UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended November 30, 2024

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to _______

Commission File Number: 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)

Registrant's telephone number, including area code: (970) 259-0554

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.001 par value per share	RMCF	Nasdaq Global Market

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

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

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

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

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

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

On January 8, 2025, the registrant had 7,687,302 shares of common stock, $0.001 par value per share, outstanding.

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Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q (this "Quarterly Report") contains statements of our expectations, intentions, plans and beliefs that constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and are intended to come within the safe harbor protection provided by those sections. These forward-looking statements involve various risks and uncertainties. These statements, other than statements of historical fact, included in this Quarterly Report are forward-looking statements. Many of the forward-looking statements contained in this document may be identified by the use of forward-looking words such as "will," "intend," "believe," "expect," "anticipate," "should," "plan," "estimate," "potential," "may," "would," "could," "continue," "likely," "might," "seek," "outlook," "explore," or the negative of these terms or other similar expressions. However, the absence of these words or similar expressions does not mean that a statement is not forward-looking. All statements that address operating performance, events or developments that we expect or anticipate will occur in the future including statements expressing general views about future operating results are forward-looking statements. Management believes these forward-looking statements are reasonable as and when made. However, caution should be taken not to place undue reliance on any such forward-looking statements because such statements speak only as of the date of this Quarterly Report. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise, except as required by law. In addition, forward-looking statements are subject to certain risks and uncertainties that could cause our actual results to differ materially from historical experience and our present expectations or projections. These risks and uncertainties include, but are not limited to: inflationary impacts, the outcome of legal proceedings, changes in the confectionery business environment, seasonality, consumer interest in our products, consumer and retail trends, costs and availability of raw materials, competition, and the success of our co-branding strategy and the effect of government regulations. For a detailed discussion of the risks and uncertainties that may cause our actual results to differ from the forward-looking statements contained herein, please see Part II, Item 1A. "Risk Factors" and the risks described elsewhere in this Quarterly Report and the section entitled "Risk Factors" contained in Part I, Item 1A. of our Annual Report on Form 10-K for the fiscal year ended February 29, 2024, filed with the Securities and Exchange Commission ("SEC") on June 13, 2024, as updated by this Quarterly Report.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Rocky Mountain Chocolate Factory, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended November 30, 2024	Three Months Ended November 30, 2023	Nine Months Ended November 30, 2024	Nine Months Ended November 30, 2023
Revenues				
Sales	$ 6,719	$ 6,421	$ 16,916	$ 16,453
Franchise and royalty fees	1,174	1,276	3,764	4,238
Total Revenue	7,893	7,697	20,680	20,691
Costs and Expenses				
Cost of sales	6,044	5,769	15,980	15,159
Franchise costs	616	577	2,109	1,870
Sales and marketing	272	572	840	1,487
General and administrative	1,427	1,333	4,288	4,952
Retail operating	171	186	564	451
Depreciation and amortization, exclusive of depreciation and amortization expense of $211, $188, $598 and $541, respectively, included in cost of sales	63	36	143	99
Total costs and expenses	8,593	8,473	23,924	24,018
Loss from Operations	(700)	(776)	(3,244)	(3,327)
Other Income (Expense)				
Interest expense	(160)	(11)	(258)	(24)
Interest income	7	30	21	68
Gain on disposal of assets	6	-	254	-
Other income (expense), net	(147)	19	17	44
Loss Before Income Taxes	(847)	(757)	(3,227)	(3,283)
Income Tax Provision (Benefit)	-	-	-	-
Loss from Continuing Operations	(847)	(757)	(3,227)	(3,283)
Discontinued Operations				
Earnings from discontinued operations, net of tax	-	-	-	69
Gain on disposal of discontinued operations, net of tax	-	-	-	635
Earnings from discontinued operations, net of tax	-	-	-	704
Net Loss	$ (847)	$ (757)	$ (3,227)	$ (2,579)
Basic Loss per Common Share				
Loss from continuing operations	$ (0.11)	$ (0.12)	$ (0.47)	$ (0.51)
Earnings from discontinued operations	-	-	-	0.11
Net loss	$ (0.11)	$ (0.12)	$ (0.47)	$ (0.40)
Diluted Loss per Common Share				
Loss from continuing operations	$ (0.11)	$ (0.12)	$ (0.47)	$ (0.51)
Earnings from discontinued operations	-	-	-	0.11
Net loss	$ (0.11)	$ (0.12)	$ (0.47)	$ (0.40)
Weighted Average Common Shares Outstanding - Basic	7,643,690	6,302,159	6,883,263	6,290,575
Dilutive Effect of Employee Stock Awards	-	-	-	-
Weighted Average Common Shares Outstanding - Diluted	7,643,690	6,302,159	6,883,263	6,290,575

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

Rocky Mountain Chocolate Factory, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(In thousands, except share and per share amounts)
(Unaudited)

	November 30, 2024 (unaudited)	February 29, 2024
Assets		
Current Assets		
Cash and cash equivalents	$ 1,089	$ 2,082
Accounts receivable, less allowance for credit losses of $383 and $332, respectively	4,100	2,184
Notes receivable, current portion, less current portion of the allowance for credit losses of $2 and $30, respectively	40	489
Refundable income taxes	63	46
Inventories	5,722	4,358
Other	256	443
Total current assets	11,270	9,602
Property and Equipment, Net	8,071	7,758
Other Assets		
Notes receivable, less current portion and allowance for credit losses of $28 and $0, respectively	51	695
Goodwill	576	576
Intangible assets, net	215	238
Lease right of use asset	1,352	1,694
Other	99	14
Total other assets	2,293	3,217
Total Assets	$ 21,634	$ 20,577
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$ 2,083	$ 3,411
Line of credit	-	1,250
Accrued salaries and wages	811	1,833
Gift card liabilities	628	624
Other accrued expenses	183	301
Contract liabilities	140	150
Lease liability	494	503
Total current liabilities	4,339	8,072
Note payable	6,000	-
Lease Liability, Less Current Portion	861	1,191
Contract Liabilities, Less Current Portion	600	678
Total Liabilities	11,800	9,941
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock, $.001 par value per share; 250,000 authorized; 0 shares issued and outstanding	-	-
Common stock, $.001 par value, 46,000,000 shares authorized, 7,667,264 shares and 6,306,027 shares issued and outstanding, respectively	8	6
Additional paid-in capital	12,319	9,896
Retained earnings (accumulated deficit)	(2,493)	734
Total stockholders' equity	9,834	10,636
Total Liabilities and Stockholders' Equity	$ 21,634	$ 20,577

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

Rocky Mountain Chocolate Factory, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Nine Months Ended November 30, 2024	2023
Cash Flows from Operating Activities		
Net Loss	$ (3,227)	$ (2,579)
Less: Earnings from discontinued operations, net of tax	-	704
Loss from continuing operations	(3,227)	(3,283)
Adjustments to reconcile loss from continuing operations to net cash used in operating activities:		
Depreciation and amortization	741	640
Provision (write off) for obsolete inventory	(147)	63
Provision for loss on accounts and notes receivable	51	-
Gain on sale of property and equipment	(254)	(38)
Expense recorded for stock compensation	237	491
Changes in operating assets and liabilities:		
Accounts receivable	(1,597)	(1,339)
Refundable income taxes	(17)	299
Inventories	(450)	230
Other current assets	187	(286)
Accounts payable	(2,091)	558
Accrued liabilities	(1,134)	221
Contract liabilities	(88)	(81)
Net cash used in operating activities of continuing operations	(7,789)	(2,525)
Net cash used in operating activities of discontinued operations	-	(39)
Net cash used in operating activities	(7,789)	(2,564)
Cash Flows from Investing Activities		
Addition to notes receivable	-	(49)
Proceeds received on notes receivable	176	57
Proceeds from the sale of assets	1,909	111
Purchases of property and equipment	(2,148)	(2,617)
Decrease (increase) in other assets	(79)	9
Net cash used in investing activities of continuing operations	(142)	(2,489)
Net cash provided by investing activities of discontinued operations	-	1,418
Net cash used in investing activities	(142)	(1,071)
Cash Flows from Financing Activities		
Proceeds from line of credit	2,200	1,000
Payment on line of credit	(3,450)	-
Proceeds from notes payable	6,000	-
Issuance of common stock through securities purchase agreement	2,188	-
Net cash provided by financing activities of discontinued operations	-	-
Net cash provided by financing activities	6,938	1,000
Net Decrease in Cash and Cash Equivalents	(993)	(2,635)
Cash and Cash Equivalents, Beginning of Period	2,082	4,717
Cash and Cash Equivalents, End of Period	$ 1,089	$ 2,082

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

Rocky Mountain Chocolate Factory, Inc. and Subsidiaries
Condensed Consolidated Statements of Changes in Stockholders' Equity
(In thousands, except share amounts)
(Unaudited)

Nine Months Ended November 30, 2024

	Convertible Preferred Stock		Common Stock		Additional Paid-In	Retained Earnings (Accumulated Deficit)	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital		Equity
Balances as of February 29, 2024	**-**	**$ -**	**6,306,027**	**$ 6**	**$ 9,896**	**$ 734**	**$ 10,636**
Equity compensation, restricted stock units, net of shares withheld	-	-	20,112	-	40	-	40
Net loss	-	-	-	-	-	(1,658)	(1,658)
Balances as of May 31, 2024	**-**	**$ -**	**6,326,139**	**$ 6**	**$ 9,936**	**$ (924)**	**$ 9,018**
Equity compensation, restricted stock units, net of shares withheld	-	-	12,448	-	41	-	41
Issuance of common stock through securities purchase agreement	-	-	1,250,000	2	2,186	-	2,188
Net loss	-	-	-	-	-	(722)	(722)
Balances as of August 31, 2024	**-**	**-**	**7,588,587**	**8**	**12,163**	**(1,646)**	**10,525**
Equity compensation, restricted stock units, net of shares withheld	-	-	78,677	-	156	-	156
Net loss	-	-	-	-	-	(847)	(847)
Balances as of November 30, 2024	**-**	**-**	**7,667,264**	**8**	**12,319**	**(2,493)**	**9,834**

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

Rocky Mountain Chocolate Factory, Inc. and Subsidiaries
Condensed Consolidated Statements of Changes in Stockholders' Equity (Continued)
(In thousands, except share amounts)
(Unaudited)

	Nine Months Ended November 30, 2023						
	Convertible Preferred Stock		Common Stock		Additional Paid-In	Retained Earnings (Accumulated	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Deficit)	Equity
Balances as of February 28, 2023	**-**	**$ -**	**6,257,137**	**$ 6**	**$ 9,458**	**$ 4,906**	**$ 14,370**
Equity compensation, restricted stock units, net of shares withheld	-	-	33,027	-	201	-	201
Net loss	-	-	-	-	-	(823)	(823)
Balances as of May 31, 2023	**-**	**$ -**	**6,290,164**	**$ 6**	**$ 9,659**	**$ 4,083**	**$ 13,748**
Issuance of common stock, vesting of restricted stock units	-	-	9,661	-	-	-	-
Equity compensation, restricted stock units and stock options	-	-	-	-	123	-	123
Net loss	-	-	-	-	-	(999)	(999)
Balances as of August 31, 2023	**-**	**-**	**6,299,825**	**$ 6**	**$ 9,782**	**$ 3,084**	**$ 12,872**
Issuance of common stock, vesting of restricted stock units	-	-	3,944	-	-	-	-
Equity compensation, restricted stock units, net of shares withheld	-	-	-	-	166	-	166
Net loss	-	-	-	-	-	(757)	(757)
Balances as of November 30, 2023	**-**	**-**	**6,303,769**	**6**	**9,948**	**2,327**	**12,281**

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

Rocky Mountain Chocolate Factory, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

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

Nature of Operations

The accompanying condensed 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 (dissolved in November 2023), U-Swirl International, Inc. (dissolved in October 2023) ("U-Swirl"), and U-Swirl, Inc., a Nevada corporation ("SWRL") (collectively, the "Company", "we", or "RMCF").

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. The Company also sells its candy in select locations outside of its system of retail stores.

On February 24, 2023, the Company entered into an agreement to sell its three Company-owned U-Swirl locations. Separately, on May 1, 2023, the Company entered into an agreement to sell its franchise rights and intangible assets related to U-Swirl and associated brands. As a result, the activities of the Company's U-Swirl subsidiary that have historically been reported in the U-Swirl segment have been reported as discontinued operations. See Note 15 – Discontinued Operations in the Notes to Condensed Consolidated Financial Statements for additional information regarding the Company's discontinued operations, including net sales, operating earnings and total assets by segment. The Company's financial statements reflect continuing operations only, unless otherwise noted.

The Company's revenues are currently derived from four 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; sales at Company-owned stores of chocolates and other confectionery products including gourmet caramel apples; and marketing fees.

The Company does not have a material amount of financial assets or liabilities that are required under accounting principles generally accepted in the United States of America ("GAAP") to be measured on a recurring basis at fair value. The Company is not a party to any material derivative financial instruments. The Company does not have a material amount of non-financial assets or non-financial liabilities that are required under GAAP to be measured at fair value on a recurring basis. The Company has not elected to use the fair value measurement option, as permitted under GAAP, for any assets or liabilities for which fair value measurement is not presently required. The Company believes the fair values of cash equivalents, accounts and notes receivable, accounts payable and note payable approximate their carrying amounts due to their short duration.

The following table summarizes the number of stores operating under the Rocky Mountain Chocolate Factory brand at November 30, 2024:

	Stores Open at 2/29/2024	Opened	Closed	Sold	Stores Open at 11/30/2024
Rocky Mountain Chocolate Factory					
Company-owned stores	2	-	-	-	2
Franchise stores - Domestic stores and kiosks	149	2	(6)	(2)	143
International license stores	3	-	-	-	3
Cold Stone Creamery - co-branded	104	4	(2)	-	106
U-Swirl - co-branded	11	-	-	(1)	10
Total	269				264

Rocky Mountain Chocolate Factory, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Liquidity and Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. In accordance with ASC 205-40, Going Concern, the Company's management has evaluated whether there are conditions and events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date the accompanying financial statements were issued. During the nine months ended November 30, 2024, the Company incurred a net loss of $3.2 million and used cash in operating activities of $7.8 million. Although the Company paid off the outstanding debt with Wells Fargo (the "Credit Agreement") at maturity through the issuance of a $6.0 million note payable, the Company still has incurred losses and used cash from operating activities. These factors raise substantial doubts about the Company's ability to continue as a going concern within one year after the date that these condensed consolidated financial statements are issued. The accompanying condensed consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

The Company's ability to continue as a going concern is dependent on its ability to continue to implement its business plan. The Company continues to explore supplemental liquidity sources. During the next twelve months, the Company intends to further reduce overhead costs, improve manufacturing efficiencies, and increase profits and gross margins by better aligning its costs with the delivery and sale to its franchising system and focus customers. In addition, the Company intends to benefit from its historically busy season of holiday product sales while also increasing sales through its e-commerce distribution channel on a year-round basis. There are no assurances that the Company will be successful in implementing its business plan.

Basis of Presentation and Consolidation

The accompanying condensed consolidated financial statements, which include the accounts of the Company and its subsidiaries, have been prepared by the Company, without audit, and reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. The condensed consolidated financial statements have been prepared in accordance with GAAP for interim financial reporting and Securities and Exchange Commission ("SEC") regulations. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the consolidated financial statements reflect all adjustments (of a normal and recurring nature) which are necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. The results of operations for the nine months ended November 30, 2024 are not necessarily indicative of the results to be expected for the entire fiscal year ending February 28, 2025. All intercompany balances and transactions have been eliminated in consolidation.

These consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended February 29, 2024, filed with the SEC on June 13, 2024. The year-end balance sheet data was derived from audited financial statements but does not include all disclosures required by GAAP.

Rocky Mountain Chocolate Factory, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the estimate of the reserve for uncollectible accounts and the reserve for inventory obsolescence. The Company bases its estimates on historical experience and assumptions that the Company believes are reasonable. The Company assesses these estimates on a regular basis; however, actual results could materially differ from these estimates.

Assets Held for Sale

The Company classifies an asset as held for sale when management, having the authority to approve the action, commits to a plan to sell the asset, the sale is probable within one year and the asset is available for immediate sale in its present condition. The Company also considers whether an active program to locate a buyer has been initiated, whether the asset is marketed actively for sale at a price that is reasonable in relation to its current fair value and whether actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. The Company initially measures an asset that is classified as held for sale at the lower of its carrying amount or fair value less costs to sell. Any loss resulting from this measurement is recognized in the period in which the held for sale criteria are met. Conversely, gains are not recognized until the date of sale. The Company assesses the fair value of an asset less costs to sell each reporting period it remains classified as held for sale and reports any subsequent changes as an adjustment to the carrying amount of the asset, as long as the new carrying amount does not exceed the carrying amount of the asset at the time it was initially classified as held for sale. Assets are not depreciated or amortized while they are classified as held for sale.

In the first quarter of fiscal 2025, the Company commenced its plan to sell an unused parcel land in Durango, Colorado where the Company is headquartered. On July 10, 2024, the Company sold its parcel of land in Durango, Colorado for a purchase price of approximately $0.9 million, and recorded a gain of approximately $0.5 million in connection with the sale.

In the first quarter of fiscal 2025, the Company commenced its plan to sell a piece of factory machinery. During the third quarter of fiscal 2025, the Company sold the piece of machinery for $0.7 million. In connection with the sale the Company recorded a loss of $46 thousand. The Company did not have any other assets held for sale as of November 30, 2024.

New Accounting Pronouncements Not Yet Adopted

In November 2023, the FASB issued ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures (“ASU 2023-07”). ASU 2023-07 enhances the disclosures required for operating segments in the Company’s annual and interim consolidated financial statements. The disclosures required under ASU 2023-07 are also required for public entities with a single reportable segment. The updates in this ASU are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The Company is currently evaluating the impact of the new standard on its consolidated financial statements.

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures (“ASU 2023-09”). ASU 2023-09 requires disaggregated information about a reporting entity’s effective tax rate reconciliation as well as information on income taxes paid. The updates in this ASU are effective for annual periods beginning after December 15, 2024. Early adoption is permitted. The Company is currently evaluating the impact of the new standard on its consolidated financial statements.

Rocky Mountain Chocolate Factory, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Accounts and Notes Receivable, Net

Accounts receivable represent amounts due from customers in the ordinary course of business and are recorded at the invoiced amount and do not bear interest. Notes receivable generally reflect the sale of assets. Accounts and notes receivables are stated at the net amount expected to be collected, using an estimate of current expected credit losses to determine the allowance for expected credit losses. The Company evaluates the collectability of its accounts and notes receivable and determines the appropriate allowance for expected credit losses based on a combination of factors, including the aging of the receivables and historical collection trends. When the Company is aware of a customer's inability to meet its financial obligation, the Company may individually evaluate the related receivable to determine the allowance for expected credit losses. The Company uses specific criteria to determine uncollectible receivables to be written off, including bankruptcy filings, the referral of customer accounts to outside parties for collection, and the length that accounts remain past due.

In July 2024, the Company and Isaac Lee Collins, LLC entered into a Promissory Note and Security Assignment and Assumption Agreement (the "Agreement") related to the outstanding U-Swirl promissory note which had an outstanding principal and accrued interest balance of $1.0 million. Pursuant to the terms of the Agreement, the Company irrevocably assigned and transferred to the purchaser all of its right, title, and interest in and to the U-Swirl promissory note and the purchaser agreed to assume the same in consideration of $0.7 million. The Company recorded a loss of $0.2 million in connection with the sale and is included within gain (loss) on disposal of assets on the statements of operations.

Subsequent Events

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

NOTE 2 - SUPPLEMENTAL CASH FLOW INFORMATION

($'s in thousands)	Nine Months Ended November 30, 2024	Nine Months Ended November 30, 2023
Cash paid (received) for:		
Interest	$ 258	$ 25
Income taxes	17	(299)
Supplemental disclosure of non-cash operating activities:		
Inventory accrued but not yet paid	$ 766	$ -
Supplemental disclosure of non-cash investing activities:		
Receivable from sale of held-for-sale assets	$ 358	$ -
Sale of assets in exchange for note receivable	-	1,000

NOTE 3 – REVENUE FROM CONTRACTS WITH CUSTOMERS

The Company recognizes revenue from contracts with its customers in accordance with Accounting Standards Codification® ("ASC") 606, which provides that revenues are recognized when control of promised goods or services is transferred to a customer in an amount that reflects the consideration expected to be received for those goods or services. The Company generally receives a fee associated with the franchise agreement or license agreement (collectively "Customer Contracts") at the time that the Customer Contract is entered. These Customer Contracts have a term of up to 20 years, however the majority of Customer Contracts have a term of 10 years. During the term of the Customer Contract, the Company is obligated to many performance obligations that the Company has not determined are distinct. The resulting treatment of revenue from Customer Contracts is that the revenue is recognized proportionately over the life of the Customer Contract.

Rocky Mountain Chocolate Factory, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

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

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

The following table summarizes contract liabilities as of November 30, 2024 and November 30, 2023:

	Nine Months Ended November 30,	
($'s in thousands)	2024	2023
Contract liabilities at the beginning of the year:	$ 828	$ 943
Revenue recognized	(189)	(127)
Contract fees received	101	46
Contract liabilities at the end of the period:	$ 740	$ 862

At November 30, 2024, 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 (amounts in thousands):

2025	$ 36
2026	139
2027	126
2028	102
2029	80
Thereafter	257
Total	$ 740

Gift Cards

The Company’s franchisees sell gift cards, which do not have expiration dates or non-usage fees. The proceeds from the sale of gift cards by the franchisees are accumulated by the Company and paid out to the franchisees upon customer redemption. ASC 606 requires the use of the “proportionate” method for recognizing breakage. The Company recognizes breakage from gift cards when the gift card is redeemed by the customer or the Company determines the likelihood of the gift card being redeemed by the customer is remote (“gift card breakage”). The determination of the gift card breakage rate is based upon Company-specific historical redemption patterns. The Company did not recognize any gift card breakage during the three months ended November 30, 2024 or nine months ended November 30, 2024.

Durango Product Sales of Confectionery Items, Retail Sales and Royalty and Marketing Fees

Confectionery items sold to the Company’s franchisees, others and its Company-owned stores’ sales are recognized at the time of the underlying sale, based on the terms of the sale and when ownership of the inventory is transferred, and are presented net of sales taxes and discounts. Royalties and marketing fees from franchised or licensed locations, which are based on a percent of sales are recognized at the time the sales occur.

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NOTE 4 – DISAGGREGATION OF REVENUE

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

Three Months Ended November 30, 2024

Revenues recognized over time:

($'s in thousands)	Franchising	Manufacturing	Retail	Total
Franchise fees	$ 81	$ -	$ -	$ 81

Revenues recognized at a point in time:

($'s in thousands)	Franchising	Manufacturing	Retail	Total
Durango Product sales	$ -	$ 6,359	$ -	$ 6,359
Retail sales	-	-	360	360
Royalty and marketing fees	1,093	-	-	1,093
Total revenues recognized over time and point in time	$ 1,174	$ 6,359	$ 360	$ 7,893

Three Months Ended November 30, 2023

Revenues recognized over time:

($'s in thousands)	Franchising	Manufacturing	Retail	Total
Franchise fees	$ 41	$ -	$ -	$ 41

Revenues recognized at a point in time:

($'s in thousands)	Franchising	Manufacturing	Retail	Total
Durango Product sales	$ -	$ 6,057	$ -	$ 6,057
Retail sales	-	-	364	364
Royalty and marketing fees	1,235	-	-	1,235
Total revenues recognized over time and point in time	$ 1,276	$ 6,057	$ 364	$ 7,697

Nine Months Ended November 30, 2024

Revenues recognized over time:

($'s in thousands)	Franchising	Manufacturing	Retail	Total
Franchise fees	$ 189	$ -	$ -	$ 189

Revenues recognized at a point in time:

($'s in thousands)	Franchising	Manufacturing	Retail	Total
Durango Product sales	$ -	$ 15,840	$ -	$ 15,840
Retail sales	-	-	1,076	1,076
Royalty and marketing fees	3,575	-	-	3,575
Total revenues recognized over time and point in time	$ 3,764	$ 15,840	$ 1,076	$ 20,680

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Nine Months Ended November 30, 2023

Revenues recognized over time:

($'s in thousands)	Franchising	Manufacturing	Retail	Total
Franchise fees	$ 127	$ -	$ -	$ 127

Revenues recognized at a point in time:

($'s in thousands)	Franchising	Manufacturing	Retail	Total
Durango Product sales	$ -	$ 15,589	$ -	$ 15,589
Retail sales	-	-	864	864
Royalty and marketing fees	4,111	-	-	4,111
Total revenues recognized over time and point in time	$ 4,238	$ 15,589	$ 864	$ 20,691

NOTE 5 - INVENTORIES

Inventories at November 30, 2024 and February 29, 2024 consisted of the following:

($'s in thousands)	November 30, 2024	February 29, 2024
Ingredients and supplies	$ 3,613	$ 2,038
Finished candy	2,151	2,509
Reserve for slow moving inventory	(42)	(189)
Total inventories	$ 5,722	$ 4,358

NOTE 6 – PROPERTY AND EQUIPMENT, NET

Property and equipment at November 30, 2024 and February 29, 2024 consisted of the following:

($'s in thousands)	November 30, 2024	February 29, 2024
Land	$ 124	$ 514
Building	5,342	5,109
Machinery and equipment	13,721	12,509
Furniture and fixtures	519	590
Leasehold improvements	139	139
Transportation equipment	326	326
	20,171	19,187
Less accumulated depreciation	(12,100)	(11,429)
Property and equipment, net	$ 8,071	$ 7,758

Depreciation expense related to property and equipment totaled $0.3 million and $0.7 million during the three and nine months ended November 30, 2024 compared to $0.2 million and $0.6 million during the three and nine months ended November 30, 2023, respectively.

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NOTE 7 – GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets at November 30, 2024 and February 29, 2024 consisted of the following:

		November 30, 2024		February 29, 2024	
($'s in thousands)	Amortization Period (in Years)	Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Intangible assets subject to amortization					
Store design	10	$ 395	$ (293)	$ 395	$ (277)
Trademark/Non-competition agreements	5 - 20	259	(146)	259	(139)
Total		654	(439)	654	(416)
Goodwill and intangible assets not subject to amortization					
Goodwill					
Retail		$ 362		$ 362	
Franchising		97		97	
Manufacturing		97		97	
Trademark		20		20	
Total		576		576	
Total Goodwill and Intangible Assets		$ 1,230	$ (439)	$ 1,230	$ (416)

Amortization expense related to intangible assets totaled $7 thousand and $21 thousand during the three and nine months ended November 30, 2024 compared to approximately $7 thousand and $21 thousand during the three and nine months ended November 30, 2023, respectively.

At November 30, 2024, annual amortization of intangible assets, based upon the Company’s existing intangible assets and current useful lives, is estimated to be the following (amounts in thousands):

2025	$ 27
2026	27
2027	27
2028	27
2029	27
Thereafter	80
Total	$ 215

NOTE 8 – NOTES PAYABLE AND REVOLVING CREDIT LINE

Revolving Credit Line

On September 30, 2024, the Company entered into a new credit agreement (the “New Credit Agreement”) with a new lender, RMC Credit Facility, LLC ("RMC"). RMC is a related party of the Company as a member of the Company's board of directors was involved and an investor with the New Credit Agreement. Pursuant to the New Credit

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Agreement, the Company received an advance in the principal amount of $6.0 million, which advance is evidence by a promissory note (the “Note”). The Note matures on September 30, 2027 (the “Maturity Date”), and interest will accrue at a rate of 12% per annum and is payable monthly in arrears. All outstanding principal and interest will be due on the Maturity Date. The New Credit Agreement is collateralized by the Company’s Durango real estate property and the related inventory and property, plant and equipment located on that property, as well as the Company’s accounts receivable and cash accounts.

In connection with the New Credit Agreement, the Company entered into a Deed of Trust with RMC and the Public Trustee of La Plata County, Colorado with respect to the Company’s property in Durango, Colorado.

The proceeds of the New Credit Agreement were and will be used as follows: (i) $3.5 million was used to repay the Credit Agreement and (ii) the remaining balance will be used for continued capital investment and working capital needs. The New Credit Agreement contains customary events of default, including nonpayment of principal and interest when due, failure to comply with covenants, and a change of control of the Company, as well as customary affirmative and negative covenants, including, without limitation, certain reporting obligations and certain limitations on liens, encumbrances, and indebtedness. The New Credit Agreement also limits capital expenditures to $3.5 million per year and contains two financial covenants measured quarterly: a maximum ratio of total liabilities to total net worth and a minimum current ratio.

As of November 30, 2024, the Company had $6.0 million outstanding on the New Credit Agreement. The Company was in compliance with all covenants under the New Credit Agreement as of November 30, 2024. In connection with the New Credit Agreement, the Company repaid the outstanding balance of the previous Credit Agreement of $3.5 million on its maturity date on September 30, 2024.

NOTE 9 – COMMON STOCK

Securities Purchase Agreement

On August 5, 2024, the Company entered into a securities purchase agreement with certain investors, including Steven L. Craig, an existing director of the Company (the “Investors”), pursuant to which, among other things, the Investors agreed to subscribe for and purchase, and the Company agreed to issue and sell to the Investors, an aggregate of 1,250,000 of shares of the Company’s common stock at a price per share equal to $1.75, for total proceeds of approximately $2.2 million. On September 5, 2024, the shares were subsequently registered for resale on a form S-1 that was declared effective by the SEC on October 9, 2024.

Stock Compensation Plans

Under the Company’s 2007 Equity Incentive Plan (as amended and restated) (the “2007 Plan”), the Company may authorize and grant stock awards to employees, non-employee directors and certain other eligible participants, including stock options, restricted stock and restricted stock units. Effective June 2024, the Board authorized 600,000 new shares, along with 300,851 unused and available shares and 131,089 shares granted and outstanding from the 2007 Equity Incentive Plan, to form the 2024 Equity Incentive Plan with a total of 1,031,940 shares.

The Company recognized $0.2 million and $0.2 million of stock-based compensation expense during the three and nine months ended November 30, 2024 compared with $0.2 million and $0.5 million during the three and nine months ended November 30, 2023, respectively. Compensation costs related to stock-based compensation are generally amortized over the vesting period of the stock awards.

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The following table summarizes non-vested restricted stock unit transactions for common stock during the nine months ended November 30, 2024:

		Nine Months Ended November 30, 2024
Outstanding non-vested restricted stock units at beginning of year:		160,958
Granted		354,613
Vested		(99,810)
Cancelled/forfeited		(252,023)
Outstanding non-vested restricted stock units as of November 30:		163,738
Weighted average grant date fair value	$	2.94
Weighted average remaining vesting period (in years)		2.37

Total unrecognized stock-based compensation expense for non-vested restricted stock units was approximately $0.5 million, and expected to be recognized over the next 2.4 years. The following table summarizes stock option activity during the nine months ended November 30, 2024:

		Nine Months Ended November 30, 2024
Outstanding stock options as of February 29:		17,698
Granted		-
Exercised		-
Cancelled/forfeited		(17,698)
Outstanding stock options as of November 30:		-
Weighted average exercise price	$	-
Weighted average remaining contractual term (in years)		-

During the nine months ended November 30, 2024, the Company granted 354,613 restricted stock units to various executives with a grant-date fair value of $1.0 million. During the nine months ended November 30, 2023, the Company granted 131,216 restricted stock units to various executives with a grant-date fair value of $0.8 million.

NOTE 10 - EARNINGS PER SHARE

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

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The weighted-average number of shares outstanding used in the computation of diluted earnings per share does not include outstanding common shares issuable if their effect would be anti-dilutive. During the nine months ended November 30, 2024, 960,677 shares of common stock reserved for issuance under warrants and 163,738 shares underlying unvested restricted stock units and stock options were excluded from the computation of diluted earnings per share because their effect would have been anti-dilutive. During the nine months ended November 30, 2023, 960,677 shares of common stock reserved for issuance under warrants and 182,875 shares of common stock underlying unvested restricted stock units and stock options were excluded from the computation of diluted earnings per share because their effect would have been anti-dilutive.

NOTE 11 – LEASING ARRANGEMENTS

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

The Company acts as primary lessee of some franchised store premises, which the Company then subleases to franchisees, but the majority of existing franchised locations are leased by the franchisee directly.

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

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

The Company accounts for payments related to lease liabilities on a straight-line basis over the lease term. During the nine months ended November 30, 2024 and 2023, lease expense recognized in the consolidated statements of operations was $0.4 million and $0.4 million, respectively.

The lease liability reflects the present value of the Company's estimated future minimum lease payments over the life of its leases. This includes known escalations and renewal option periods reasonably assured of being exercised. Typically, renewal options are considered reasonably assured of being exercised if the sales performance of the location remains strong. Therefore, the right of use asset and lease liability include an assumption on renewal options that have not yet been exercised by the Company and are not currently a future obligation. The Company has separated non-lease components from lease components in the recognition of the Asset and Liability except in instances where such costs were not practical to separate. To the extent that occupancy costs, such as site maintenance, are included in the asset and liability, the impact is immaterial. For franchised locations, the related occupancy costs including property taxes, insurance and site maintenance are generally required to be paid by the franchisees as part of the franchise arrangement. In addition, the Company is the lessee under non-store related leases such as storage facilities and trucking equipment. For leases where the implicit rate is not readily determinable, the Company uses an incremental borrowing rate to calculate the lease liability that represents an estimate of the interest rate the Company would incur to borrow on a collateralized basis over the term of a lease. The weighted average discount rate used for operating leases was 3.94% as of November 30, 2024. The total estimated future minimum lease payments are $1.5 million as of November 30, 2024.

As of November 30, 2024, maturities of lease liabilities for the Company's operating leases were as follows (amounts in thousands):

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FYE 25	$	505
FYE 26		352
FYE 27		160
FYE 28		114
FYE 29		55
Thereafter		303
Total	$	1,489
Less: Imputed interest		(134)
Present value of lease liabilities:	$	1,355

The weighted average lease term at November 30, 2024 was 5.7 years. The Company did not enter into any new leases during the nine months ended November 30, 2024. During the nine months ended November 30, 2023, the Company entered into new lease agreements representing a future lease liability of approximately $46 thousand.

The Company did not have any leases categorized as finance leases as of November 30, 2024 or February 29, 2024.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Purchase contracts

The Company may frequently enter into purchase contracts of between three to eighteen months for chocolate, certain nuts, and other raw material inputs. 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. The Company has designated these contracts as normal under the normal purchase and sale exception under the accounting standards for derivatives. These contracts are not entered into for speculative purposes. The Company has approximately $3.2 million of unconditional purchase obligations as of November 30, 2024, all due within the next twelve months.

Litigation

From time to time, the Company is involved in litigation relating to claims arising out of its operations. The Company records accruals for outstanding legal matters when it believes it is probable that a loss will be incurred and the amount can be reasonably estimated. At November 30, 2024, the Company was not a party to any legal proceedings that were expected, individually or in the aggregate, to have a material adverse effect on its business, financial condition or operating results.

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NOTE 13 - OPERATING SEGMENTS

The Company classifies its business interests into three reportable segments: Franchising, Manufacturing and Retail Stores, which is the basis upon which the Company's chief operating decision maker, the chief executive officer, evaluates the Company's performance. 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:

Three Months Ended November 30, 2024 ($'s in thousands)	Franchising	Manufacturing	Retail	Unallocated	Total
Total revenues	$ 1,174	$ 6,640	$ 360	$ -	$ 8,174
Intersegment revenues	-	(281)	-	-	(281)
Revenue from external customers	1,174	6,359	360	-	7,893
Segment profit (loss)	376	388	74	(1,685)	(847)
Total assets	1,134	15,619	509	4,372	21,634
Capital expenditures	-	488	-	119	607
Total depreciation & amortization	$ 11	$ 215	$ 2	$ 46	274

Three Months Ended November 30, 2023 ($'s in thousands)	Franchising	Manufacturing	Retail	Unallocated	Total
Total revenues	$ 1,276	$ 6,394	$ 364	$ -	$ 8,034
Intersegment revenues	-	(337)	-	-	(337)
Revenue from external customers	1,276	6,057	364	-	7,697
Segment profit (loss)	300	287	30	(1,374)	(757)
Total assets	1,155	12,714	493	6,918	21,280
Capital expenditures	21	1,135	-	128	1,284
Total depreciation & amortization	$ 7	$ 189	$ 2	$ 25	$ 223

Nine Months Ended November 30, 2024 ($'s in thousands)	Franchising	Manufacturing	Retail	Unallocated	Total
Total revenues	$ 3,764	$ 16,552	$ 1,076	$ -	$ 21,392
Intersegment revenues	-	(712)	-	-	(712)
Revenue from external customers	3,764	15,840	1,076	-	20,680
Segment profit (loss)	1,123	(136)	162	(4,376)	(3,227)
Total assets	1,134	15,619	509	4,372	21,634
Capital expenditures	-	1,453	-	695	2,148
Total depreciation & amortization	$ 28	$ 607	$ 8	$ 98	$ 741

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Nine Months Ended November 30, 2023 ($'s in thousands)	Franchising	Manufacturing	Retail	Unallocated	Total
Total revenues	$ 4,238	$ 16,386	$ 864	$ -	$ 21,488
Intersegment revenues	-	(797)	-	-	(797)
Revenue from external customers	4,238	15,589	864	-	20,691
Segment profit (loss)	1,267	422	60	(5,032)	(3,283)
Total assets	1,155	12,714	493	6,918	21,280
Capital expenditures	53	2,166	20	378	2,617
Total depreciation & amortization	$ 23	$ 545	$ 5	$ 67	$ 640

NOTE 14 - 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 basis 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.

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. A valuation allowance to reduce the carrying amount of deferred income tax assets is established when it is more likely than not that we will not realize some portion or all of the tax benefit of our deferred income tax assets. The Company evaluates, on a quarterly basis, whether it is more likely than not that its deferred income tax assets are realizable based upon recent past financial performance, tax reporting positions, and expectations of future taxable income. The determination of deferred tax assets is subject to estimates and assumptions. The Company periodically evaluates its deferred tax assets to determine if its assumptions and estimates should change.

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.

NOTE 15 – DISCONTINUED OPERATIONS

On February 24, 2023 and May 1, 2023, the Company entered into agreements to sell: 1) all operating assets and inventory associated with the Company’s three U-Swirl Company-owned locations, and 2) all franchise rights and intangible assets associated with the franchise operations of U-Swirl, respectively. The May 1, 2023 sale was completed pursuant to an Asset Purchase Agreement (the “Asset Purchase Agreement”), dated May 1, 2023 (the "Closing Date"), by and among the Company, as guarantor, U Swirl as seller, LLC (“Purchaser”), a related company of Fosters Freeze, Inc., a California corporation. Pursuant to the Asset Purchase Agreement, on the Closing Date, Purchaser paid to U-Swirl $2.75 million, consisting of approximately (i) $1.75 million in cash and (ii) $1.0 million evidenced by a three-year secured promissory note in the aggregate original principal amount of $1.0 million. As a result of these asset sales, the activities of the Company’s subsidiary, U-Swirl, which were previously recorded to the U-Swirl operating segment, are reported as discontinued operations in the consolidated statement of operations, consolidated balance sheet and consolidated statement of cash flows for all periods presented. The majority of the assets and liabilities of U-Swirl met the accounting criteria to be classified as held for sale and were aggregated and reported on separate lines of the respective statements.

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On October 31, 2023, the Company filed a certificate of dissolution with the Secretary of State of the State of Nevada with respect to U-Swirl. As a result, U-Swirl is effectively fully dissolved and no longer in legal existence.

The following table discloses the results of operations of the businesses reported as discontinued operations for the nine months ended November 30, 2024 and 2023:

	For the Nine Months Ended November 30,	
($'s in thousands)	2024	2023
Total Revenue	$ -	$ 212
Cost of sales	-	-
Operating Expenses	-	143
Gain on disposal of assets	-	(635)
Other expense, net	-	-
Earnings from discontinued operations before income taxes	-	704
Income tax provision	-	-
Earnings from discontinued operations, net of tax	$ -	$ 704

There were no assets and liabilities held for sale for U-Swirl as of November 30, 2024 and February 29, 2024.

The following table summarizes the gain recognized during the nine months ended November 30, 2023 related to the sale of assets on May 1, 2023, as described above (amounts in thousands):

Cash proceeds from the sale of assets	$ 1,749
Accounts receivable	9
Notes receivable	1,000
Total consideration received	2,758
Assets and liabilities transferred	
Franchise rights	1,703
Inventory	6
Liabilities	(229)
Net assets transferred	1,480
Costs associated with the sale of assets	643
Gain on disposal of assets	$ 635

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

The following discussion and analysis of financial condition and results of operations is qualified by reference and should be read in conjunction with the consolidated financial statements and the notes included in Item 1 of Part I of this Quarterly Report and the audited consolidated financial statements and notes, and Management's Discussion and Analysis of Financial Condition and Results of Operations, contained in our Annual Report on 10-K, filed with the SEC on June 13, 2024, for the fiscal year ended February 29, 2024.

Cautionary Note Regarding Forward-Looking Statements

In addition to historical information, the following discussion contains certain forward-looking information. See "Cautionary Note Regarding Forward-Looking Statements" in this Quarterly Report for certain information concerning forward-looking statements.

Overview

Rocky Mountain Chocolate Factory, Inc., a Delaware corporation, and its subsidiaries (including its operating subsidiary with the same name, Rocky Mountain Chocolate Factory, Inc., a Colorado corporation ("RMCF") (referred to as the "Company," "we," "us," or "our") is an international franchisor, confectionery producer and retail operator. Founded in 1981, we are headquartered in Durango, Colorado and produce an extensive line of premium chocolate products and other confectionery products. Our revenues and profitability are derived principally from our franchised/licensed system of retail stores that feature chocolate and other confectionery products including gourmet caramel apples. We also sell our confectionery products in select locations outside of our system of retail stores and license the use of our brand with certain consumer products. As of November 30, 2024, there were 2 Company-owned, 116 licensee-owned and 146 franchised Rocky Mountain Chocolate Factory stores operating in 35 states and the Philippines.

On May 1, 2023, subsequent to the end of ("fiscal year") FY 2023, the Company completed the sale of substantially all of the assets of its wholly-owned subsidiary and frozen yogurt business, U-Swirl International, Inc. The aggregate sale price of U-Swirl was $2.75 million, consisting of (i) $1.75 million in cash and (ii) $1.0 million evidenced by a three-year secured promissory note. The business divestiture of the U-Swirl segment was preceded by a separate sale of the Company's three owned U-Swirl locations on February 24, 2023. On October 31, 2023, the Company filed a certificate of dissolution with the Secretary of State of the State of Nevada with respect to U-Swirl. As a result, U-Swirl is effectively fully dissolved and no longer in legal existence. The consolidated financial statements present the historical financial results of the former U-Swirl segment as discontinued operations for all periods presented. See Note 15 of the Notes to Consolidated Financial Statements included in Part I, Item 1 "Financial Statements", of this Quarterly Report for information on this divestiture.

With the sale of U-Swirl, we continue to focus on our confectionery franchise business to further enhance our competitive position and operating margin, simplify our business model, and deliver sustainable value to our stockholders.

On August 5, 2024, the Company entered into a securities purchase agreement with certain investors, including Steven L. Craig, an existing director of the Company (the "Investors"), pursuant to which, among other things, the Investors agreed to subscribe for and purchase, and the Company agreed to issue and sell to the Investors in a private placement, an aggregate of 1,250,000 of shares of the Company's common stock at a price per share equal to $1.75, for total proceeds of approximately $2.2 million. On September 5, 2024, the Company filed a Form S-1 registering the shares sold in the private placement. The Form S-1 was declared effective by the SEC on October 9, 2024 .

On September 30, 2024, the Company repaid the amount owed under its credit agreement with Wells Fargo Bank N.A. (the "Credit Agreement") and entered into a new credit agreement (the "New Credit Agreement") with RMC Credit Facility, LLC ("RMC"). Pursuant to the New Credit Agreement, the Company received an advance in the principal amount of $6.0 million, which advance is evidenced by a promissory note (the "Note"). The Note will mature on September 30, 2027 (the "Maturity Date"), and interest will accrue at a rate of 12% per annum and is payable monthly in arrears. All outstanding principal and interest will be due on the Maturity Date. RMC is a special purpose investment entity affiliated with Steven L. Craig, one of the members of the Company's board of directors.

Current Trends Affecting Our Business and Outlook

As a result of recent macroeconomic inflationary trends and disruptions to the global supply chain, we have experienced elevated raw material, labor, and freight costs. We continue to experience, although at a decelerating pace, labor and logistics challenges, which have contributed to lower factory, retail and e-commerce sales. In addition, we could experience additional lost sale opportunities if our products are not available for purchase as a result of continued disruptions in our supply chain relating to an inability to obtain ingredients or packaging, or if we or our franchisees experience delays in stocking our products.

We are subject to seasonal fluctuations in sales because of key holidays and the location of our franchisees, which have traditionally been located in high traffic areas such as resorts or tourist locations, and the nature of the products we sell, which are seasonal. Historically, the strongest sales of our products have occurred during key holidays and summer vacation seasons. Additionally, quarterly results have been, and in the future are likely to be, affected by the timing of new store openings and the sales of new franchise locations. Because of the seasonality of our business and the impact of new store openings and sales of new franchises, results for any quarter are not necessarily indicative of results that may be achieved in other quarters or for a full fiscal year.

The most important factors for continued growth in our earnings are our ability to increase the sales of premium chocolate products produced in our Durango production facility, and the support of our franchisees in increasing the frequency of customer visits and the average value of each customer transaction, along with ongoing e-commerce revenue growth, and new franchised store growth.

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

Efforts to reverse the decline in same store pounds purchased from our production facility by franchised stores and to increase total Durango production depend on many factors, including new store openings, competition, the receptivity of our franchise system to our product introductions and promotional programs.

Results of Continuing Operations

Three Months Ended November 30, 2024 Compared To the Three Months Ended November 30, 2023

Results Summary

Basic loss per share decreased from a loss from continuing operations of $(0.12) per share for the three months ended November 30, 2023 to a loss from continuing operations of $(0.11) per share for the three months ended November 30, 2024. Revenues increased by 2.5% from $7.7 million for the three months ended November 30, 2023 to $7.9 million for the three months ended November 30, 2024. Operating loss was $0.8 million for the three months ended November 30, 2023 compared to an operating loss of $0.7 million for the three months ended November 30, 2024. Loss from continuing operations remained consistent from a loss of $0.8 million for the three months ended November 30, 2023 compared to a loss of $0.8 million for the three months ended November 30, 2024.

REVENUES

	Three Months Ended November 30,		$	%
($'s in thousands)	2024	2023	Change	Change
Durango product and retail sales	$ 6,719	$ 6,421	298	4.6 %
Franchise fees	81	41	40	97.6 %
Royalty and marketing fees	1,093	1,235	(142)	(11.5)%
Total	$ 7,893	$ 7,697	$ 196	2.5 %

Durango Product and Retail Sales

The increase in Durango product and retail sales of 4.6%, or $0.3 million for the three months ended November 30, 2024 compared to the three months ended November 30, 2023 was primarily due to price increases.

Royalties, Marketing Fees and Franchise Fees

Royalty and marketing fees decreased $0.1 million during the three months ended November 30, 2024 compared to the three months ended November 30, 2023, primarily due to a change in contracting our royalty fees for certain stores. The increase in franchise fee revenue of $40 thousand during the three months ended November 30, 2024 compared to the three months ended November 30, 2023 was not material.

COSTS AND EXPENSES

($'s in thousands)	Three Months Ended November 30, 2024	Three Months Ended November 30, 2023	$ Change	% Change
Total cost of sales	$ 6,044	$ 5,769	$ 275	4.8 %
Franchise costs	616	577	39	6.8 %
Sales and marketing	272	572	(300)	(52.4)%
General and administrative	1,427	1,333	94	7.1 %
Retail operating	171	186	(15)	(8.1)%
Depreciation and amortization, exclusive of depreciation and amortization expense of $211 and $188, respectively, included in cost of sales	63	36	27	75.0 %
Total	$ 8,593	$ 8,473	$ 120	1.4 %

Gross Margin

($'s in thousands)	Three Months Ended November 30, 2024	Three Months Ended November 30, 2023	$ Change	% Change
Total gross margin	675	652	$ 23	3.5 %
Gross margin percentage	10.0 %	10.2 %	(0.1)%	(1.1)%

Adjusted Gross Margin

(a non-GAAP measure) ($'s in thousands)	Three Months Ended November 30, 2024	Three Months Ended November 30, 2023	$ Change	% Change
Total gross margin	$ 675	$ 652	$ 23	3.5 %
Plus: depreciation and amortization	211	188	23	12.2 %
Total Adjusted Gross Margin (non-GAAP measure)	$ 886	$ 840	$ 46	5.5 %
Total Adjusted Gross Margin (non-GAAP measure)	13.2 %	13.1 %	0.1 %	0.8 %

Non-GAAP Measures

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

Cost of Sales and Gross Margin

Total gross margin percentage for the three months ended November 30, 2024 was 10.0% and consistent with the gross margin percentage of 10.2% for the three months ended November 30, 2023.

Franchise Costs

The increase in franchise costs for the three months ended November 30, 2024 compared to the three months ended November 30, 2023 was due primarily to investments made in building a franchise development team to identify new sites and franchisees. As a percentage of total royalty and marketing fees and franchise fee revenue, franchise costs increased to 52.5% for the three months ended November 30, 2024 from 45.2% for the three months ended November 30, 2023.

Sales and Marketing

The decrease in sales and marketing costs during the three months ended November 30, 2024 compared to the three months ended November 30, 2023 was due in part due to operational efficiencies and cost cutting measures and in part due to timing of anticipated expenses.

General and Administrative

The increase in general and administrative costs during the three months ended November 30, 2024 compared to the three months ended November 30, 2023, was due primarily to additional compliance related legal and third-party consulting fees incurred. As a percentage of total revenues, general and administrative expenses increased to 18.1% during the three months ended November 30, 2024, compared to 17.3% during the three months ended November 30, 2023.

Retail Operating Expenses

Retail operating expenses decreased 8.1% during the three months ended November 30, 2024 compared to the three months ended November 30, 2023. This decrease is primarily the result of cost cutting measures.

Depreciation and Amortization

Depreciation and amortization, exclusive of depreciation and amortization included in cost of sales was $0.1 million during the three months ended November 30, 2024, an increase of 75.0% from $36 thousand during the three months ended November 30, 2023. Depreciation and amortization included in cost of sales increased 12.2% from $0.2 million during the three months ended November 30, 2023 to $0.2 million during the three months ended November 30, 2024. This increase was the result of investment in production equipment.

Total Other Income (Expense)

Total other income (expense) was $(0.1) million during the three months ended November 30, 2024, compared to other income of $19 thousand during for the three months ended November 30, 2023. Other expense for the three months ended November 30, 2024 was primarily due to interest expense on our New Credit Agreement.

Nine Months Ended November 30, 2024 Compared To the Nine Months Ended November 30, 2023

Results Summary

Basic loss per share decreased from a loss from continuing operations of $(0.51) per share for the nine months ended November 30, 2023 to a loss from continuing operations of $(0.47) per share for the nine months ended November 30, 2024. The change in revenues for the nine months ended November 30, 2023 compared to the revenues for the nine months ended November 30, 2024 remained consistent at $20.7 million for both periods. The operating loss for the nine months ended November 30, 2023 was $3.3 million compared to the operating loss for the nine months ended November 30, 2024 of $3.2 million. Loss from continuing operations decreased from a loss of $3.3 million for the nine months ended November 30, 2023 to a loss of $3.2 million for the nine months ended November 30, 2024.

REVENUES

	Nine Months Ended November 30,			
($'s in thousands)	2024	2023	$ Change	% Change
Durango product and retail sales	$ 16,916	$ 16,453	463	2.8 %
Franchise fees	189	127	62	48.8 %
Royalty and marketing fees	3,575	4,111	(536)	(13.0)%
Total	$ 20,680	$ 20,691	$ (11)	(0.1)%

Durango Product and Retail Sales

The increase in Durango product and retail sales of 2.8%, or $0.5 million for the nine months ended November 30, 2024 compared to the nine months ended November 30, 2023 was primarily due to price increases.

Royalties, Marketing Fees and Franchise Fees

Royalty and marketing fees decreased $0.5 million during the nine months ended November 30, 2024 compared to the nine months ended November 30, 2023, primarily due to a change in contracting our royalty fees for certain stores. The increase in franchise fee revenue of $0.1 million during the nine months ended November 30, 2024 compared to the nine months ended November 30, 2023 was not material.

COSTS AND EXPENSES

	Nine Months Ended November 30,			
($'s in thousands)	2024	2023	$ Change	% Change
Total cost of sales	$ 15,980	$ 15,159	$ 821	5.4 %
Franchise costs	2,109	1,870	239	12.8 %
Sales and marketing	840	1,487	(647)	(43.5)%
General and administrative	4,288	4,952	(664)	(13.4)%
Retail operating	564	451	113	25.1 %
Depreciation and amortization, exclusive of depreciation and amortization expense of $598 and $541, respectively, included in cost of sales	143	99	44	44.4 %
Total	$ 23,924	$ 24,018	$ (94)	(0.4)%

Gross Margin

	Nine Months Ended November 30,			
($'s in thousands)	2024	2023	$ Change	% Change
Total gross margin	936	1,294	(358)	(27.7)%
Gross margin percentage	5.5 %	7.9 %	(2.3)%	(29.6)%

Adjusted Gross Margin

(a non-GAAP measure) ($'s in thousands)	Nine Months Ended November 30, 2024	 2023	$ Change	% Change
Total gross margin	$ 936	$ 1,294	$ (358)	(27.7)%
Plus: depreciation and amortization	598	541	57	10.5%
Total Adjusted Gross Margin (non-GAAP measure)	$ 1,534	$ 1,835	$ (301)	(16.4)%
Total Adjusted Gross Margin (non-GAAP measure)	9.1%	11.2%	(2.1)%	(18.7)%

Non-GAAP Measures

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

Cost of Sales and Gross Margin

Total gross margin percentage decreased to 5.5% for the nine months ended November 30, 2024 compared to a gross margin of 7.9% during the nine months ended November 30, 2023, due primarily to increased raw material and labor costs.

Franchise Costs

The increase in franchise costs for the nine months ended November 30, 2024 compared to the nine months ended November 30, 2023 was due primarily to investments made in building a franchise development team to identify new sites and franchisees. As a percentage of total royalty and marketing fees and franchise fee revenue, franchise costs increased to 56.0% for the nine months ended November 30, 2024 from 44.1% for the nine months ended November 30, 2023.

Sales and Marketing

The decrease in sales and marketing costs during the nine months ended November 30, 2024 compared to the nine months ended November 30, 2023 was due primarily to operational efficiencies and in part to timing of anticipated expenses.

General and Administrative

The decrease in general and administrative costs during the nine months ended November 30, 2024 compared to the nine months ended November 30, 2023, was due primarily to a decrease in legal and third-party fees that were incurred in the prior year related to contested solicitation of proxies. As a percentage of total revenues, general and administrative expenses decreased to 20.7% during the nine months ended November 30, 2024, compared to 23.9% during the nine months ended November 30, 2023.

Retail Operating Expenses

Retail operating expenses increased 25.1% during the nine months ended November 30, 2024 compared to the nine months ended November 30, 2023. This increase is primarily the result of the addition of our Company owned Corpus Christi location.

Depreciation and Amortization

Depreciation and amortization, exclusive of depreciation and amortization included in cost of sales was $0.1 million during the nine months ended November 30, 2024, and consistent with $0.1 million during the nine months ended November 30, 2023. Depreciation and amortization included in cost of sales increased 10.4% from $0.5 million during the nine months ended November 30, 2023 to $0.6 million during the nine months ended November 30, 2024. This increase was the result of investment in production equipment.

Other Income (Expense)

Other income was $17 thousand during the nine months ended November 30, 2024, compared to other income of $44 thousand during for the nine months ended November 30, 2023. This was primarily due to a net gain on the disposal of assets for $0.3 million during the nine months ended November 30, 2024 relating to gain on sale of equipment of $0.5 million offset by loss on the factoring of the U-Swirl promissory note of $0.3 million. In addition, there was interest income of $21 thousand for the nine months ended November 30, 2024 compared to $0.1 million for the nine months ended November 30, 2023, and interest expense of $0.3 million for the nine months ended November 30, 2024 compared to $24 thousand during for the nine months ended November 30, 2023.

Liquidity and Capital Resources

As of November 30, 2024, working capital was $6.9 million compared with $1.5 million as of February 29, 2024. The increase in working capital was due primarily to the sale of our non-strategic operating assets, additional inventory on hand to support upcoming holidays sales, and assets held for sale. In addition, the Company entered into its New Credit Agreement for proceeds of $6.0 million, part of which was used to pay the outstanding $3.5 million of the Credit Agreement. In addition, the Company received $2.2 million from the issuance of common stock. These proceeds were used in part to build up our inventory in advance of the upcoming holiday sales. Expected future cash requirements include supporting current operations and building inventory including capital expenditures to support our business.

Cash and cash equivalent balances decreased from $2.1 million as of February 29, 2024 to $1.1 million as of November 30, 2024 primarily as a result of cash used by operating activities during our seasonally slow selling periods, and a time in our annual business cycle in which we build inventory to meet elevated demand during our subsequent seasonally high selling periods. Our current ratio was 2.60 to 1.0 on November 30, 2024 compared to 1.19 to 1.0 on February 29, 2024. We monitor current and anticipated future levels of cash and cash equivalents in relation to anticipated operating, financing and investing requirements necessary to implement our long-term business plan.

During the nine months ended November 30, 2024, we had a consolidated net loss of $3.2 million. Operating activities used cash of $7.8 million, with the principal adjustments to reconcile net income to net cash used in operating activities being depreciation and amortization of $0.7 million and a gain on sale of assets of $0.3 million. Changes in operating assets and liabilities resulted in a net cash outflow of $7.8 million from cash used in the normal course of business. During the nine months ended November 30, 2023, we had a consolidated net loss of $2.6 million. Operating activities used cash of $2.6 million, with the principal adjustments to reconcile net income to net cash used in operating activities being depreciation and amortization of $0.6 million, and stock compensation expense of $0.5 million.

During the nine months ended November 30, 2024, cash flows used in investing activities was $0.1 million, primarily due to the purchases of property and equipment of $2.1 million, offset by proceeds from sale of assets of $1.9 million. In comparison, investing activities used cash of $1.1 million during the nine months ended November 30, 2023, primarily due cash flows from discontinued operations of $1.4 million, partially offset by purchases of property and equipment of $2.6 million.

There were $6.9 million cash flows from financing activities during the nine months ended November 30, 2024 compared to $1.0 million cash flows from financing activities during the nine months ended November 30, 2023. The Company received $6.0 million in proceeds from its New Credit Agreement in addition to $2.2 million on its revolving line of credit during the nine months ended November 30, 2024, offset by payment of the line of credit on maturity of $3.5 million, in addition to proceeds of $2.2 million from the issuance and sale of common stock.

The conditions above raise substantial doubt regarding our ability to continue as a going concern for a period of at least one year from the date of issuance of these financial statements. In addition, our independent registered public accounting firm, in their report on the Company’s February 29, 2024 audited financial statements, raised substantial doubt about the Company’s ability to continue as a going concern.

New Credit Agreement and Payment of Credit Agreement

On September 30, 2024, the Company entered into a new credit agreement (the “New Credit Agreement”) with RMC Credit Facility, LLC ("RMC"). Pursuant to the New Credit Agreement, the Company received an advance in the principal amount of $6.0 million, which advance is evidenced by a promissory note (the “Note”). The Note will mature on September 30, 2027 (the “Maturity Date”), and interest will accrue at a rate of 12% per annum and is payable monthly in arrears. All outstanding principal and interest will be due on the Maturity Date. The New Credit Agreement is collateralized by the Company’s Durango real estate property and the related inventory and property, plant and equipment located on that property, as well as the Company’s accounts receivable and cash accounts.

In connection with the New Credit Agreement and the Note, the Company entered into a Deed of Trust with RMC and the Public Trustee of La Plata County, Colorado with respect to the Company’s property in Durango, Colorado. RMC is a special purpose investment entity affiliated with Steven L. Craig, one of the members of the Company's board of directors.

The proceeds of the New Credit Agreement were and will be used as follows: (i) $3.5 million was used to repay the Credit Agreement and (ii) the remaining balance will be used for continued capital investment and working capital needs. The New Credit Agreement contains customary events of default, including nonpayment of principal and interest when due, failure to comply with covenants, and a change of control of the Company, as well as customary affirmative and negative covenants, including, without limitation, certain reporting obligations and certain limitations on liens, encumbrances, and indebtedness. The New Credit Agreement also limits our capital expenditures to $3.5 million per year and contains two financial covenants measured quarterly: a maximum ratio of total liabilities to total net worth and a minimum current ratio. The Company was in compliance with these covenants as of November 30, 2024.

The Company paid off the outstanding balance of $3.5 million of the previous Credit Agreement upon maturity on September 30, 2024.

The Company will continue to explore additional means of strengthening its liquidity position and ensuring compliance with its debt financing covenants, which may include the obtaining of waivers from our lenders.

On August 5, 2024, the Company entered into a securities purchase agreement with certain investors, including Steven L. Craig, an existing director of the Company (the “Investors”), pursuant to which, among other things, the Investors agreed to subscribe for and purchase, and the Company agreed to issue and sell to the Investors in a private placement, an aggregate of 1,250,000 of shares of the Company’s common stock at a price per share equal to $1.75, for total proceeds of approximately $2.2 million. On September 5, 2024, the Company filed a Form S-1 registering the shares sold in the private placement. The Form S-1 was declared effective by the SEC on October 9, 2024.

Significant Accounting Policies

The preparation of consolidated financial statements and related disclosures in conformity with GAAP and the Company’s discussion and analysis of its financial condition and operating results require the Company’s management to make judgments, assumptions and estimates that affect the amounts reported. Note 1, “Nature of Operations and Summary of Significant Accounting Policies” of the Notes to the Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report and in the Notes to Consolidated Financial Statements in Part II, Item 8 in our Annual Report on Form 10-K for the fiscal year ended February 29, 2024 describe the significant accounting policies and methods used in the preparation of the Company’s consolidated financial statements. There have been no material changes to the Company’s significant accounting policies disclosed in our Annual Report on Form 10-K for the fiscal year ended February 29, 2024.

Off Balance Sheet Arrangements

As of November 30, 2024, except for the purchase obligations as described below, we had no material off-balance sheet arrangements or obligations.

As of November 30, 2024, we had purchase obligations of approximately $3.2 million. These purchase obligations primarily consist of contractual obligations for future purchases of commodities for use in our manufacturing.

Impact of Inflation

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

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

Seasonality

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Item 4. Controls and Procedures

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

Disclosure Controls and Procedures — The Company maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), that are designed to ensure that material information relating to the Company is made known to the officers who certify the Company’s financial reports and to other members of senior management and the board of directors. These disclosure controls and procedures are designed to ensure that information required to be disclosed in the Company’s reports that are filed or submitted under the Exchange Act, are recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Management, under the supervision and with the participation of our Interim Chief Executive Officer and Chief Financial Officer, has conducted an evaluation of the Company’s disclosure controls and procedures. Based on that evaluation, our Interim Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective as of November 30, 2024.

Changes in Internal Control over Financial Reporting — There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that occurred during the quarter ended November 30, 2024, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are not aware of any pending legal actions that would, if determined adversely to us, have a material adverse effect on our business and operations.

We may, from time to time, become involved in disputes and proceedings arising in the ordinary course of business. In addition, as a public company, we are also potentially susceptible to litigation, such as asserting violations of securities laws. Any such claims, with or without merit, if not resolved, could be time-consuming and result in costly litigation. There can be no assurance that an adverse result in any future proceeding would not have a potentially material adverse effect on our business, results of operations, and financial condition.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report, you should carefully consider the factors discussed in Part 1, Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended February 29, 2024, filed with the SEC on June 13, 2024. Except as set forth below, there have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the fiscal year ended February 29, 2024.

Our ability to use our net operating loss carryforwards and certain other tax attributes may be limited.

As of February 29, 2024, we had U.S. federal net operating loss ("NOL") carryforwards of $14.5 million and various state NOLs, which we may use to reduce future taxable income. We have established a valuation allowance against the carrying value of these deferred tax assets. There is also a risk that due to regulatory changes, such as suspensions on the use of NOLs, or other unforeseen reasons, our existing NOLs could expire or otherwise be unavailable to offset future taxable income.

In addition, under Section 382 of the Internal Revenue Code of 1986, as amended (the "Code") a corporation that undergoes an "ownership change" (*i.e.*, a more-than 50% ownership change by one or more stockholders or groups of stockholders who own at least 5% of a company's stock over a three-year testing period) is subject to limitations on its ability to utilize its NOLs to offset future taxable income. Furthermore, our ability to utilize NOLs of companies that we have acquired or may acquire in the future may be subject to limitations. Changes in our stock ownership, some of which are outside of our control, could also result in limitations under Section 382 of the Code. Our NOLs may also be limited under similar provisions of state law. For these reasons, we may not be able to realize a tax benefit from the use of our NOLs.

The sale of shares of our common stock acquired by purchasers in private placement transactions could cause the price of our common stock to decline.

We have registered for sale by investors in a private placement transaction (the "Selling Stockholders") up to 1,250,000 shares of our common stock. Depending on a variety of factors, including market liquidity of our common stock, the sale of shares by the Selling Stockholders may cause the trading price of our common stock to decline.

Our need for future financing may result in the issuance of additional securities, which will cause investors to experience dilution.

Our cash requirements may vary from those now planned, depending upon numerous factors. Accordingly, we may need to obtain additional funding in connection with our continuing operations. There are no other commitments by any person for future financing. Our securities may be offered to other investors at a price lower than the price per share offered to current stockholders, or upon terms which may be deemed more favorable than those offered to current stockholders. In addition, the issuance of securities in any future financing may dilute an investor's equity ownership and have the effect of depressing the market price for our securities. Moreover, we may issue securities from time to time to procure qualified personnel or for other business reasons. The issuance of any such securities, which is at the discretion of our board of directors, may further dilute the equity ownership of our stockholders.

We have additional securities available for issuance, which, if issued, could adversely affect the rights of the holders of our common stock.

Our Amended and Restated Certificate of Incorporation authorizes the issuance of 46,000,000 shares of common stock and 250,000 shares of preferred stock. In certain circumstances, our common stock, as well as the awards available for issuance under our equity incentive plans, can be issued by our board of directors without stockholder approval. Any future issuances of such stock would further dilute the percentage ownership of us held by holders of preferred stock and common stock. In addition, the issuance of certain securities, including pursuant to the terms of our stockholder rights plan, may be used as an "anti-takeover" device without further action on the part of our stockholders, and may adversely affect the holders of the common stock.

Future sales of shares of common stock could cause the market price for our common stock to decline.

We cannot predict the effect, if any, that market sales of shares of our common stock or the availability of shares of common stock for sale will have on the market price of our common stock prevailing from time to time. Sales of substantial amounts of shares of common stock in the public market, or the perception that those sales will occur, could cause the market price of our common stock to decline or be depressed.

Our New Credit Agreement imposes operating and financial restrictions on us.

On September 30, 2024, we entered into a credit agreement with RMC Credit Facility, LLC (the "New Credit Agreement"), which is secured by certain personal property and real property of the Company. The New Credit Agreement contains covenants that limit the ability of the Company to:

- incur and guarantee additional debt;
- incur liens;
- make acquisitions and other investments;
- dispose of assets; or
- make capital expenditures in any fiscal year in excess of $3.5 million.

Further, the New Credit Agreement contains financial covenants that require compliance with a maximum ratio of total liabilities to total net worth and a minimum current ratio, in each case tested at the end of each fiscal quarter. These covenants may adversely affect our ability to finance our operations, meet or otherwise address our capital needs, pursue business opportunities or react to market conditions, or otherwise restrict our activities or business plans. We cannot assure you that we will be able to comply with any such restrictive covenants. A breach of any of these covenants could result in an event of default under the New Credit Agreement. In the event that we are unable to comply with these covenants in the future, we would seek an amendment or waiver of the covenants. We cannot assure you that any such waiver or amendment would be granted. If an event of default occurs, the lender may elect to accelerate our obligations under the New Credit Agreement. We might not be able to repay our debt or borrow sufficient funds to refinance it on terms that are acceptable to us or at all.

Servicing our debt under New Credit Agreement may require a significant amount of cash, and we may not have sufficient cash flow from our business to pay all of our indebtedness.

As of November 30, 2024, we had $6.0 million principal amount outstanding under our New Credit Agreement. Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our indebtedness under the New Credit Agreement depends on our future performance, which is subject to economic, financial, competitive, and other factors beyond our control. Our business may not generate cash flow from operations in the future sufficient to service our debt and make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt, or obtaining additional debt financing or equity capital on terms that may be onerous or highly dilutive. Our ability to refinance any future indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations. Additionally, the New Credit Agreement contains, and any of our future debt agreements may also contain, restrictive covenants that may prohibit us from adopting some or any of these alternatives. For example, the New Credit Agreement contains negative covenants that restrict the Company's ability to incur indebtedness, create liens, make investments, dispose of assets and make certain capital expenditures. Our failure to comply with these covenants could result in an event of default under our indebtedness which, if not cured or waived, could result in the acceleration of our debt under the New Credit Agreement.

In addition, our indebtedness, combined with our other financial obligations and contractual commitments, could have other important consequences. For example, it could:

- require a portion of our cash flows to be dedicated to debt service payments instead of other purposes, thereby reducing the amount of cash flows available for working capital and capital expenditures, and for other general corporate purposes;
- make us more vulnerable to adverse changes in general U.S. and worldwide economic, industry, and competitive conditions and adverse changes in government regulations;
- limit our flexibility in planning for, or reacting to, changes in our business and industry; and
- place us at a disadvantage compared to our competitors who have less debt.

Any of these factors could harm our business, results of operations, and financial condition. In addition, if we incur additional indebtedness, the risks related to our business and our ability to service or repay our indebtedness would increase.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

During the three months ended November 30, 2024, none of our directors or officers (as defined in Rule 16a-1(f) of the Exchange Act) adopted or terminated a Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement (as such terms are defined in Item 408 of Regulation S-K under the Securities Act).

On January 1, 2025, there were approximately 450 record holders of our common stock. This figure does not include an estimate of the number of beneficial holders whose shares are held of record by banks, broker or other nominees.

Item 6. Exhibits

Exhibit Number	Description	Incorporated by Reference or Filed/Furnished Herewith
10.1	Credit Agreement, dated September 30, 2024, by and between Rocky Mountain Chocolate Factory, Inc., a Colorado corporation, and RMC Credit Facility, LLC, a Colorado limited liability company	Exhibit 10.1 to the Current Report on Form 8-K filed on October 4, 2024.
10.2	Promissory Note, dated September 30, 2024, made by Rocky Mountain Chocolate Factory, Inc., a Colorado corporation, to RMC Credit Facility, LLC, a Colorado limited liability company	Exhibit 10.2 to the Current Report on Form 8-K filed on October 4, 2024.
10.3	Deed of Trust, dated September 30, 2024, by and among Rocky Mountain Chocolate Factory, Inc., a Colorado corporation, RMC Credit Facility, LLC, a Colorado limited liability company, and the Public Trustee of La Plata County, Colorado	Exhibit 10.3 to the Current Report on Form 8-K filed on October 4, 2024.
10.4	Agreement, dated as of November 26, 2024, by and between Rocky Mountain Chocolate Factory, Inc. and Global Value Investment Corporation and its affiliates	Exhibit 10.1 to the Current Report on Form 8-K filed on November 27, 2024.
31.1	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith.
31.2	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith.
32.1†	Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith.
32.2†	Certification of Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith.
101.INS	Inline XBRL Instance Document (the Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)	Filed herewith.
101.SCH	Inline XBRL Taxonomy Extension Schema With Embedded Linkbase Documents	Filed herewith.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document and contained in Exhibit 101)	Filed herewith.

† The certifications attached as Exhibits 32.1 and 32.2 that accompany this Quarterly Report on Form 10-Q are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of the Registrant under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

Signature

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. (Registrant)

Date: January 14, 2025	/s/ Jeffrey R. Geygan JEFFREY R. GEYGAN Interim Chief Executive Officer (Principal Executive Officer)
Date: January 14, 2025	/s/ Carrie E. Cass CARRIE E. CASS Chief Financial Officer (Principal Financial Officer)

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a) AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jeffrey R. Geygan, certify that:

(1)I have reviewed this Quarterly Report on Form 10-Q of Rocky Mountain Chocolate Factory, Inc.;

(2)Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3)Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

(4)The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a.Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b.Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c.Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d.Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

(5)The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a.All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 14, 2025	By:	/s/ Jeffrey R. Geygan Jeffrey R. Geygan, Interim Chief Executive Officer *(Principal Executive Officer)*

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a) AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Carrie E. Cass, certify that:

(1)I have reviewed this Quarterly Report on Form 10-Q of Rocky Mountain Chocolate Factory, Inc.;

(2)Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3)Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

(4)The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a.Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b.Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c.Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d.Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

(5)The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a.All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 14, 2025	By:	/s/ Carrie E. Cass
		Carrie E. Cass, Chief Financial Officer
		(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Jeffrey R. Geygan, the Interim Chief Executive Officer of Rocky Mountain Chocolate Factory, Inc. (the "**Company**"), hereby certify, that, to my knowledge:

(1)The Quarterly Report on Form 10-Q for the period ended November 30, 2024 (the "**Report**") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2)The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: January 14, 2025

By: /s/ Jeffrey R. Geygan
Jeffrey R. Geygan, Interim Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Carrie E. Cass, the Chief Financial Officer of Rocky Mountain Chocolate Factory, Inc. (the "**Company**"), hereby certify, that, to my knowledge:

(1)The Quarterly Report on Form 10-Q for the period ended November 30, 2024 (the "**Report**") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2)The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: January 14, 2025	By:	/s/ Carrie E. Cass
		Carrie E. Cass, Chief Financial Officer
		(Principal Financial Officer)