements of clauses (i) and (ii) of Rule 13d-l(b)(1) promulgated under the Exchange Act.

(d) Gross Up Payment.

(i) Excess Parachute Payment. If Employee incurs the tax (the "Excise Tax") imposed by Section 4999 of the Code on "excess parachute payments" within the meaning of Section 280G(b)(1) of the Code as the result of any payments or distributions by Employer to or for the benefit of Employee (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise) or as a result of the acceleration of vesting of Options, Restricted Stock Units or other rights (collectively, the "Payments"), Employer shall pay to Employee an amount (the "Gross Up Payment") such that the net amount retained by Employee, after deduction of (1) any Excise Tax owed upon any Payments (other than payments provided by this Section 10(d)(i)) and (2) any federal, state and local income and employment taxes owed (together with penalties and interest) and Excise Tax owed, upon the payments provided by this Section 10(d)(i), shall be equal to the amount of the Payments (other than payments provided by this Section 10(d)(i)).

(ii) Applicable Rates. For purposes of determining the Gross Up Payment amount, Employee shall be deemed:

(1) to pay federal income taxes at the highest marginal rate of federal income taxation applicable to individual taxpayers in the calendar year in which the Change In Control occurs (which rate shall be adjusted as necessary to take into account the effect of any reduction in deductions, exemptions or credits otherwise available to Employee had the Gross Up Payment not been received);

(2) to pay additional employment taxes as a result of the receipt of the Gross Up Payment in an amount equal to the highest marginal rate of employment taxes applicable to wages; provided that if any employment tax is applied only up to a specified maximum amount of wages, such limit shall be taken into account for purposes of such calculation; and

(3) to pay state and local income taxes at the highest marginal rates of taxation in the state and locality of Employee's residence on the date of the Change In Control, net of the maximum reduction in federal income taxes that could be obtained from deduction of such state and local taxes.

(iii) Determination of Gross Up Payment Amount. The determination of the Gross Up Payment amount shall be made, at Employer's expense, by Grant Thornton LLP or another nationally recognized public accounting firm selected by Employer and reasonably acceptable to Employee (in either case, the "Accountants"). If the Excise Tax amount payable by Employee, based upon a "Determination," is different from the Excise Tax amount computed by the Accountants for purposes of determining the Gross Up Payment amount, then appropriate adjustments to the Gross Up Payment amount shall be made in the manner provided in Section 10(d)(iv). For purposes of the calculations and determinations under this Section 10(d)(iii), the Accountants may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. For purposes of determining the Gross Up Payment amount prior to any Determination of the Excise Tax amount, the following assumptions shall be utilized:

(1) that portion of the Termination Payment that is attributable to the items described in Sections 10(b)(i)(1)(I) and (II) and Section 10(b)(i)(2)(IV), and the Gross Up Payment, shall be treated as Parachute Payments;

(2) no portion of any payment made pursuant to Sections 10(b)(i)(2)(I), (II) or (III) or Section 11(c) shall be treated as a Parachute Payment;

(3) the amount payable to Employee pursuant to Section 10(k) shall be

(I) deemed to be equal to 15% of the amount determined under Section 10(b)(i)(1)(I);

(II) deemed to have been paid immediately following the Change In Control;

(III) deemed to include the additional amount payable under Section 10(k), if any, for additional taxes payable by Employee as a result of the receipt of the payment described in Section 10(k); and

(IV) treated 100% as a Parachute Payment;

(4) it shall be assumed that all of the payments that could potentially be made to Employee pursuant to the Consulting Agreement shall be made, and all of such payments shall be treated as Parachute Payments; provided that nothing in this Section 10(d)(iii)(4) shall limit or reduce the payment of any amount similar to the Gross Up Payment under the Consulting Agreement; and

(5) acceleration of vesting, if any, of any Options, Restricted Stock Units, or other equity-based awards shall be determined in a manner consistent with Treasury Regulation Section 1.280G-1, Q/A-24, as applicable.

(iv) Time For Payment. Subject to Section 11(p), Employer shall pay the estimated Gross Up Payment amount in cash to Employee on or within 10 business days of the date that the related Excise Tax is required to be remitted to the relevant taxing authorities. Employee and Employer agree to reasonably cooperate in the determination of the actual Gross Up Payment amount. Further, Employee and Employer agree to make such adjustments to the estimated Gross Up Payment amount as may be necessary to equal the actual Gross Up Payment amount based upon a Determination, which in the case of Employee shall refer to refunds of prior overpayments and in the case of Employer shall refer to makeup of prior underpayments.

(e) Term. Notwithstanding the provisions of Section 3, if a Change In Control occurs prior to the date on which Employee's employment hereunder is terminated pursuant to Section 3, Sections 10, 11 and 12 shall continue in effect until the date of termination pursuant to Section 3 or the date that is 12 months after the date of the Change In Control, whichever is later.

(f) Consulting Agreement. To preserve a sound and vital management team for the Company during the period immediately following a Change In Control, Employee agrees that, in the event of a Triggering Termination, Employee shall enter into a Consulting Agreement (the "Consulting Agreement") in the form attached hereto as **Exhibit A** if requested by the Board of Directors of the Company within 30 days after the Change In Control. If Employee breaches his obligation under the preceding sentence by declining to enter into a Consulting Agreement, as liquidated damages for such breach and not as a penalty, Employee shall pay to Employer the amount that Employee otherwise would have received as compensation from Employer under the Consulting Agreement assuming Employee fully performed his obligations thereunder.

(g) No Duty to Mitigate Damages. Employee's rights and privileges under this Section 10 shall be considered severance pay in consideration of his past service and his continued service to Employer from the Commencement Date, and his entitlement thereto shall neither be governed by any duty to mitigate his damages by seeking further employment nor offset by any compensation that he may receive from future employment.

(h) No Right To Continued Employment. This Section 10 shall not give Employee any right of continued employment or any right to compensation or benefits from Employer except the rights specifically stated herein.

(i) Exercise of Stock Options. Employee may hold options ("Options") issued under the Equity Incentive Plan. Employer shall take no action to facilitate a transaction involving a Change In Control unless it has taken such action as may be necessary to ensure that Employee has the opportunity to exercise all Options he may then hold, at a time and in a manner that shall give Employee the opportunity to sell or exchange the securities of Employer acquired upon exercise of his Options, if any (the "Acquired Securities"), at the earliest time and in the most advantageous manner any holder of the same class of securities as the Acquired Securities is able to sell or exchange such securities in connection with such Change In Control. Employer acknowledges that its covenants in the preceding sentence (the "Covenants") are reasonable and necessary in order to protect the legitimate interests of Employer in maintaining Employee as one of its employees and that any violation of the Covenants by Employer would result in irreparable injuries to Employee, and Employer therefore acknowledges that in the event of any violation of the Covenants by Employer or its directors, officers or employees, or any of their respective agents, Employee shall be entitled to obtain from any court of competent jurisdiction temporary, preliminary and permanent injunctive relief in order to (i) obtain specific performance of the Covenants, (ii) obtain specific performance of the exercise of his Options and the sale or exchange of the Acquired Securities in the advantageous manner contemplated above or (iii) prevent violation of the Covenants; provided that nothing in this Agreement shall be deemed to prejudice Employee's rights to damages for violation of the Covenants.

(j) Coordination With Separation Payments.

(i) After the termination of Employee's employment hereunder:

(1) if Employee is entitled to receive Separation Payments; and

(2) Employee subsequently becomes entitled to receive a Termination Payment, then

(ii) The payment dates of all unpaid Separation Payments shall remain unchanged and the Termination Payment (reduced by the amount of the remaining Separation Payments) shall be made in equal monthly installments over the remaining portion of the Separation Payment Period.

(k) Outplacement Services. If Employee becomes entitled to receive a Termination Payment under this Section 10, Employer agrees to reimburse Employee for any outplacement consulting fees and expenses incurred by Employee during any Applicable Period and during the two-year period following the Change In Control; provided that the aggregate amount reimbursed by Employer shall not exceed 15% of Employee's Base Salary in effect immediately prior to the Triggering Termination. In addition and as to each reimbursement payment, to the extent that any reimbursement under this Section 10(k) is subject to federal, state or local income taxes, Employer shall pay Employee an additional amount such that the net amount retained by Employee, after deduction of any federal, state and local income tax on the reimbursement and such additional amount, shall be equal to the reimbursement payment. All amounts under this Section 10(k) shall be paid by Employer within 15 days after Employee's presentation to Employer of any statements of such amounts and thereafter shall bear interest at the rate of 18% per annum or, if different, the maximum rate allowed by law until paid by Employer, and all accrued and unpaid interest shall bear interest at the same rate, all of which interest shall be compounded daily.

SECTION 11. General.

(a) Notices. Except as provided in Section 10(b)(iv), all notices and other communications hereunder shall be in writing or by written telecommunication, and shall be deemed to have been duly given if delivered personally or if mailed by certified mail, return receipt requested or by written telecommunication, to the relevant address set forth below, or to such other address as the recipient of such notice or communication shall have specified to the other party in accordance with this Section 11(a):

If to Employer, to:

Rocky Mountain Chocolate Factory, Inc.
265 Turner Drive
Durango, Colorado 81301
Attention: President
Facsimile Number: (970) 382-7366

with a copy to:

Perkins Coie LLP
1900 Sixteenth Street, Suite 1400
Denver, CO 80202-5255
Attention: Sonny Allison
Facsimile Number: (303) 291-2414
Email: SAllison@perkinscoie.com

If to Employee, to:

[Address]

(b) Withholding; No Offset. All payments required to be made to Employee by Employer shall be subject to the withholding of such amounts, if any, relating to federal, state and local taxes as may be required by law. No payments under Section 10 shall be subject to offset or reduction attributable to any amount Employee may owe to Employer or any other person.

(c) Legal and Accounting Costs. Employer shall pay all attorney' and accountant' fees and costs incurred by Employee as a result of any breach by Employer of its obligations under this Agreement, including without limitation all such costs incurred in contesting or disputing any determination made by Employer under Section 10 or in connection with any tax audit or proceeding to the extent attributable to the application of Section 4999 of the Code to any payment under Section 10. Subject to Section 11(p), reimbursements of such costs shall be made by Employer within 15 days after Employee's presentation to Employer of any statements of such costs and thereafter shall bear interest at the rate of 18% per annum or, if different, the maximum rate allowed by law until paid by Employer, and all accrued and unpaid interest shall bear interest at the same rate, all of which interest shall be compounded daily.

(d) Equitable Remedies. Each of the parties hereto acknowledges and agrees that upon any breach by Employee of his obligations under any of Sections 7, 8 and 9, Employer shall have no adequate remedy at law and accordingly shall be entitled to specific performance and other appropriate injunctive and equitable relief.

(e) Severability. If any provision of this Agreement is held to be illegal, invalid or unenforceable, such provision shall be fully severable, and this Agreement shall be construed and enforced as if such illegal, invalid or unenforceable provision never comprised a part hereof, and the remaining provisions hereof shall remain in full force and effect and shall not be affected by the illegal, invalid or unenforceable provision or by its severance herefrom. Furthermore, in lieu of such illegal, invalid or unenforceable provision, there shall be added automatically as part of this Agreement a provision as similar in its terms to such illegal, invalid or unenforceable provision as may be possible and be legal, valid and enforceable.

(f) Waivers. No delay or omission by either party in exercising any right, power or privilege hereunder shall impair such right, power or privilege, nor shall any single or partial exercise of any such right, power or privilege preclude any further exercise thereof or the exercise of any other right, power or privilege.

(g) Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original, and all of which together shall constitute one and the same instrument.

(h) Captions. The captions in this Agreement are for convenience of reference only and shall not limit or otherwise affect any of the terms or provisions hereof.

(i) Reference to Agreement. Use of the words "herein," "hereof," "hereto," "hereunder" and the like in this Agreement refer to this Agreement only as a whole and not to any particular section or subsection of this Agreement, unless otherwise noted.

(j) Binding Agreement. This Agreement shall be binding upon and inure to the benefit of the parties and shall be enforceable by the personal representatives and heirs of Employee and the successors and assigns of Employer. This Agreement may be assigned by Employer to a legal successor-in-interest of Employer or to a wholly owned subsidiary to which substantially all the business and operations of Employer are transferred. If Employee dies while any amounts would still be payable to him hereunder, such amounts shall be paid to Employee's estate. This Agreement is not otherwise assignable by Employee or Employer.

(k) Entire Agreement. This Agreement contains the entire understanding of the parties, and supersedes all prior agreements and understandings, relating to the subject matter hereof and may not be amended except by a written instrument hereafter signed by each of the parties hereto.

(l) Governing Law. This Agreement and the performance hereof shall be construed and governed in accordance with the laws of the State of Colorado, without regard to its choice of law principles.

(m) Gender and Number. The masculine gender shall be deemed to denote the feminine or neuter genders, the singular to denote the plural, and the plural to denote the singular, where the context so permits.

(n) Assistance in Litigation. During the term of this Agreement and for a period of two years thereafter, Employee shall, upon reasonable notice, furnish such information and proper assistance to Employer as may reasonably be required by Employer in connection with any litigation in which Employer is, or may become, a party and with respect to which Employee's particular knowledge or experience would be useful. Employer shall reimburse Employee for all reasonable out-of-pocket expenses incurred by Employee in rendering such assistance. The provisions of this Section 11(n) shall continue in effect notwithstanding termination of Employee's employment hereunder for any reason.

(o) Legal Fees. Employer shall pay and be responsible for all legal fees, costs of litigation and other expenses that Employee may incur as a result of Employer's failure to perform under this Agreement or as a result of Employer, any Acquiring Person or any affiliate of Employer seeking to terminate this Agreement other than in accordance with the terms hereof or contesting the validity or enforceability of this Agreement.

(p) Section 409A. The parties intend that this Agreement and the payments and other benefits provided hereunder be exempt from the requirements of Section 409A to the maximum extent possible, whether pursuant to the short-term deferral exception described in Treasury Regulation Section 1.409A-1(b)(4) or otherwise. To the extent Section 409A is applicable to this Agreement (and such payments and benefits), the parties intend that this Agreement (and such payments and benefits) comply with the deferral, payout and other limitations and restrictions imposed under Section 409A. Notwithstanding any other provision of this Agreement to the contrary, this Agreement shall be interpreted, operated and administered in a manner consistent with such intentions. Without limiting the generality of the foregoing, and notwithstanding any other provision of this Agreement to the contrary:

(i) with respect to any payments and benefits under this Agreement to which Section 409A applies, all references in this Agreement to the termination of Employee's employment are intended to mean Employee's "separation from service," within the meaning of Code Section 409A(a)(2)(A)(i);

(ii) if Employee is a "specified employee," within the meaning of Code Section 409A(a)(2)(B)(i), then to the extent necessary to avoid subjecting Executive to the imposition of any additional tax under Code Section 409A, amounts that would otherwise be payable under this Agreement during the six-month period immediately following Executive's "separation from service," within the meaning of Code Section 409A(a)(2)(A)(i), shall not be paid to Executive during such period, but shall instead be accumulated and paid to Executive (or, in the event of Executive's death, Executive's estate) in a lump sum on the first business day following the earlier of (A) the later of the date that is six months after Executive's separation from service or the 18-month anniversary of the Commencement Date or (B) Executive's death;

(iii) to the extent required by Section 409A, each reimbursement or in-kind benefit provided under this Agreement will be provided in accordance with the following: (A) the amount of expenses eligible for reimbursement, or in-kind benefits provided, during each calendar year cannot affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other calendar year; (B) any reimbursement of an eligible expense will be paid to Employee on or before the last day of the calendar year following the calendar year in which the expense was incurred; and (C) any right to reimbursements or in-kind benefits under this Agreement will not be subject to liquidation or exchange for another benefit;

(iv) in the event Employee becomes entitled to a tax gross-up payment under this Agreement (including, without limitation, an adjustment to the estimated Gross Up Payment amount is necessary pursuant to Section 10(d)(iv) based upon a Determination), the tax gross-up payment shall be made by Employer no later than the end of Employee's taxable year in which Employer remits the related taxes; and

(v) each payment provided under this Agreement shall be treated as a separate payment.

The Company makes no representations or warranties to Employee with respect to any tax, economic or legal consequences of this Agreement or any payments or other benefits provided hereunder, including without limitation under Section 409A, and no provision of this Agreement shall be interpreted or construed to transfer any liability for failure to comply with Section 409A from Employee or any other individual to the Company or any of its affiliates. Employee, by executing this Agreement, shall be deemed to have waived any claim against the Company and its affiliates with respect to any such tax, economic or legal consequences.

SECTION 12. Definitions. As used in this Agreement, the following terms will have the following meanings:

(a) Accountants has the meaning ascribed to it in Section 10(d)(iii).

(b) Acquired Securities has the meaning ascribed to it in Section 10(i).

(c) Acquiring Person has the meaning ascribed to it in Section 10(c).

(d) Agreement has the meaning ascribed to it in the introductory paragraph of this document.

(e) Agreement Termination has the meaning ascribed to it in Section 10(a)(iv)(1). References in this Agreement to termination of Employee's employment with Employer, in any form, shall be deemed to include (whether or not so expressed) an Agreement Termination.

(f) Applicable Period means, with respect to any Change In Control, the period of 90 days immediately preceding the Change In Control.

(g) Base Salary has the meaning ascribed to it in Section 4(a).

(h) Cause has the meaning ascribed to it in Section 6(a)(ii).

(i) Change In Control has the meaning ascribed to it in Section 10(c).

(j) Code means the Internal Revenue Code of 1986, as amended.

(k) Commencement Date has the meaning ascribed to it in Section 3.

(l) A Concurring Person is an individual who is the Chairman of the Board of Directors of the Company or a member of the Compensation Committee of the Board of Directors of the Company (or, if no Compensation Committee exists, or there are fewer than two members of the Compensation Committee, a nonemployee member of the Board of Directors of the Company) at the time in question.

(m) Confidential Information has the meaning ascribed to it in Section 8(b).

(n) Constructively Terminated with respect to an Employee's employment with Employer will be deemed to have occurred if Employer, without the consent of Employee,

(i) demotes Employee to a lesser position, either in title or responsibility (whether or not there is a change in title), than the highest position held by Employee with Employer at any time during Employee's employment with Employer;

(ii) decreases Employee's compensation below the highest level in effect at any time during Employee's employment with Employer or reduces Employee's benefits and perquisites below the highest levels in effect at any time during Employee's employment with Employer (other than as a result of any amendment or termination of any employee or group or other executive benefit plan, which amendment or termination is applicable to all executives of Employer);

(iii) requires Employee to relocate to a principal place of business more than 25 miles from the principal place of business occupied by Employer on the first day of an Applicable Period; or

(iv) requests or proposes to amend this Agreement, if the proposed amendment would have any of the effects contemplated by clauses (i), (ii) or (iii) above or otherwise impose any additional burdens or obligations on, or diminish any rights of, Employee.

Notwithstanding any provision in this Agreement to the contrary, Employee's employment shall not be treated as Constructively Terminated by Employer unless (i) Employee notifies Employer in writing of the existence of the condition which Employee believes constitutes a Constructive Termination within 90 days of the initial existence of such condition (which notice specifically identifies such condition), (ii) Employer fails to remedy such condition within 30 days after the date on which it receives such notice (the "Remedial Period"), and (iii) Employee actually terminates employment within 30 days after the expiration of the Remedial Period.

(o) Consulting Agreement has the meaning ascribed to it in Section 10(f).

(p) Continued Performance Obligation has the meaning ascribed to it in Section 10(a)(iv)(3).

(q) Covenants has the meaning ascribed to it in Section 10(i).

(r) Designated Industry has the meaning ascribed to it in Section 9(a)(i)(1).

(s) Determination has the meaning ascribed to such term in Section 1313(a) of the Code.

(t) Disability with respect to Employee shall be deemed to have occurred whenever Employee is rendered unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or that has lasted or can be expected to last for a continuing period of not less than 12 months. In the case of any dispute, the determination of Disability will be made by a licensed physician selected by Employer, which physician's decision will be final and binding.

(u) Employee has the meaning ascribed to it in the introductory paragraph of this Agreement.

(v) Employer has the meaning ascribed to it in the introductory paragraph of this Agreement.

(w) Equity Incentive Plan means the Rocky Mountain Chocolate Factory, Inc. 2007 Equity Incentive Plan, as amended from time to time, and any successor plan.

(x) Exchange Act has the meaning ascribed to it in Section 10(c).

(y) Excise Tax has the meaning ascribed to it in Section 10(d)(i).

(z) Gross Up Payment has the meaning ascribed to it in Section 10(d)(i).

(aa) Inventions has the meaning ascribed to it in Section 7(a).

(bb) Options has the meaning ascribed to it in Section 10(i).

(cc) Parachute Payments has the meaning ascribed to it in Section 280G(b)(2) of the Code.

(dd) Payments has the meaning ascribed to it in Section 10(d)(i).

(ee) Section 409A means Section 409A of the Code and any official guidance and regulations issued thereunder.

(ff) Separation Payment Period has the meaning ascribed to it in Section 6(b)(ii).

(gg) Separation Payments has the meaning ascribed to it in Section 6(b)(ii).

(hh) Share Acquisition has the meaning ascribed to it in Section 10(c).

(ii) Subsequent Share Acquisition has the meaning ascribed to it in Section 10(c).

(jj) Target Bonus means, with respect to each Employee, the dollar amount that is equal to the established percentage of such Employee's Base Salary that would be paid to Employee under any incentive bonus plan of Employer assuming the measurement criteria contained in such plan with respect to Employee were achieved for the bonus period in which the Change In Control occurred.

(kk) Termination Payment has the meaning ascribed to it in Section 10(b)(i)(1).

(ll) Triggering Termination has the meaning ascribed to it in Section 10(a).

EXECUTED as of the date and year first above written.

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC.

By: /s/ Scott G. Capdevielle

Name: Scott G. Capdevielle

Title: Director and Chairman of the Compensation Committee of the Rocky Mountain Chocolate Factory, Inc. Board of Directors

EMPLOYEE

By: /s/ Bryan J. Merryman
Bryan J. Merryman

Exhibit A

CONSULTING AGREEMENT

This Consulting Agreement ("Agreement"), dated as of _____, ___ ("Effective Date"), is between Rocky Mountain Chocolate Factory, Inc., a Delaware corporation (the "Company"), and Bryan J. Merryman ("Consultant").

R E C I T A L S:

A. Consultant was formerly employed by the Company as an executive officer.

B. Consultant and the Company previously entered into an Employment Agreement, dated as of _____ ("Employment Agreement"), under which Consultant is obligated to enter into this Agreement at the request of the Board of Directors of the Company under certain circumstances.

C. The Board of Directors of the Company has requested that Consultant enter into this Agreement and Consultant is willing to do so.

NOW, THEREFORE, for and in consideration of the mutual promises contained in this Agreement, and on the terms and subject to the conditions set forth in this Agreement, the parties agree as follows:

SECTION 1. Duties. The Company retains Consultant to provide, and Consultant agrees to render, such consulting and advisory services as may be requested from time to time by the Company's Board of Directors. Consultant agrees to devote his attention, skills and best efforts to the performance of his duties under this Agreement. Consultant shall not be obligated, however, to devote more than 30 hours per month to the discharge of his responsibilities under this Agreement. Consultant shall be an independent contractor, not an employee of the Company, during the term of this Agreement.

SECTION 2. Term. The term for providing consulting services under this Agreement commences on the Effective Date and continues, unless earlier terminated pursuant to Section 5, until 180 days after the date of the Change In Control, as defined in the Employment Agreement.

SECTION 3. Compensation. In consideration for the services provided by Consultant, the Company shall pay to Consultant an amount equal to one-half of his annual base compensation considered for purposes of Section 10(b)(i)(l)(I) of the Employment Agreement, which amount shall be paid in six equal monthly installments, with the first installment due and payable on the Effective Date.

SECTION 4. Expenses. The parties anticipate that Consultant, in connection with the services to be performed by him under this Agreement, will incur expenses for travel, lodging and similar items. The Company shall advance the estimated amount of such expenses to Consultant and shall, within 15 days after Consultant's presentation to the Company of reasonable documentation the actual expenses, reimburse Consultant for all expenses incurred by Consultant in the performance of his duties under this Agreement that have not been so advanced.

SECTION 5. Early Termination.

(a) Events of Early Termination. This Agreement may terminate prior to the expiration of the term specified in Section 2 as follows:

(i) Death. Upon the death of Consultant during the term hereof.

(ii) For Cause. For "Cause" immediately upon written notice by the Company to Consultant. For purposes of this Agreement, a termination shall be for Cause if:

(I) Consultant commits an unlawful or criminal act involving moral turpitude; or

(II) Consultant (A) fails to obey lawful and proper written directions delivered to Consultant by the Company's Board of Directors; or (B) commits a material breach of any of the covenants, terms and provisions of this Agreement and such failure or breach continues uncured for more than 30 days after receipt by Consultant of written notice from the Company of such failure or breach.

(b) Payments Upon Early Termination. Consultant shall not be entitled to any compensation upon termination of this Agreement pursuant to this Section 5 except for his compensation accrued but unpaid as of the date of such termination and unpaid expense reimbursements under Section 4 for expenses incurred in accordance with the terms hereof prior to such termination.

SECTION 6. General.

(a) Notices. All notices and other communications hereunder shall be in writing or by written telecommunication and shall be deemed to have been duly given if delivered personally or if mailed by certified mail, return receipt requested or by written telecommunication, to the relevant address set forth below, or to such other address as the recipient of such notice or communication shall have specified to the other party hereto in accordance with this Section 6(a):

If to the Company, to:

Rocky Mountain Chocolate Factory, Inc.
265 Turner Drive
Durango, Colorado 81301
Attention: President
Facsimile Number: (970) 382-7366

with a copy to:

Perkins Coie LLP
1900 Sixteenth Street, Suite 1400
Denver, CO 80202-5255
Attention: Sonny Allison
Facsimile Number: (303) 291-2414

If to Consultant, to:

[Insert Address as of Effective Date]

(b) Severability. If any provision of this Agreement is held to be illegal, invalid or unenforceable, such provision shall be fully severable, and this Agreement shall be construed and enforced as if such illegal, invalid or unenforceable provision never comprised a part hereof, and the remaining provisions hereof shall remain in full force and effect and shall not be affected by the illegal, invalid or unenforceable provision or by its severance herefrom. Furthermore, in lieu of such illegal, invalid or unenforceable provision, there shall be added automatically as part of this Agreement a provision as similar in its terms to such illegal, invalid or unenforceable provision as may be possible and be legal, valid and enforceable.

(c) Waivers. No delay or omission by either party hereto in exercising any right, power or privilege hereunder shall impair such right, power or privilege, nor shall any single or partial exercise of any such right, power or privilege preclude any further exercise thereof or the exercise of any other right, power or privilege.

(d) Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original, and all of which together shall constitute one and the same instrument.

(e) Captions. The captions in this Agreement are for convenience of reference only and shall not limit or otherwise affect any of the terms or provisions hereof.

(f) Reference to Agreement. Use of the words "hereof," "hereto," "hereunder" and the like in this Agreement refer to this Agreement as a whole and not to any particular section or subsection of this Agreement, unless otherwise noted.

(g) Binding Agreement. This Agreement shall be binding upon and inure to the benefit of the parties and shall be enforceable by the personal representatives and heirs of Consultant and the successors of the Company. If Consultant dies while any amounts would still be payable to him hereunder, such amounts shall be paid to Consultant's estate. This Agreement is not otherwise assignable by Consultant or by the Company.

(h) Entire Agreement. This Agreement contains the entire understanding of the parties, supersedes all prior agreements and understandings relating to the subject matter hereof and may not be amended except by a written instrument hereafter signed by each of the parties hereto.

(i) Governing Law. This Agreement and the performance hereof shall be construed and governed in accordance with the laws of the State of Colorado, without regard to its choice of law principles.

(j) Gender and Number. The masculine gender shall be deemed to denote the feminine or neuter genders, the singular to denote the plural, and the plural to denote the singular, where the context so permits.

(k) Section 409A. The parties intend that this Agreement and the payments and other benefits provided hereunder be exempt from the requirements of Section 409A of the Internal Revenue Code of 1986, as amended, and any official guidance and regulations issued thereunder (collectively, "Section 409A") to the maximum extent possible. To the extent Section 409A is applicable to this Agreement (and such payments and benefits), the parties intend that this Agreement (and such payments and benefits) comply with the deferral, payout and other limitations and restrictions imposed under Section 409A. Notwithstanding any other provision of this Agreement to the contrary, this Agreement shall be interpreted, operated and administered in a manner consistent with such intentions. Without limiting the generality of the foregoing, and notwithstanding any other provision of this Agreement to the contrary, to the extent required by Section 409A, each reimbursement or in-kind benefit provided under this Agreement will be provided in accordance with the following: (i) the amount of expenses eligible for reimbursement, or in-kind benefits provided, during each calendar year cannot affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other calendar year; (ii) any reimbursement of an eligible expense will be paid to Employee on or before the last day of the calendar year following the calendar year in which the expense was incurred; and (iii) any right to reimbursements or in-kind benefits under this Agreement will not be subject to liquidation or exchange for another benefit.

[*Signature Page Follows*]

EXECUTED as of the date and year first above written.

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC.

By: _____

Name: _____

Title: _____

CONSULTANT

By: _____
Bryan J. Merryman

Exhibit 10.15

RETIREMENT SEPARATION AND GENERAL RELEASE AGREEMENT

This RETIREMENT SEPARATION AND GENERAL RELEASE AGREEMENT (this "**Agreement**"), effective as of the latest date of the Parties' (as defined below) signatures below (the "**Effective Date**"), is by and between Rocky Mountain Chocolate Factory, Inc., a Delaware corporation (the "**Company**"), and Franklin E. Crail ("**Employee**") (each a "**Party**" and collectively the "**Parties**").

1. **Retirement and Separation From Employment**. Employee acknowledges and agrees that Employee's employment with the Company ended effective February 26, 2019 (the "**Retirement Date**") upon Employee's retirement from the Company, and after that date, Employee shall have no role or relationship with the Company, other than as a member of the Company's board of directors (the "**Board**").

2. **Consideration by the Company.**

(a) Acceleration of Equity Awards. Provided that Employee executes this Agreement, complies with Employee's obligations as set forth herein, and does not revoke Employee's ADEA Release (as defined below), the Company will accelerate the vesting of the 5,834 restricted stock units originally granted to Employee on April 18, 2013, pursuant to, and subject to the terms and conditions of, the Company's Amended and Restated 2007 Equity Incentive Plan, as amended to date, that have not vested as of the Retirement Date (the "**Unvested RSUs**"). Except as modified above, the original terms of the Unvested RSUs will remain in full force and effect.

(b) Supplemental Health Insurance Policy. Provided that Employee executes this Agreement, complies with Employee's obligations as set forth herein, and does not revoke Employee's ADEA Release, then, for so long as Employee continues to serve on the Board, the Company will pay the premium on (or reimburse Employee for the premium paid by Employee on) a Medicare supplemental insurance policy covering Employee and selected by Employee (the "**Supplemental Health Insurance Policy**" and, together with the Unvested RSUs, the "**Retirement Payment**").

(c) Acknowledgments. Employee acknowledges and agrees that the Retirement Payment exceeds any payment, benefit, or other thing of value to which Employee might otherwise be entitled under any policy, plan, or procedure of the Company or pursuant to any prior agreement or contract with the Company. Employee acknowledges and agrees that the payments set forth in Sections 2(a) and (b) constitute the entirety of the benefits of any nature due to Employee by the Company or any of its affiliates. For the avoidance of doubt, Employee specifically acknowledges and agrees that Employee does not dispute the wages that have been paid to Employee and that, other as set forth herein, no other compensation, salary, bonus payments, severance payments, commissions, equity, debt, or option grants, or any other amounts are due and owing to Employee from the Company, either in connection with Employee's employment or otherwise, or pursuant to any other agreement or letter, except as set forth in this Agreement.

3. **General Release and Agreement Not to Sue**.

(a) In exchange for the Retirement Payment, Employee (defined for the purpose of this Section 3 to include Employee and Employee's agents, representatives, attorneys, assigns, heirs, executors, and administrators) fully and unconditionally releases (i) the Company and its past, present, and future parents, divisions, subsidiaries, partnerships, affiliates, and other related entities (whether or not they are wholly owned), (ii) the past, present, and future owners, trustees, fiduciaries, administrators, shareholders, directors, officers, partners, agents, representatives, members, employees, and attorneys of each entity listed in subpart (i) above, and (iii) the predecessors, successors, and assigns of each entity listed in subparts (i) and (ii) above) ((i), (ii) and (iii), collectively, the "**Released Parties**") from, and agrees not to bring any action, proceeding or suit against any of the Released Parties regarding, any and all known or unknown claims, causes of action, liabilities, damages, fees, or remunerations of any sort, arising or that may have arisen out of or in connection with Employee's employment with or termination of employment from the Company at any time up to and including the Effective Date, including but not limited to:

(i) claims for violation of any written or unwritten contract, agreement, policy, benefit plan, retirement or pension plan, equity incentive or option plan, severance plan, or covenant of any kind, or failure to pay wages, bonuses, employee benefits, other compensation, attorneys' fees, damages, or any other remuneration (including any equity, ownership interest, management fee, carried interest, partnership interest, distributions, dividends or participation or ownership in any business venture related to the Released Parties); and/or

(ii) claims for discrimination, harassment, or retaliation on the basis of any characteristic protected under law, including, but not limited, to race, color, national origin, sex, sexual orientation, religion, disability, marital or parental status, age, union activity or other protected activity; and/or

(iii) claims for violation of, or denial of protection or benefits under, any statute, ordinance, executive order, or regulation, including but not limited to claims under Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Civil Rights Act of 1866, the Age Discrimination in Employment Act of 1967 ("**ADEA**"), the Older Workers Benefit Protection Act, the Americans with Disabilities Act, the Fair Labor Standards Act, the Family and Medical Leave Act, the Workers' Adjustment and Retraining Notification, the Employee Retirement Income Security Act of 1974, the Equal Pay Act, the Family and Medical Leave Act, the National Labor Relations Act, the Rehabilitation Act of 1973, the Pregnancy Discrimination Act, Sections 1981 through 1988 of Title 42 of the United States Code, the Genetic Information Nondiscrimination Act, or any other federal, state or local statute, ordinance, or regulation regarding employment, termination of employment, or discrimination in employment; and/or

(iv) claims for violation of any public policy or common law of any state relating to employment or personal injury, including but not limited to claims for wrongful discharge, defamation, invasion of privacy, infliction of emotional distress, negligence, interference with contract.

(b) Without limiting the foregoing, Employee hereby acknowledges that the release of claims in this Section 3 includes all claims Employee has or may have against the Released Parties, whether known or unknown, that can be lawfully released. Employee realizes and acknowledges that Employee may have sustained losses that are presently unknown and unsuspected, and that such losses may give rise to additional losses and expenses in the future which are not now anticipated. Nevertheless, Employee, being fully aware of the situation, does nevertheless intend to release, acquit, and forever discharge Employee's claims as described above. Employee fully understands that if the facts with respect to this Agreement are found hereafter to be other than or different from the facts now believed by Employee to be true, Employee expressly accepts and assumes the risk of such possible difference in fact and agrees that this Agreement shall be and remain effective, notwithstanding any such difference. This Agreement is executed voluntarily by Employee with full knowledge of its significance and legal effect.

(c) Employee affirms that, as of the Effective Date, Employee has not instituted any action or proceeding covered by this Section 3 against any of the Released Parties. Nothing in the foregoing shall prohibit Employee from filing a charge with an administrative agency (such as the Equal Employment Opportunity Commission or the National Labor Relations Board) or from filing a claim that Employee cannot waive by law; *however*, Employee waives the right to recover any damages awarded in any such proceeding or in any proceeding instituted on Employee's behalf by an administrative agency or other individual or entity regarding Employee's employment with, or separation from, the Company, other than with respect to any claim to any financial incentive or other award made available under existing law for whistleblowing or similar conduct. For the avoidance of doubt, Employee waives the right to recover any damages or payments from any of the Released Parties in any proceeding instituted by an agency or other individual or entity regarding Employee's employment with, or separation from, the Company, including, without limitation, the Colorado Department of Labor and Employment.

(d) Employee knowingly and voluntarily waives any and all rights or benefits that Employee may now have, or in the future might have, under the provisions of California Civil Code Section 1542, which provides as follows:

> **A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS THAT THE CREDITOR OR RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE AND THAT IF KNOWN BY HIM OR HER WOULD HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR OR RELEASED PARTY.**

4 . **Confidentiality.** Employee acknowledges and agrees that Employee will keep the terms, amount, and facts of, and any discussions leading up to, this Agreement STRICTLY AND COMPLETELY CONFIDENTIAL, and that Employee will not communicate or otherwise disclose to any employee of the Company (past, present, or future), or to any member of the general public, the terms, amounts, copies, or fact of this Agreement, except as may be required by law or compulsory process; *provided*, *however*, that Employee may make such disclosures to Employee's spouse, tax/financial advisors or legal counsel as long as they agree to keep the information confidential. If asked about any of such matters, Employee's response shall be that Employee may not discuss any of such matters. In the event of a breach of the confidentiality provisions set forth in this paragraph of the Agreement by Employee, the Company may suspend any payments due under this Agreement pending the outcome of litigation regarding such claimed breach of this Agreement by Employee. The Parties agree that this paragraph is a material inducement to the Company entering into this Agreement. Additionally, the Parties agree that a breach of this paragraph by Employee will cause the Company irreparable harm and that the Company may enforce this paragraph without posting a bond.

5 . **Non-Admission/Inadmissibility as Evidence**. This Agreement does not constitute an admission that any action taken by any of the Released Parties with respect to Employee was wrongful, unlawful, or susceptible of inflicting any damages or injury on Employee, and the Released Parties specifically deny any wrongdoing. This Agreement is entered into solely to resolve fully all matters related to or arising out of Employee's employment with and separation from the Company, and neither this Agreement nor testimony regarding its execution or implementation may be admitted or used as evidence in a subsequent proceeding of any kind, except one alleging a breach of this Agreement.

6 . **Severability; Waiver**. The provisions of this Agreement shall be severable such that the invalidity of any provision shall not affect the validity of other provisions; *provided, however*, that if a court or other binding authority holds that any portion of the release inSection 3 is illegal, void or unenforceable, Employee agrees to promptly execute a release and agreement that is legal and enforceable. The Company's failure to insist upon strict compliance with any provision of this Agreement, or its failure to assert any right that it may have hereunder, will not be considered a waiver of such provision or right or any other provision of or right under this Agreement.

7. **Governing Law; Venue; Jurisdiction.** This Agreement is made and entered into in the State of Colorado and in all respects will be interpreted, enforced, and governed by the laws of the State of Colorado, and construed in accordance therewith, without giving effect to principles of conflicts of laws. Employee hereby irrevocably waives Employee's rights, if any, to have the laws of any other state other than the State of Colorado apply to this Agreement or Employee's employment with the Company. Employee expressly agrees to submit to the exclusive jurisdiction and exclusive venue of courts located in the State of Colorado in connection with any litigation which may be brought with respect to a dispute between the Parties, regardless of where Employee resides or where Employee performed services for the Company. Employee hereby irrevocably waives Employee's rights, if any, to have any disputes between the Parties decided in any jurisdiction or venue other than a court in the State of Colorado. Employee hereby waives, to the fullest extent permitted by applicable law, any objection which Employee now or hereafter may have to personal jurisdiction or to the laying of venue of any such suit, action or proceeding, and Employee agrees not to plead or claim the same. Employee further irrevocably covenants not to sue the Company in any jurisdiction or venue other than a court in the State of Colorado.

8 . **Entire Agreement**. This Agreement represents the entire agreement and understanding concerning Employee's separation from the Company, and this Agreement supersedes and replaces any and all prior agreements, understandings, discussions, negotiations, or proposals concerning Employee's separation from the Company. In deciding to sign this Agreement, Employee has not relied on any express or implied promise, statement, or representation by the Company, whether oral or written, except as set forth herein.

9 . **Important Notice Regarding Release of Claims Under theADEA.** Without in any way limiting the generality or scope of the Release of Claims set forth in Section 3, Employee hereby acknowledges that Employee knowingly and voluntarily enters into this Agreement with the purpose of waiving and releasing any age discrimination claims he may have under the ADEA, and acknowledges and agrees that:

(a) This Agreement is written in a manner in which Employee fully understands;

(b) Employee specifically waives any rights or claims arising under the ADEA, other than any rights or claims under the ADEA that may arise after the date this Agreement is executed;

(c) The rights and claims waived in this Agreement are in exchange for consideration over and above anything to which Employee is already entitled;

(d) Employee has been advised in writing to consult with an attorney prior to executing this Agreement, and has, in fact had an opportunity to do so;

(e) Employee has been given a period of up to at least twenty-one (21) days, if desired, within which to consider this Agreement; and

(f) Once executed, the Employee has a period of seven (7) days within which he can revoke this Agreement ("**Revocation Period**"), and the Agreement shall not be effective until the Revocation Period has been exhausted. If Employee chooses to revoke this Agreement, he must do so in writing, and the revocation must be addressed and delivered to Bryan J. Merryman, Rocky Mountain Chocolate Factory, Inc., 265 Turner Drive, Durango, Colorado 81303, and that written notice must be received by the Company no later than the eighth day after Employee executes this Agreement. If Employee revokes the Agreement, Employee will not be entitled to any of the consideration provided in Section 2 of this Agreement.

(g) Any changes made to this Agreement, whether material or immaterial, will not restart the running of this 21-day period.

10. **Return of Payments.** Employee acknowledges, understands, and agrees that the purpose of this Agreement is to assure the Released Parties that, in return for the payments made pursuant to this Agreement, the Released Parties will not be put to the expense and inconvenience of defending any claim, charge, or lawsuit that has been released by Employee in this Agreement. Therefore, Employee agrees that in the event Employee files a claim against any of the Released Parties that has been released and discharged in this Agreement, the Company will have the right to recoup any portion of the Retirement Payment, or the value thereof, except that, notwithstanding the foregoing, Employee shall not be subject to forfeiture of the Retirement Payment for challenges to the validity of the release of claims under the ADEA or OWBPA. For the avoidance of doubt, nothing in this Section 10 or this Agreement shall prohibit Employee from challenging the validity of the release of claims under the ADEA or OWBPA, or is intended to impose any condition precedent, any penalty, or any other limitation adversely affecting the right of Employee to challenge validity of the release of claims under the ADEA or OWBPA.

11. **Survivorship; Assignability; Third Party Beneficiaries**. Employee agrees that this Agreement will be binding upon Employee's heirs, executors, assigns, administrators, and other legal representatives, and is made for the benefit of the Released Parties. The Company may assign this Agreement and its rights and obligations under this Agreement to any successor to any of the Company's relevant assets, whether by merger, consolidation, reorganization, reincorporation, sale of assets or stock, or otherwise. Employee understands and agrees that this Agreement is executed by the Company, on its own behalf and on behalf of each of its subsidiaries, affiliates, successors, or assignees; that Employee's obligations under this Agreement shall apply equally to each of the Released Parties; and that any of the Released Parties may enforce this Agreement in their own name as if they were parties to this Agreement.

12. **Taxes**. The Company makes no representations with regard to the effect on Employee's federal, state, or local income tax liability with regard to the Retirement Payment and any other payments or benefits being provided to Employee. Employee hereby assumes full and sole responsibility for payment of taxes due, if any, on the consideration tendered herein and further agrees to defend, indemnify, and hold the Company harmless from and against any loss, liability, obligation, action, cause of action, claims, demands, or other expenses of any nature whatsoever, relating to, in connection with, or arising out of the payment of said taxes and interest, and/or penalties imposed, arising out of any such tax.

13. **No Strict Construction.** Each Party hereby agrees and acknowledges that it has had full opportunity to consult with counsel and tax advisors of its selection in connection with the preparation and negotiation of this Agreement. The Parties hereto jointly participated in the negotiation and drafting of this Agreement. The language used in this Agreement shall be deemed to be the language chosen by both Parties hereto to express their collective mutual intent. This Agreement shall be construed as if drafted jointly by the Parties, and no rule of strict construction shall be applied against any Party.

14. **Counterparts; Delivery by Electronic Means**. Employee agrees that this Agreement may be signed and delivered by PDF or other electronic means, and may be executed in counterparts, each of which shall be deemed to be an original and all of which, when taken together, shall constitute one instrument.

15. **Knowing and Voluntary Waiver**. Employee acknowledges that (i) Employee has carefully read this Agreement and fully understands its meaning; (ii) Employee had the opportunity to take up to twenty-one (21) days after receiving this Agreement to decide whether to sign it; (iii) the Company is herein advising Employee, in writing, to consult with an attorney before signing it; (iv) Employee is signing this Agreement, knowingly, voluntarily, and without any coercion or duress; (v) Employee has been given seven (7) days to revoke the ADEA Release following execution of this Agreement; and (vi) everything Employee is receiving for signing this Agreement is described in the Agreement itself, and no other promises or representations have been made to cause Employee to sign it.

[*The remainder of this page is intentionally left blank.*]

EMPLOYEE ACKNOWLEDGES THAT EMPLOYEE HAS READ THIS ENTIRE AGREEMENT CAREFULLY, AS THIS AGREEMENT INCLUDES A RELEASE OF ALL KNOWN AND UNKNOWN CLAIMS (AS ALLOWED BY LAW) WHICH EMPLOYEE MAY HAVE AGAINST THE RELEASED PARTIES, INCLUDING CLAIMS PURSUANT TO THE ADEA.

ACCEPTED AND AGREED:

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC.

/s/ Franklin E. Crail
FRANKLIN E. CRAIL

Date: March 4, 2019

By: /s/ Bryan J. Merryman
Bryan J. Merryman, Chief Operating Officer,
Chief Financial Officer, Treasurer

Date: March 4, 2019

Exhibit 21.1

SUBSIDIARIES OF THE REGISTRANT

Subsidiary	**Jurisdiction of Incorporation**
Rocky Mountain Chocolate Factory, Inc.	Colorado
Aspen Leaf Yogurt, LLC	Colorado
U-Swirl, Inc. (1)	Nevada
U-Swirl International, Inc.	Nevada

(1) As of February 28, 2019, Rocky Mountain Chocolate Factory, Inc. holds a 46% interest in U-Swirl, Inc.

Exhibit 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (File Nos. 333-206534, 333-145986, and 333-191729) of Rocky Mountain Chocolate Factory, Inc. (the "Company") of our report dated May 8, 2019 relating to the consolidated financial statements for the fiscal year ended February 28, 2019, which appears in this Annual Report on Form 10-K.

/s/ Plante & Moran PLLC
Denver, Colorado

May 29, 2019

Exhibit 23.2

CONSENT OF INDEPENDENT PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (File Nos. 333-206534, 333-145986, and 333-191729) of Rocky Mountain Chocolate Factory, Inc. of our report dated May 15, 2018 relating to the consolidated financial statements for the fiscal year ended February 28, 2018, which appears in this Annual Report on Form 10-K.

/s/ EKS&H LLLP
Denver, Colorado

May 29, 2019

Exhibit 31.1

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Bryan J. Merryman, certify that:

1. I have reviewed this Annual Report on Form 10-K 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: May 29, 2019

/s/ Bryan J. Merryman

Bryan J. Merryman, Chief Executive Officer, Chief Financial Officer, Treasurer and Director

(Principal Executive and Financial Officer)

Exhibit 32.1

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

In connection with the Annual Report of Rocky Mountain Chocolate Factory, Inc. (the "Company") on Form 10-K for the fiscal year ended February 28, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned certifies 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: May 29, 2019

/s/ Bryan J. Merryman
Bryan J. Merryman, Chief Executive Officer, Chief Financial Officer,
Treasurer and Director
(Principal Executive and Financial Officer)