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**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**WASHINGTON, D.C. 20549**
**FORM 10-K/A**
**(Amendment No. 1)**

(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 5,965,827 shares of the registrant’s common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: None

**EXPLANATORY NOTE**

Rocky Mountain Chocolate Factory, Inc. (the “Company,” “we,” “us” or “our”) is filing this Amendment No. 1 on Form 10-K/A (this “Amendment No. 1”) to amend our Annual Report on Form 10-K for the fiscal year ended February 28, 2019, originally filed with the Securities and Exchange Commission (“SEC”) on May 29, 2019 (the “Original Filing”), to include the information required by Items 10 through 14 of Part III of Form 10-K. This information was previously omitted from the Original Filing in reliance on General Instruction G(3) of Form 10-K, which permits such information to be incorporated by reference in the Form 10-K from our definitive proxy statement if such proxy statement is filed no later than 120 days after the end of our fiscal year. We are filing this Amendment No. 1 to include the information required by Part III of the Original Filing because we no longer intend to file our definitive proxy statement within 120 days after the end of our fiscal year.

In addition, this Amendment No. 1 is being filed to include the auditor tenure statement in the audit reports contained in Part II, Item 8, which was inadvertently omitted in the Original Filing.

In accordance with Rule 12b-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), Item 8 of Part II and Items 10 through 14 of Part III of the Original Filing have been amended and restated in their entirety, and Item 15 of Part IV of the Original Filing has also been amended and restated in its entirety to include new certifications by our principal executive officer and principal financial officer and a new consent from Plante & Moran, PLLC. This Amendment No. 1 does not amend or otherwise update any other information in the Original Filing. Accordingly, this Amendment No. 1 should be read in conjunction with the Original Filing and with our other filings with the SEC subsequent to the Original Filing.

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC.
FORM 10-K/A

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## PART II.

## 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 ASC Topic 606, Revenue from Contracts with Customers, using the modified retrospective adoption method on March 1, 2018.

We have audited the impact on 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

We have served as the Company's auditor since 2004.

Denver, Colorado
May 29, 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

We have served as the Company's auditor since 2004.

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 | | AS OF FEBRUARY 28, 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 |

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:

| 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 |

| 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 (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.

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 |

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 |

## PART III.

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Our Board of Directors currently consists of five members. Information concerning our executive officers and members of our Board of Directors as of June 1, 2019 is set forth below. There are no family relationships between any of our directors and executive officers.

| Name | Title/Position | Age |
|---|---|---|
| Bryan J. Merryman | Chairman of the Board, Chief Executive Officer, Chief Financial Officer, Treasurer and Director | 58 |
| Franklin E. Crail | Director | 77 |
| Clyde Wm. Engle | Director | 76 |
| Scott G. Capdevielle | Director | 53 |
| Brett P. Seabert | Director | 58 |
| Gregory L. Pope | Senior Vice President – Franchise Development | 53 |
| Edward L. Dudley | Senior Vice President - Sales and Marketing | 55 |
| Donna L. Coupe | Vice President - Franchise Support and Training | 53 |
| Ryan R. McGrath | Vice President - Information Technology | 45 |

***Directors***

*Bryan J. Merryman*. Mr. Merryman joined us in December 1997 as Chief Financial Officer and Vice President - Finance. Since April 1999, Mr. Merryman also served as our Chief Operating Officer and as a director, and since January 2000, as our Treasurer. In February 2019, Mr. Merryman was appointed as our Chief Executive Officer and was elected Chairman of the Board. From January 1997 to December 1997, Mr. Merryman was a principal in Knightsbridge Holdings, Inc., a leveraged buyout firm. Mr. Merryman also served as Chief Financial Officer of Super Shops, Inc., a retailer and manufacturer of after-market auto parts, from July 1996 to November 1997, and prior to July 1996, was employed for more than eleven years by Deloitte & Touche LLP, most recently as a Senior Manager. Mr. Merryman also currently serves as Chief Executive Officer of U-Swirl, Inc. (“U-Swirl”), a consolidated subsidiary of the company, a position he has held since October 2014, and has served as Chairman of the Board of U-Swirl since January 2013. Mr. Merryman’s extensive operational, accounting and financial expertise, along with his extensive knowledge of our business and broad industry expertise, provides significant value and insights to the Board of Directors.

*Franklin E. Crail*. Mr. Crail co-founded the first Rocky Mountain Chocolate Factory store in May 1981. He served as our Chief Executive Officer and President from November 1982 until his retirement in February 2019, and, from September 1981 to January 2000, he served as our Treasurer. He has served as a director since November 1982 and served as Chairman of the Board from March 1986 until February 2019. Prior to founding the Company, Mr. Crail was co-founder and President of CNI Data Processing, Inc., a software firm which developed automated billing systems for the cable television industry. Mr. Crail has also served as a director for U-Swirl since January 2013. As our co-founder and as our former Chief Executive Officer and President, and director since 1982, Mr. Crail brings his leadership, extensive experience and knowledge of the Company, the industry, our customers and the investment community to the Board of Directors.

*Clyde Wm. Engle*. Mr. Engle has served on our Board of Directors since January 2000, and previously from December 1987 to August 1995. Mr. Engle is currently the Chairman of the Board, President and Chief Executive Officer of Lincolnwood Bancorp, Inc. (formerly known as GSC Enterprises, Inc.). Lincolnwood Bancorp, Inc. owned the Bank of Lincolnwood until June 2009 when the Bank of Lincolnwood came under control of the Federal Deposit Insurance Corporation. Mr. Engle has also served as a director of U-Swirl since January 2013. Mr. Engle’s extensive executive and board experience brings governance, investment and strategic expertise to the Board of Directors.

*Scott G. Capdevielle*. Mr. Capdevielle has served on our Board of Directors since June 2009. Mr. Capdevielle founded, and has served as President, Chief Executive Officer and a member of the Board of Directors of, Syndicom, Inc., a software and consulting company, since 2000. Prior to founding Syndicom, Inc., from 1999 to 2000, Mr. Capdevielle was Chief Executive Officer and founder of Untv, Inc., a company pioneering user-generated web video and distribution on the Internet. From 1995 to 1999, Mr. Capdevielle founded and held the position of Chief Technical Officer and a member of the Board of Directors of Andromedia Corporation, a developer of web analytics software to Fortune 1000 companies prior to its sale to Macromedia, Inc. Mr. Capdevielle has been engaged in the software industry since 1993 and has served on several advisory boards and board of directors of technology companies from 1994 to present. Mr. Capdevielle has also served as a director of U-Swirl since January 2013. Mr. Capdevielle’s extensive executive and board experience brings operational, investment, strategic, technology and industry expertise to the Board of Directors.

*Brett P. Seabert*. Mr. Seabert has served on our Board of Directors since April 2017. Mr. Seabert, a Certified Public Accountant (“CPA”), has 29 years of experience in business management, operations, finance and administration. Mr. Seabert currently serves in various capacities, including as a director or executive officer of various companies, including Tanamera Construction, LLC, a high-end real estate development and construction company (since April 2007), TD Construction, LP, a construction company (since September 2009), Caughlin Club Management Partners, LLC, a health and tennis club and preschool owner and operator (since July 2008), and B&L Investments, Inc., a management and holding company (since March 2003). From 2001 to 2008, Mr. Seabert served as Chief Financial and Operating Officer of Tanamera Commercial Development, LLC. Between 1989 and 2001, Mr. Seabert served in various positions at CMS International, an owner and management company operating several casinos, most recently as Executive Vice President and Chief Financial Officer, including oversight of internal audit, risk management and human resource functions. Mr. Seabert has been primarily engaged in commercial and residential real estate development and construction for the past 17 years. From 1984 to 1989, Mr. Seabert was a practicing CPA with Deloitte & Touche LLP. Mr. Seabert’s extensive management, accounting and financial experience brings operational, investment, and strategic value and insights to the Board of Directors.

***Executive Officers***

*Bryan J. Merryman*. Mr. Merryman's biographical information is set forth above under the heading "Directors."

*Gregory L.* Pope. Mr. Pope has served as Senior Vice President - Development since May 2004. Since joining the Company in October 1990, he has served in various positions, including store manager, new store opener and franchise field consultant. In March 1996, he became Director of Franchise Development and Support. In June 2001, he became Vice President of Franchise Development, a position he held until he was promoted to his present position.

*Edward L.* Dudley. Mr. Dudley has served as Senior Vice President - Sales and Marketing since June 2001. Previously, he served as Vice President of Sales and Marketing from January 1997 to June 2001. Prior to joining the Company, Mr. Dudley spent 10 years with Baxter Healthcare Corporation, a medical devices and services company, where he served in a number of senior marketing and sales management capacities, including most recently that of Director, Distribution Services from March 1996 to January 1997.

*Donna L. Coupe*. Ms. Coupe has served as Vice President - Franchise Support and Training since June 2008. From 1992 to 1997, she managed franchised Rocky Mountain Chocolate Factory stores in Northern California for absentee owners. Since joining the Company in October 1997, she has served in various positions including Field Consultant, Regional Manager and Director of Franchise Support.

*Ryan R. McGrath*. Mr. McGrath has served as Vice President - Information Technology since August 2017. Since joining the Company in October 2009, he has served in various positions, including Systems Analyst and Director of Information Technology. Prior to joining the Company he held various operating and information technology roles, including work for Sports Express, a travel logistics company, where he focused on software, database and application development.

***Involvement in Certain Other Legal Proceedings***

On March 29, 1994, a class action was filed in the Circuit Court for the 21st Judicial District, Centerville, Hickman County, Tennessee against National Development Company, Inc. ("NDI") and Sunstates Corporation ("Sunstates") for breach of contract by a class of purchasers (the "Plaintiffs") of real property in a recreational development developed and marketed by NDI. The Plaintiffs brought the class action to recover for the diminution in value of their properties caused by the failure of NDI to complete the primary lake in the development. On January 19, 1999, Mr. Engle, one of our directors, was added as a defendant to the class action, alleging that Mr. Engle operated the two defendant corporations as his alter ego. On January 24, 2000, the court found the defendants NDI liable for over $2.5 million to the Plaintiffs for the diminution in value of their real property based on a failure to build an adjacent lake as promised. On August 30, 2005, a judgment was entered against Mr. Engle, personally, for the amount of the original judgment plus statutory interest (the "Tennessee Judgment").

In a related case filed on October 29, 2007 in the Circuit Court for the Second Circuit, State of Hawaii, the Plaintiffs pursued a class action against Mr. Engle and others to set aside fraudulent transfers, for declaratory and injunctive relief and for damages. In that complaint, the Plaintiffs claimed they were unable to collect on the Tennessee Judgment and alleged that Mr. Engle engaged in a scheme to aggressively and fraudulently transfer assets and earnings to his wife to hinder, delay and defraud his creditors. Following a trial, a jury verdict was entered against Mr. Engle on March 3, 2010, whereby he was found to have fraudulently transferred shares of stock valued at $10,768,450 and the jury awarded punitive damages to the Plaintiffs in the amount of $43,073,800. Several post-trial motions were filed after the jury verdict but no judgement was ever entered by the court against Mr. Engle, and no material activity has occurred in this case since March 2010.

**Corporate Governance**

***Code of Ethics and Code of Conduct***

We have adopted a Code of Ethics for Senior Financial Officers that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. In addition, in accordance with NASDAQ listing rules, we have adopted a Code of Conduct applicable to all our officers, directors and employees. The text of each of the Code of Ethics for Senior Financial Officers and the Code of Conduct (together, the "Codes") is available under Corporate Governance on the Investor Relations page of our website at www.rmcf.com. If we waive, or implicitly waive, any material provision of either of the Codes, or substantively amend either of the Codes, we will disclose that fact on our website within four business days.

***Audit Committee***

The Board of Directors has a separately-designated standing Audit Committee. The Audit Committee operates under a written charter adopted by the Board of Directors. A copy of the Audit Committee Charter is available under Corporate Governance on the Investor Relations page of the Company's website at www.rmcf.com.

The members of the Audit Committee currently consist of Brett P. Seabert, Clyde Wm. Engle and Scott G. Capdevielle. The responsibilities of our Audit Committee include:

- Assisting the full Board of Directors;
- Oversight of the Company's accounting and financial reporting principles and policies and internal controls and procedures;
- Oversight of the Company's financial statements and the independent audit thereof;
- Selecting, evaluating and, where deemed appropriate, replacing the independent auditors; and
- Evaluating the independence and performance of the independent auditors.

The Board of Directors has determined that Brett P. Seabert is an "audit committee financial expert" as defined in Item 407 of Regulation S-K promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and thus possesses "financial sophistication" as that term is used in applicable NASDAQ listing rules.

The Board of Directors has also determined that each of Brett P. Seabert, Clyde Wm. Engle and Scott G. Capdevielle, representing all of the members of the Audit Committee, is an "independent director" under applicable Nasdaq listing rules and SEC regulations applicable to Audit Committee members.

## ITEM 11. EXECUTIVE COMPENSATION

**Summary Compensation Table**

The following table sets forth certain information with respect to annual compensation for the years indicated for the Company's named executive officers.

| Name and Principal Position | Fiscal Year | Salary ($) | Stock Awards ($) | All Other Compensation ($) | Total ($) |
|---|---|---|---|---|---|
| Bryan J. Merryman (1) | 2019 | $340,000 | -0- | $4,125 (2) | $344,125 |
| *President, Chief Executive Officer, Chief Financial Officer and Director* | 2018 | $340,000 | -0- | $4,050 (2) | $344,050 |
| Franklin E. Crail (1) | 2019 | $355,000 | -0- | $47,539 (3) | $402,539 |
| *Former Chief Executive Officer and President* | 2018 | $355,000 | -0- | $41,262 (3) | $396,262 |
| Edward L. Dudley | 2019 | $225,000 | -0- | $3,167 (2) | $228,167 |
| *Senior Vice President – Sales and Marketing* | 2018 | $225,000 | -0- | $3,375 (2) | $228,375 |
| Gregory L. Pope (4) | 2019 | $225,000 | -0- | $1,688 (2) | $226,688 |
| *Senior Vice President – Franchise Development* | | | | | |

(1) On February 26, 2019, Mr. Crail resigned as President and Chief Executive Officer, effective immediately. In addition, on February 26, 2019, Mr. Merryman was appointed as President and Chief Executive Officer to replace Mr. Crail.

(2) Represents 401(k) plan matching contributions during each fiscal year.

(3) Consists of life insurance premiums paid by the Company for fiscal years 2019 and 2018 of $43,414 and $37,212, respectively, and 401(k) plan matching contributions for fiscal years 2019 and 2018 of $4,125 and $4,050, respectively.

(4) Mr. Pope was not a named executive officer for fiscal year 2018.

**Narrative Discussion of Summary Compensation Table**

*Salary, Bonus and Stock Awards.* Base salary and cash bonuses for our named executive officers are reviewed on an annual basis by the Compensation Committee in conjunction with performance and upon the recommendations of our Chief Executive Officer. Our Chief Executive Officer is not present during voting or deliberation on his own compensation. Base salary adjustments and cash bonuses are awarded on a discretionary basis based on the Company's overall performance and a subjective review of each named executive officer's performance. For fiscal year 2019, in light of the Company's performance and in the interest of the Company and our stockholders, our Chief Executive Officer did not recommend that the Compensation Committee award base salary adjustments or cash bonuses for the named executive officers for fiscal year 2019. The Compensation Committee did not award any salary adjustments or bonus payments in fiscal year 2019. In addition, in light of the Company's performance, no equity grants were made to our named executive officers in fiscal years 2019 or 2018.

*Benefits.* Our named executive officers generally receive health and welfare benefits under the same programs and subject to the same terms and conditions as our other salaried employees. Other elements of compensation for our named executive officers are participation in Company-wide life insurance, long-term disability insurance, medical benefits and the ability to defer compensation pursuant to a 401(k) plan. Our named executive officers also receive matching contributions from the Company under our 401(k) plan at a rate of 25% up to 1.5% of base salary, which is the same benefit available to all salaried employees.

**Outstanding Equity Awards at Fiscal Year-End Table**

The following table provides information regarding the number and estimated value of unvested stock awards held by each of the Company's named executive officers at 2019 fiscal year-end. There were no outstanding stock options for any of our named executive officers at the end of fiscal year 2019.

| | | Stock Awards | | | |
|---|---|---|---|---|---|
| Name | Grant Date | Number of Shares or Units of Stock That Have Not Vested (#) | | Market Value of Shares or Units of Stock That Have Not Vested ($) (2) | |
| Bryan J. Merryman | 4/18/2013 | 10,000 | (1) | $ | 94,800 |
| Franklin E. Crail (3) | — | — | | | — |
| Edward L. Dudley | 4/18/2013 | 4,167 | (1) | $ | 39,503 |
| Gregory L. Pope | 4/18/2013 | 4,167 | (1) | $ | 39,503 |

(1) Represents restricted stock units ("RSUs") that vest in six equal annual installments beginning on the first anniversary of the vesting commencement date. The vesting commencement date was July 18, 2013 for RSUs granted on April 18, 2013.

(2) Based on a price of $9.48 per share, which was the closing price of our common stock as reported on the Nasdaq Global Market on February 28, 2019, the last trading day of fiscal year 2019.

(3) All of Mr. Crail's unvested equity awards were accelerated upon his retirement on February 26, 2019.

**Potential Payments on Termination or Change in Control**

We have arrangements with each of our named executive officers providing for post-employment payments under certain conditions, as described below.

*Employment Agreements.* We have entered into employment agreements with certain of our executives which contain, among other things, "change in control" severance provisions. Specifically, we have entered into employment agreements with Messrs. Merryman and Dudley. The agreements with each of Messrs. Merryman and Dudley provide for "at will" employment, which means we or the executive can terminate his employment at any time, with or without "cause" (as defined therein). The employment agreements generally provide that, if we terminate the executive's employment under circumstances constituting a "triggering termination," the executive will be entitled to receive, among other benefits, 2.99 times the sum of (i) the executive's annual salary and (ii) the lesser of (a) two times the bonus that would be payable to the executive for the bonus period in which the change in control occurred and (b) 25% of the executive's annual salary. The executive will also receive an additional payment of $18,000, which represents the estimated cost to the executive of obtaining accident, health, dental, disability and life insurance coverage for the 18-month period following the expiration of COBRA coverage.

A "change in control," as used in these employment agreements, generally means a change in the control of us following (1) an event that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Exchange Act, without the approval of two-thirds of the Board of Directors prior to its occurrence or within 60 days thereafter, (2) a person (an "Acquiring Person") acquiring direct or indirect beneficial ownership of 20% or more of our then outstanding voting securities, without the approval of two-thirds of the Board of Directors prior to its occurrence or within 60 days thereafter, (3) a merger, consolidation, sale of assets or other reorganization, or a proxy contest in which our Board of Directors prior to the transaction constitutes less than a majority of our Board of Directors after the transaction or (4) the members of our Board of Directors during any consecutive two-year period who at the beginning of such period constituted the Board of Directors cease to be the majority of the Board of Directors at the conclusion of that period. In addition to the foregoing, a change in control shall be deemed to have occurred if, after the occurrence of the event described in clause (2) above that has been approved by a two-thirds vote of the Board of Directors, the Acquiring Person shall have become the beneficial owner, directly or indirectly, of securities representing an additional 5% or more of the combined voting power of our 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 of Directors. Each subsequent acquisition by an Acquiring Person of securities representing an additional 5% or more of the combined voting power of our 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 above were given with respect to the initial Share Acquisition and all prior Subsequent Share Acquisitions by such Acquiring Person. A "triggering termination" generally occurs when an executive is terminated during a specified period preceding a change in control of us, or if the executive or we terminate the executive's employment under circumstances constituting a triggering termination during a specified period after a change in control. A triggering termination also includes a voluntary termination by the executive within five business days before an anticipated change in control with the concurrence of two concurring persons (either the Chairman of the Board of Directors or a member of our Compensation Committee) that the change in control is likely to occur during such five-business day period. In such event, the executive must agree to continue to work on an at-will basis, without compensation, until the change in control occurs. If the change in control does not occur within ten business days, the executive must refund the severance payment to us.

*2007 Equity Compensation Plan.* Our 2007 Equity Incentive Plan provides that in the event of a Company transaction in which all of the named executive officer's unvested option awards or RSUs are not converted, assumed or replaced by the successor company, such options or RSUs will immediately vest and become exercisable and payable immediately prior to the company transaction. In addition, in the event of a change in control, all of the named executive officer's unvested option awards and RSUs will immediately vest and become exercisable and payable.

Assuming the applicable triggering event took place on February 28, 2019, the named executive officers would have been eligible for payments set forth in the following table. These payments are estimates. If a specific triggering event had actually occurred, the named executive officer would only receive the payments that applied to that specific triggering event. These payments would come from us if the triggering event occurred before a change in control and from the successor company if after a change in control. As of February 28, 2019, no outstanding stock option awards for our named executive officers were outstanding.

| Name | Change in Control Severance Payment ($) (1) | Payment for Continuing Insurance Coverage ($) | RSU Acceleration (2) | Total |
|---|---|---|---|---|
| Bryan J. Merryman | $1,326,813 | $15,500 | $94,800 | $1,437,113 |
| Edward L. Dudley | $ 840,938 | $15,500 | $39,503 | $ 895,941 |
| Gregory L. Pope | - | - | $39,503 | $39,503 |

(1) These amounts are based on 2.99 times 125% of each executive's base salary in place during fiscal year 2019.

(2) Based on a price of $9.48 per share, which was the closing price of our common stock as reported on the Nasdaq Global Market on February 28, 2019, the last trading day of fiscal year 2019.

*Retirement Separation Agreement with Mr. Crail.* In connection with Mr. Crail's retirement on February 26, 2019, the Company entered into a Retirement Separation and General Release Agreement with Mr. Crail (the "Separation Agreement"). Pursuant to the Separation Agreement, the Company agreed to accelerate the vesting of all of Mr. Crail's outstanding equity awards and, for so long as Mr. Crail continues to serve on the Board of Directors, to provide (or pay premiums for) a Medicare supplemental insurance policy for Mr. Crail.

**Director Compensation**

Non-employee directors are generally compensated with a combination of cash retainers for serving on committees of the Board of Directors and annual equity grants. Our director compensation policy for fiscal year 2019 provided for the following compensation to our non-employee directors:

*Cash Retainer.* Non-employee directors receive cash retainers for their service on the committees of the Board of Directors and on the Board of Directors. Each non-employee director is paid $3,125 quarterly. Members of our Compensation Committee are paid $750 quarterly, with the chairman of the Compensation Committee being paid $1,500 quarterly. Audit Committee members are paid $500 quarterly, with the chairman of the Audit Committee being paid $1,500 quarterly. Additionally, Audit Committee members receive $250 for each meeting held by phone and $500 for each meeting held in person. Also, an Audit Committee member attending all of the Audit Committee meetings for any fiscal year receives a $1,000 bonus for that year.

*Equity Awards.* Non-employee directors generally receive annual equity awards under our 2007 Equity Incentive Plan at the discretion of the Compensation Committee. For their service in fiscal year 2019, each non-employee director was granted 2,000 shares of common stock and an additional 500 shares of common stock were granted to the chairman of each of the Audit Committee and the Compensation Committee, unless the non-employee director elected to receive a cash payment in lieu of the equity award. In fiscal year 2019, all of our directors, except for Mr. Crail, elected to receive the cash payment in lieu of the equity award. Any cash payment in lieu of an equity award was paid in an amount equal to the potential grant date fair value of the equity award.

The following table summarizes the total compensation paid to each of our non-employee directors who served during fiscal year 2019. Mr. Crail, our former President and Chief Executive Officer, and Mr. Merryman, our current President, Chief Executive Officer, Chief Financial Officer and Treasurer, do not receive any compensation for their service as directors. See "Executive Compensation" above for information regarding the compensation for Messrs. Crail and Merryman..

| Name | Fees Earned or Paid in Cash ($) | Stock Awards ($)(2) | Total ($) |
|---|---|---|---|
| Lee N. Mortenson (1) | $49,470 | -0- | $49,470 |
| Brett P. Seabert | $44,480 | -0- | $44,480 |
| Scott G. Capdevielle | $44,480 | -0- | $44,480 |
| Clyde Wm. Engle | $12,750 | $24,480 | $37,230 |

(1) Mr. Mortenson served as a director until his passing on October 5, 2018. The payments above represent payments for his service from the start of fiscal year 2019 until his passing.

(2) Represents the grant date fair value for stock awards granted during fiscal year 2019 computed in accordance with the requirements ofFASB ASC Topic 718. A summary of the assumptions we applied in calculating these amounts is set forth in the Notes to Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended February 28, 2019.

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

**Security Ownership of Certain Beneficial Owners and Management**

The following table sets forth information, as of June 1, 2019, with respect to the shares of our common stock beneficially owned (i) by each person known to us to be the beneficial owner of more than 5% of our common stock, (ii) by each director, (iii) each named executive officer set forth in the Summary Compensation Table above and (iv) by all of our directors and executive officers as a group. As of June 1, 2019, 5,965,827 shares of our common stock were outstanding.

The number of shares beneficially owned includes shares of our common stock with respect to which the persons named below have either investment or voting power. A person is also deemed to be the beneficial owner of a security if that person has the right to acquire beneficial ownership of that security within 60 days of June 1, 2019 through the exercise of options, vesting of RSUs, or through the conversion of another security. For purposes of calculating each person's or group's percentage ownership, shares of our common stock issuable upon the exercise of options, vesting of RSUs or through conversion of another security within 60 days of June 1, 2019 are included as outstanding and beneficially owned for that person or group, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person or group. Except as noted, each beneficial owner has sole investment and voting power with respect to our common stock.

Unless otherwise indicated, the address for each director and named executive officer listed below is c/o Rocky Mountain Chocolate Factory, Inc., 265 Turner Drive, Durango, Colorado 81303.

| Name of Beneficial Owner | Amount and Nature of Beneficial Ownership | Percent of Class |
|---|---|---|
| ***5% Stockholders:*** | | |
| FMR LLC | 582,493 (1) | 9.77% |
| AB Value Management LLC | 460,189 (2) | 8.18% |
| Renaissance Technologies LLC | 487,939 (3) | 7.72% |
| Taylor Hoffman Wealth Management, LLC | 302,366 (4) | 5.07% |
| | | |
| ***Directors and Named Executive Officers:*** | | |
| Franklin E. Crail | 491,126 | 8.24% |
| Clyde Wm. Engle | 4,000 | * |
| Brett P. Seabert | - | * |
| Scott G. Capdevielle | 8,228 | * |
| Bryan J. Merryman | 40,000 (5) | * |
| Edward L. Dudley | 37,063 (6) | * |
| Gregory L. Pope | 58,298 (7) | * |
| All executive officers and directors as a group (9 persons) (7) | 651,059 (8) | 11.98% |

* Less than 1%

(1) Based solely on the information contained in a filing on Schedule 13G/A filed with the SEC on February 13, 2019. The address of FMR LLC is 245 Summer Street, Boston, Massachusetts 02210.

(2) Based solely on the information contained in a filing on Schedule 13D/A filed with the SEC on May 22, 2019. The address of AB Value Management LLC is 200 Sheffield Street, Suite 311, Mountainside, New Jersey 07092.

(3) Based solely on the information contained in a filing on Schedule 13G/A filed with the SEC on February 13, 2019. The shares are beneficially owned by Renaissance Technologies LLC and its affiliate, Renaissance Technologies Holdings Corporation. The address of Renaissance Technologies LLC and its affiliates is 800 Third Avenue, New York, New York 10022.

(4) Based solely on the information contained in a filing on Schedule 13G/A filed with the SEC on February 14, 2019. The shares are beneficially owned by Taylor Hoffman Wealth Management, LLC, Brandon Christopher Taylor and Gabriel Christopher Hoffman. The address of Taylor Hoffman Wealth Management, LLC and its affiliates is 1802 Bayberry Court, Suite 101, Richmond, Virginia 23226.

(5) Includes 10,000 shares issuable upon the vesting of RSUs within 60 days of June 1, 2019.

(6) Includes 4,167 shares issuable upon the vesting of RSUs within 60 days of June 1, 2018.

(7) Includes 4,167 shares issuable upon the vesting of RSUs within 60 days of June 1, 2018 and 38,620 shares held within the Rocky Mountain Chocolate Factory, Inc. 401(K) Plan.

(8) Shares beneficially owned include 21,667 shares issuable to our executive officers and directors as a group upon the vesting of RSUs within 60 days of June 1, 2019.

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

**Related Person Transactions**

We had no transactions with related persons during fiscal year 2019 which are required to be disclosed pursuant to SEC rules.

**Policies and Procedures for Approving Transactions with Related Persons**

The independent members of the Board of Directors have the responsibility to review and approve related person transactions, either in advance or when we become aware of a related person transaction that was not reviewed and approved in advance; however, the Board of Directors has not adopted a written policy or procedures governing its approval of transactions with related persons. There were no related person transactions in fiscal year 2018 or 2019.

**Director Independence**

Nasdaq listing rules require that a majority of the Board of Directors must be comprised of independent directors. The Board of Directors has determined that Brett P. Seabert, Clyde Wm. Engle, and Scott G. Capdevielle is each an independent director. Mr. Merryman is not independent due to his service as a current executive officer of the Company, and Mr. Crail is not independent due to his service as a former executive officer of the Company. The Board of Directors makes a determination regarding the independence of each director annually based on relevant facts and circumstances. Applying the standards and independence criteria defined by the Nasdaq listing standards, the Board of Directors has made a determination as to each independent director that no relationships exist which, in the opinion of the Board of Directors, would interfere with the exercise of his independent judgment in carrying out the responsibilities of a director.

The Board of Directors has also determined that Brett P. Seabert, Clyde Wm. Engle and Scott G. Capdevielle, representing all of the members of the Audit Committee, are all "independent directors" under Nasdaq listing standards and SEC rules applicable to Audit Committee members.

The Board of Directors has determined that Brett P. Seabert and Scott G. Capdevielle are “independent directors” under Nasdaq listing standards and SEC rules applicable to Compensation Committee members. Mr. Crail, who is also a member of the Compensation Committee, is not deemed to be independent under the applicable Nasdaq listing standards because he served as our Chief Executive Officer until February 2019. Although Mr. Crail is not an independent director, Section 5605(d)(2)(B) of the Nasdaq listing standards nonetheless permits the appointment of a non-independent director to the Compensation Committee if the Board of Directors, under exceptional and limited circumstances, determine that the non-independent director’s membership is in the best interests of the Company and its stockholders. Based on Mr. Crail’s extensive experience with the Company and his knowledge of the operations of the Company, the Board of Directors concluded that, under the exceptional and limited circumstances due to the unexpected pass of Lee Mortensen, Mr. Crail’s appointment to, and membership on, the Compensation Committee was in the best interests of the Company and its stockholders.

The Board of Directors has determined that Brett P. Seabert and Scott G. Capdevielle, representing all of the members of the Nominating Committee were all "independent directors" under applicable Nasdaq listing standards.

## ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Effective October 1, 2018, EKS&H LLLP ("EKS&H"), the former independent registered public accounting firm for Rocky Mountain Chocolate Factory, Inc. (the "Company"), combined with Plante & Moran PLLC ("Plante Moran"). As a result of this transaction, on October 1, 2018, EKS&H resigned as the independent registered public accounting firm for the Company. Concurrent with such resignation, the Audit Committee of the Company approved the engagement of Plante Moran as the new independent registered public accounting firm for the Company for the fiscal year ending February 28, 2019.

**Independent Registered Public Accounting Firm Fees**

Fees billed by EKS&H in fiscal years 2018 and 2019 were as follows:

| | 2019 | 2018 |
|---|---|---|
| Audit fees | $114,725 | $155,711 |
| Audit-related fees(1) | $ 15,750 | $ 15,750 |
| Tax fees(2) | $ 14,325 | $42,795 |
| All other fees | — | — |
| Total | $144,800 | $214,256 |

Fees billed by Plante Moran in fiscal years 2018 and 2019 were as follows:

| | 2019 | 2018 |
|---|---|---|
| Audit fees | $19,250 | — |
| Audit-related fees(1) | — | — |
| Tax fees(2) | $27,475 | — |
| All other fees | — | — |
| Total | $46,725 | — |

(1) Audit-related fees consist of assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements. This category includes fees related to the performance of audits and attest services not required by statute or regulations, audits of the Company's benefit plans, and additional compliance procedures related to performance of the review or audit of the Company's financial statements, and accounting consultations about the application of generally accepted accounting principles to proposed transactions. These services support the evaluation of the effectiveness of internal controls.

(2) Tax fees consist of the aggregate fees billed for professional services rendered for tax compliance, tax advice, and tax planning services.

**Audit Committee Pre-Approval Policy and Procedures**

The Audit Committee is responsible for appointing, setting compensation for and overseeing the work of the independent auditor. The Audit Committee has established a policy regarding pre-approval of all audit and permissible non-audit services to be provided by the independent auditor. Such policy requires that all audit and permissible non-audit services to be provided by the independent auditor must be submitted to the Audit Committee for approval at a meeting of the Audit Committee or by unanimous written consent of the Audit Committee in lieu of a meeting. The Audit Committee has determined that the provision of the services listed above is compatible with maintaining the principal accountant's independence, and pre-approved all such services and fees in fiscal year 2018 and 2019.

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## PART IV.

## ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

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

1. Financial Statements



2. Financial Statement Schedule

SCHEDULE II - Valuation and Qualifying Accounts

**3. Exhibits**

| 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 | *** |
| 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) |

Table of Contents

| Exhibit Number | Description | Incorporated by Reference to |
|---|---|---|
| 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) |
| 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. | *** |
| 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. | *** |
| 21.1 | Subsidiaries of the Registrant | *** |
| 23.1 | Consent of Independent Registered Public Accounting Firm | Filed herewith |
| 23.2 | Consent of Independent Registered Public Accounting Firm | *** |
| 31.1 | Certification Pursuant To Section 302 of the Sarbanes-Oxley Act of 2002 | *** |
| 31.2 | 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 | *** |
| 32.2 | Certification Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002 | Filed 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 |

| Exhibit Number | | Description | | Incorporated by Reference to |
|---|---|---|---|---|
| 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. | | | |
| *** | Previously filed with the Company’s Annual Report on Form 10-K filed with the SEC on May 29, 2019. | | | |

**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: June 28, 2019

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

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 29, 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/A.

/s/ Plante & Moran, PLLC

Denver, Colorado

June 28, 2019

**Exhibit 31.2**

**Certification Pursuant To Section 302 of the Sarbanes-Oxley Act of 2002**

I, Bryan J. Merryman, certify that:

1. I have reviewed this Amendment No. 1 on Form 10-K/A 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: June 28, 2019

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

**Exhibit 32.2**

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

In connection with Amendment No. 1 to the Annual Report of Rocky Mountain Chocolate Factory, Inc. (the "Company") on Form 10-K/A 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: June 28, 2019

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