UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 30, 2016

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

For the transition period from ________to________

Commission file number: 001-36865

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

Delaware	**47-1535633**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

265 Turner Drive, Durango, CO 81303
(Address of principal executive offices, including zip code)

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

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 _X_ No ___

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes _X_ No ___

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

Large accelerated filer ____ Accelerated filer ____

Non-accelerated filer ____ Smaller reporting company _X_
(Do not check if a smaller reporting company)

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

On December 31, 2016, the registrant had outstanding 5,854,372 shares of its common stock, $.001 par value per share.

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARIES

FORM 10-Q

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended November 30, 2016	Three Months Ended November 30, 2015	Nine Months Ended November 30, 2016	Nine Months Ended November 30, 2015
Revenues				
Sales	$ 8,250,611	$ 8,024,803	$ 21,591,420	$ 22,480,092
Franchise and royalty fees	1,704,628	1,782,510	6,341,980	6,965,797
Total revenues	9,955,239	9,807,313	27,933,400	29,445,889
Costs and Expenses				
Cost of sales	5,544,155	5,300,962	14,373,548	14,749,058
Franchise costs	520,619	657,660	1,571,619	1,871,113
Sales and marketing	641,976	593,793	1,959,115	1,832,828
General and administrative	880,455	1,087,633	3,101,662	3,550,781
Retail operating	551,168	669,961	1,876,783	2,318,404
Depreciation and amortization, exclusive of depreciation and amortization expense of $118,213, $98,009, $324,412 and $300,731, respectively, included in cost of sales	201,512	245,539	638,220	763,480
Restructuring and acquisition-related charges	-	-	60,000	-
Total costs and expenses	8,339,885	8,555,548	23,580,947	25,085,664
Income from Operations	1,615,354	1,251,765	4,352,453	4,360,225
Other Income (Expense)				
Interest expense	(40,842)	(52,553)	(132,884)	(167,424)
Interest income	9,543	13,779	32,540	40,814
Other income (expense), net	(31,299)	(38,774)	(100,344)	(126,610)
Income Before Income Taxes	1,584,055	1,212,991	4,252,109	4,233,615
Income Tax Provision	572,256	439,355	1,533,663	1,286,400
Consolidated Net Income	$ 1,011,799	$ 773,636	$ 2,718,446	$ 2,947,215
Less: Net income attributable to non-controlling interest	-	332,835	-	963,659
Net Income attributable to RMCF	$ 1,011,799	$ 440,801	$ 2,718,446	$ 1,983,556
Basic Earnings per Common Share	$ .17	$ .08	$ .47	$ .34
Diluted Earnings per Common Share	$ .17	$ .07	$ .45	$ .32
Weighted Average Common Shares Outstanding - Basic	5,874,366	5,840,407	5,839,603	5,911,561
Dilutive Effect of Stock Options and Restricted Stock Units	133,658	181,742	159,215	209,173
Weighted Average Common Shares Outstanding - Diluted	6,008,024	6,022,149	5,998,818	6,120,734

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

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

		November 30, 2016 (unaudited)		February 29, 2016
Assets				
Current Assets				
Cash and cash equivalents	$	4,596,453	$	6,194,948
Accounts receivable, less allowance for doubtful accounts of $612,307 and $595,471, respectively		4,391,560		3,799,691
Notes receivable, current portion		267,917		317,248
Refundable income taxes		284,927		-
Inventories, less reserve for slow moving inventory of $284,767 and $261,346, respectively		5,454,965		4,840,108
Other		325,116		286,859
Total current assets		15,320,938		15,438,854
Property and Equipment, Net		6,464,991		6,010,303
Other Assets				
Notes receivable, less current portion and valuation allowance of $34,845 and $75,000, respectively		414,309		530,446
Goodwill, net		1,046,944		1,046,944
Franchise rights, net		4,919,545		5,153,363
Intangible assets, net		643,354		419,042
Deferred income taxes		1,184,524		1,421,655
Other		128,043		295,118
Total other assets		8,336,719		8,866,568
Total Assets	$	30,122,648	$	30,315,725
Liabilities and Stockholders' Equity				
Current Liabilities				
Current maturities of long term debt	$	1,290,099	$	1,254,007
Accounts payable		1,734,944		1,663,245
Accrued salaries and wages		820,621		683,863
Gift card liabilities		2,758,283		2,835,943
Other accrued expenses		323,138		364,955
Dividend payable		702,525		700,728
Deferred income		478,633		502,950
Total current liabilities		8,108,243		8,005,691
Long-Term Debt, Less Current Maturities		2,859,240		3,831,126
Commitments and Contingencies				
Stockholders' Equity				
Preferred stock, $.001 par value per share; 250,000 authorized; -0- shares issued and outstanding				
Series A Junior Participating Preferred Stock, authorized 50,000 shares		-		-
Undesignated series, authorized 200,000 shares		-		-
Common stock, $.001 par value per share, 46,000,000 shares authorized, 5,889,480 and 5,839,396 issued, and 5,854,372 and 5,839,396 outstanding, respectively		5,889		5,839
Additional paid-in capital		5,753,593		5,340,190
Retained earnings		13,747,267		13,132,879
Treasury stock, 35,108 shares and 0 shares, at cost		(351,584)		-
Total stockholders' equity		19,155,165		18,478,908
Total Liabilities and Stockholders' Equity	$	30,122,648	$	30,315,725

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

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

	Nine Months Ended November 30,	
	2016	2015
Cash Flows From Operating activities		
Net income	$ 2,718,446	$ 2,947,215
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	962,632	1,064,211
Provision for slow moving inventory	61,061	68,175
Provision for loss on accounts and notes receivable	109,200	129,000
Loss on sale or disposal of property and equipment	18,783	90,149
Expense recorded for stock compensation	447,581	615,740
Deferred income	14,710	(430,043)
Deferred income taxes	237,131	100,108
Changes in operating assets and liabilities:		
Accounts receivable	(650,708)	50,028
Refundable income taxes	(284,927)	-
Inventories	(771,281)	121,220
Other current assets	(39,008)	(9,182)
Accounts payable	156,150	(321,489)
Accrued liabilities	17,281	179,878
Net cash provided by operating activities	2,997,051	4,605,010
Cash Flows From Investing Activities		
Addition to notes receivable	(131,243)	(46,489)
Proceeds received on notes receivable	255,907	259,619
Purchase of intangible assets	(307,023)	(54,479)
Proceeds from sale of assets	33,845	23,692
Purchases of property and equipment	(1,048,667)	(625,180)
Decrease (increase) in other assets	25,402	(115,407)
Net cash used in investing activities	(1,171,779)	(558,244)
Cash Flows From Financing Activities		
Payments on long-term debt	(935,794)	(901,560)
Repurchase of common stock	(351,584)	(3,030,708)
Tax (expense) benefit of stock awards	(34,128)	19,868
Dividends paid	(2,102,261)	(2,137,817)
Net cash used in financing activities	(3,423,767)	(6,050,217)
Net Decrease in Cash and Cash Equivalents	(1,598,495)	(2,003,451)
Cash and Cash Equivalents, Beginning of Period	6,194,948	7,157,371
Cash and Cash Equivalents, End of Period	$ 4,596,453	$ 5,153,920

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

NOTE 1 – NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Nature of Operations

The accompanying consolidated financial statements include the accounts of Rocky Mountain Chocolate Factory, Inc., a Delaware corporation, its wholly-owned subsidiaries, Rocky Mountain Chocolate Factory, Inc., a Colorado corporation ("RMCF"), Aspen Leaf Yogurt, LLC, a Colorado limited liability company ("ALY"), U-Swirl International, Inc. ("U-Swirl") (a Nevada corporation), and its 39%-owned subsidiary, U-Swirl, Inc., a Nevada corporation ("SWRL") of which, RMCF had financial control until February 29, 2016 (collectively, the "Company"). All intercompany balances and transactions have been eliminated in consolidation.

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

Effective March 1, 2015, the Company was reorganized to create a holding company structure. The operating subsidiary with the same name, Rocky Mountain Chocolate Factory, Inc., a Colorado corporation, which was previously the public company, became a wholly-owned subsidiary of a newly formed entity, Rocky Mountain Chocolate Factory, Inc., a Delaware corporation ("Newco"), and all of the outstanding shares of common stock of RMCF, par value $0.03 per share, were exchanged on a one-for-one basis for shares of common stock, par value $0.001 per share, of Newco. The new holding company began trading on March 2, 2015 on the NASDAQ Global Market under the symbol "RMCF", which was the same symbol used by RMCF prior to the holding company reorganization.

In January 2013, through our wholly-owned subsidiaries, including ALY, the Company entered into two agreements to sell all of the assets of its ALY frozen yogurt stores, along with its interest in the self-serve frozen yogurt franchises and retail units branded as "Yogurtini" which the Company also acquired in January 2013, to SWRL, in exchange for a 60% controlling equity interest in SWRL, which was subsequently diluted down to 39% as of November 30, 2016 following various issuances of common stock of SWRL. At that time, U-Swirl was a wholly-owned subsidiary of SWRL, and was the operating subsidiary for all of SWRL's operations. Upon completion of these transactions, we ceased to directly operate any Company-owned ALY locations or sell and support frozen yogurt franchise locations, which were being supported by SWRL. As of November 30, 2016, the Company held a 39% interest in SWRL. The SWRL Board of Directors is composed solely of Board members also serving on the Company's Board of Directors.

In fiscal year ("FY") 2014, SWRL acquired the franchise rights and certain other assets of self-serve frozen yogurt concepts under the names "CherryBerry," "Yogli Mogli Frozen Yogurt" and "Fuzzy Peach Frozen Yogurt." In connection with these acquisitions, the Company entered into a credit facility with Wells Fargo, N.A. used to finance the acquisitions by SWRL, and in turn, the Company entered into a loan and security agreement with SWRL to cover the purchase price and other costs associated with the acquisitions (the "SWRL Loan Agreement"). Borrowings under the SWRL Loan Agreement were secured by all of the assets of SWRL, including all of the outstanding stock of its wholly-owned subsidiary, U-Swirl. Under the SWRL Loan Agreement, SWRL was subject to various financial covenants. SWRL was not compliant with the financial covenants during the year ended February 29, 2016 and the loan matured on January 16, 2016 without payment in full by SWRL. Upon the occurrence and during the continuance of an event of default, the Company was entitled to charge interest on all amounts due under the SWRL Loan Agreement at the default rate of 15% per annum, accelerate payment of all amounts due under the SWRL Loan Agreement, and foreclose on all or any portion of the security interest. As a result of the defaults, the Company issued a demand for payment of all obligations under the SWRL Loan Agreement. SWRL was unable to repay the obligations under the SWRL Loan Agreement, and as a result, the Company foreclosed on all of the outstanding stock of U-Swirl on February 29, 2016 in full satisfaction of the amounts owed under the SWRL Loan Agreement. This resulted in U-Swirl becoming a wholly-owned subsidiary of the Company as of February 29, 2016 and concurrently the Company ceased to have financial control of SWRL as of February 29, 2016. As of February 29, 2016, SWRL had no operating assets.

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

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

The following table summarizes the number of stores operated under the Rocky Mountain Chocolate Factory brand and frozen yogurt cafés as of November 30, 2016:

	Sold, Not Yet Open	Open	Total
Rocky Mountain Chocolate Factory			
Company-owned stores	-	4	4
Franchise stores – Domestic stores and kiosks	7	191	198
International license stores	-	94	94
Cold Stone Creamery – co-branded	4	82	86
U-Swirl (Including all associated brands)			
Company-owned stores	-	2	2
Company-owned stores – co-branded	-	3	3
Franchise stores – Domestic stores	*	143	143
Franchise stores – Domestic – co-branded	*	18	18
International License Stores	-	7	7
Total	11	544	555

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

Basis of Presentation

The accompanying consolidated financial statements have been prepared by the Company, without audit, and reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial reporting and Securities and Exchange Commission regulations. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Certain amounts previously presented for prior periods have been reclassified to conform to the current presentation. The reclassifications had no effect on net income, working capital or equity previously reported. 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, 2016 are not necessarily indicative of the results to be expected for the entire fiscal year.

These consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended February 29, 2016.

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.

New Accounting Pronouncements

In January 2016, the Financial Accounting Standards Board (“FASB”) issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities, which addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. ASU 2016-01 will be effective for us in the first quarter of our fiscal year 2019, and early adoption is not permitted. The Company is currently evaluating the impact that the standard will have on its consolidated financial statements.

In February 2016, FASB issued ASU 2016-02, Leases (Topic 842), which requires the recognition of lease assets and lease liabilities on the balance sheet by lessees for those leases currently classified as operating leases under ASC 840 “Leases.” These amendments also require qualitative disclosures along with specific quantitative disclosures. These amendments are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. Entities are required to apply the amendments at the beginning of the earliest period presented using a modified retrospective approach. The Company is currently evaluating the impact that the standard will have on its consolidated financial statements.

In August 2016, FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. ASU No. 2016-15 clarifies and provides specific guidance on eight cash flow classification issues that are not currently addressed by current GAAP and thereby reduce the current diversity in practice. ASU No. 2016-15 is effective for public business entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2017, with early application permitted. This guidance is applicable to the Company's fiscal year beginning March 1, 2018. The Company does not anticipate that this guidance will have a material impact on its consolidated financial statements.

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

In March 2016, the FASB issued ASU No. 2016-09, Compensation — Stock Compensation, (Topic 718): Improvements to Employee Share-Based Payment Accounting, which is intended to simplify aspects of the accounting for share-based payment transactions. The ASU simplifies the accounting of stock compensation, including income tax implications, the balance sheet classification of awards as either equity or liabilities, and the cash flow classification of employee share based payment transactions. ASU No. 2016-09 is effective for public business entities for annual and interim periods beginning after December 15, 2016, with early application permitted. This guidance is applicable to the Company's fiscal year beginning March 1, 2017. Amendments requiring recognition of excess tax benefits and tax deficiencies in the income statement must be applied prospectively. Amendments related to the presentation of excess tax benefits on the statement of cash flows may be applied either prospectively or retrospectively based on the Company’s election. Amendments related to the statement of cash flows presentation of employee taxes paid when an employer withholds shares must be applied retrospectively. The Company is in the process of assessing the impact of the adoption of ASU No. 2016-09 on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). This guidance, as amended by subsequent ASUs on the topic, supersedes current guidance on revenue recognition in Topic 605, Revenue Recognition. This guidance will be effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods. Early application of the guidance is permitted for annual reporting periods beginning after December 31, 2016. This guidance is applicable to the Company's fiscal year beginning March 1, 2018. The Company is currently evaluating this guidance to determine the potential impact on its consolidated financial statements.

NOTE 2 - EARNINGS PER SHARE

Basic earnings per share is calculated using the weighted-average number of shares of common stock outstanding. Diluted earnings per share reflects the potential dilution that could occur from common stock issuable through stock options and restricted stock units. For the three months ended November 30, 2016, there were no stock options excluded from the computation of earnings per share, compared with 12,936 stock options excluded from the computation of earnings per share for the three months ended November 30, 2015 because their effect would have been anti-dilutive. For the nine months ended November 30, 2016, no stock options were excluded from the computation of earnings per share, compared with 12,936 stock options excluded from the computation of earnings per share for the nine months ended November 30, 2015 because their effect would have been anti-dilutive. Restricted stock units become dilutive within the period granted and remain dilutive until the units vest and are issued as common stock.

NOTE 3 – INVENTORIES

Inventories consist of the following:

	November 30, 2016	February 29, 2016
Ingredients and supplies	$ 2,883,509	$ 2,868,157
Finished candy	2,784,760	2,138,952
U-Swirl food and packaging	71,463	94,345
Reserve for slow moving inventory	(284,767)	(261,346)
Total inventories	$ 5,454,965	$ 4,840,108

NOTE 4 - PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following:

	November 30, 2016	February 29, 2016
Land	$ 513,618	$ 513,618
Building	4,787,855	4,784,272
Machinery and equipment	10,375,738	9,987,906
Furniture and fixtures	1,044,004	1,169,475
Leasehold improvements	1,531,112	1,862,603
Transportation equipment	418,402	438,601
Asset Impairment	(30,414)	(568,803)
	18,640,315	18,187,672
Less accumulated depreciation	(12,175,324)	(12,177,369)
Property and equipment, net	$ 6,464,991	$ 6,010,303

NOTE 5 - STOCKHOLDERS' EQUITY

Cash Dividend

The Company paid quarterly cash dividends of $0.12 per common share on March 11, 2016, June 17, 2016, and September 16, 2016 to stockholders of record on February 26, 2016, June 7, 2016, and September 6, 2016, respectively. The Company declared a quarterly cash dividend of $0.12 per share of common stock on November 15, 2016 payable on December 9, 2016 to stockholders of record on November 25, 2016.

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

Stock Repurchases

On July 15, 2014, the Company publicly announced a plan to repurchase up to $3.0 million of its common stock in the open market or in private transactions, whenever deemed appropriate by management. On January 13, 2015, the Company announced a plan to purchase up to an additional $2,058,000 of its common stock under the repurchase plan, and on May 21, 2015, the Company announced a further increase to the repurchase plan by authorizing the purchase of up to an additional $2,090,000 of its common stock under the repurchase plan. During the nine months ended November 30, 2016, the Company repurchased 35,108 shares under the repurchase plan at an average price of $10.01 per share. The Company did not repurchase any shares during the three months ended November 30, 2016. As of November 30, 2016, approximately $638,121 remains available under the repurchase plan for further stock repurchases.

Stock-Based Compensation

At November 30, 2016, the Company had stock-based compensation plans for employees and non-employee directors that authorized the granting of stock awards, including stock options and restricted stock units.

The Company recognized $132,453 and $447,581 of stock-based compensation expense during the three and nine month periods ended November 30, 2016, respectively, compared to $147,354 and $615,740 during the three and nine month periods ended November 30, 2015, respectively. Compensation costs related to stock-based compensation are generally amortized over the vesting period of the stock awards.

The following table summarizes stock option activity during the nine months ended November 30, 2016 and 2015:

	Nine Months Ended November 30,	
	2016	2015
Outstanding stock options as of February 28 or 29:	12,936	12,936
Granted	-	-
Exercised	-	-
Cancelled/forfeited	(12,936)	-
Outstanding stock options as of November 30:	-	12,936
Weighted average exercise price	n/a	$ 14.70
Weighted average remaining contractual term (in years)	n/a	0.29

The following table summarizes restricted stock unit activity during the nine months ended November 30, 2016 and 2015:

	Nine Months Ended November 30, 2016	2015
Outstanding non-vested restricted stock units as of February 28 or 29:	181,742	237,641
Granted	-	-
Vested	(48,084)	(55,899)
Cancelled/forfeited	(10,000)	-
Outstanding non-vested restricted stock units as of November 30:	123,658	181,742
Weighted average grant date fair value	$ 12.22	$ 12.22
Weighted average remaining vesting period (in years)	2.47	3.47

During the nine months ended November 30, 2016, the Company granted 2,000 fully vested, unrestricted shares of common stock to non-employee directors compared with the grant of 4,000 fully vested, unrestricted shares of common stock to non-employee directors in the nine months ended November 30, 2015. There were no unrestricted shares of common stock granted during the three month periods ended November 30, 2016 or 2015. In connection with these non-employee director stock grants, the Company recognized $20,420 and $61,040 of stock-based compensation expense during the nine-month periods ended November 30, 2016 and 2015, respectively.

During the three and nine month periods ended November 30, 2016, the Company recognized $132,453 and $427,161, respectively, of stock-based compensation expense related to non-vested, non-forfeited restricted stock unit grants. The restricted stock unit grants generally vest between 17% and 20% annually over a period of five to six years. During the nine-month periods ended November 30, 2016 and 2015, 48,084 and 55,899 restricted stock units vested and were issued as common stock, respectively. Total unrecognized compensation expense of non-vested, non-forfeited restricted stock units granted as of November 30, 2016 was $1,316,804, which is expected to be recognized over the weighted-average period of 2.5 years.

The Company did not recognize any stock-based compensation expense attributable to SWRL during the three and nine months ended November 30, 2016, compared with $0 and $99,250 recognized during the three and nine months ended November 30, 2015, respectively.

NOTE 6 – SUPPLEMENTAL CASH FLOW INFORMATION

	Nine Months Ended November 30, 2016	2015
Cash paid for:		
Interest	$ 100,275	$ 128,881
Income taxes	1,655,774	997,914
Non-Cash Operating Activities		
Accrued Inventory	202,669	497,190
Non-Cash Financing Activities		
Dividend Payable	702,525	700,728
Sale of assets and inventory to buyers for notes receivable:		
Long-lived assets	20,989	127,500
Other assets	$ -	$ 75,000

NOTE 7 - OPERATING SEGMENTS

The Company classifies its business interests into five reportable segments: Franchising, Manufacturing, Retail Stores, U-Swirl operations and Other. The accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 1 to these consolidated financial statements and Note 1 to the Company's consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended February 29, 2016. The Company evaluates performance and allocates resources based on operating contribution, which excludes unallocated corporate general and administrative costs and income tax expense or benefit. The Company's reportable segments are strategic businesses that utilize common merchandising, distribution and marketing functions, as well as common information systems and corporate administration. All inter-segment sales prices are market based. Each segment is managed separately because of the differences in required infrastructure and the difference in products and services:

Three Months Ended November 30, 2016	Franchising	Manufacturing	Retail	U-Swirl	Other	Total
Total revenues	$ 1,202,655	$ 7,783,888	$ 320,011	$ 1,009,360	$ -	$ 10,315,914
Intersegment revenues	(1,248)	(359,427)	-	-	-	(360,675)
Revenue from external customers	1,201,407	7,424,461	320,011	1,009,360	-	9,955,239
Segment profit (loss)	328,866	2,049,231	(46,253)	102,906	(850,695)	1,584,055
Total assets	1,151,783	13,761,091	1,132,268	9,138,026	4,939,480	30,122,648
Capital expenditures	4,414	78,725	13,677	5,246	14,615	116,677
Total depreciation & amortization	$ 13,441	$ 122,381	$ 3,357	$ 147,284	$ 33,262	$ 319,725

Three Months Ended November 30, 2015	Franchising	Manufacturing	Retail	U-Swirl	Other	Total
Total revenues	$ 1,159,250	$ 7,499,619	$ 248,164	$ 1,293,843	$ -	$ 10,200,876
Intersegment revenues	(1,238)	(392,325)	-	-	-	(393,563)
Revenue from external customers	1,158,012	7,107,294	248,164	1,293,843	-	9,807,313
Segment profit (loss)	277,663	2,029,847	(61,439)	(158,478)	(874,602)	1,212,991
Total assets	1,162,582	12,540,706	1,087,849	12,721,643	3,505,689	31,018,469
Capital expenditures	-	120,302	1,716	12,847	167,943	302,808
Total depreciation & amortization	$ 8,717	$ 98,286	$ 3,810	$ 197,717	$ 35,018	$ 343,548

Nine Months Ended November 30, 2016	Franchising	Manufacturing	Retail	U-Swirl	Other	Total
Total revenues	$ 4,257,842	$ 19,070,069	$ 1,081,103	$ 4,438,630	$ -	$ 28,847,644
Intersegment revenues	(4,000)	(910,244)	-	-	-	(914,244)
Revenue from external customers	4,253,842	18,159,825	1,081,103	4,438,630	-	27,933,400
Segment profit (loss)	1,680,304	4,511,527	16,743	1,053,529	(3,009,994)	4,252,109
Total assets	1,151,783	13,761,091	1,132,268	9,138,026	4,939,480	30,122,648
Capital expenditures	13,540	785,889	16,997	35,722	196,519	1,048,667
Total depreciation & amortization	$ 41,266	$ 336,541	$ 10,061	$ 473,730	$ 101,034	$ 962,632

Nine Months Ended November 30, 2015	Franchising	Manufacturing	Retail	U-Swirl	Other	Total
Total revenues	$ 4,291,383	$ 19,662,432	$ 1,082,279	$ 5,476,052	$ -	$ 30,512,146
Intersegment revenues	(3,953)	(1,062,304)	-	-	-	(1,066,257)
Revenue from external customers	4,287,430	18,600,128	1,082,279	5,476,052	-	29,445,889
Segment profit (loss)	1,787,646	4,815,854	(89,578)	528,166	(2,808,473)	4,233,615
Total assets	1,162,582	12,540,706	1,087,849	12,721,643	3,505,689	31,018,469
Capital expenditures	22,709	341,126	2,676	51,319	207,350	625,180
Total depreciation & amortization	$ 28,288	$ 302,145	$ 14,406	$ 599,267	$ 120,105	$ 1,064,211

Revenue from one customer of the Company's Manufacturing segment represented approximately $2.1 million, or 7.5 percent, of the Company's revenues from external customers during the nine months ended November 30, 2016, compared to $3.1 million, or 10.5 percent of the Company's revenues from external customers during the nine months ended November 30, 2015.

NOTE 8 – GOODWILL AND INTANGIBLE ASSETS

Intangible assets consist of the following:

		November 30, 2016		February 29, 2016	
	Amortization Period (in years)	Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Intangible assets subject to amortization					
Store design	10	$ 220,778	$ 210,778	$ 220,778	$ 209,653
Packaging licenses	3 - 5	120,830	120,830	120,830	120,830
Packaging design	10	430,973	430,973	430,973	430,973
Trademark/Non-competition agreements	5 - 20	715,339	81,985	459,340	51,423
Franchise Rights	20	5,965,205	1,045,660	5,914,181	760,818
Total		7,453,125	1,890,226	7,146,102	1,573,697
Intangible assets not subject to amortization					
Franchising segment-					
Company stores goodwill		1,099,328	267,020	1,099,328	267,020
Franchising goodwill		295,000	197,682	295,000	197,682
Manufacturing segment-Goodwill		295,000	197,682	295,000	197,682
Trademark		20,000	-	20,000	-
Total Goodwill		1,709,328	662,384	1,709,328	662,384
Total Intangible Assets		$ 9,162,453	$ 2,552,610	$ 8,855,430	$ 2,236,081

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

Amortization expense related to intangible assets totaled $316,529 and $277,839 during the nine months ended November 30, 2016 and 2015, respectively.

At November 30, 2016, annual amortization of intangible assets, based upon our existing intangible assets and current useful lives, is estimated to be the following:

2017	$ 110,421
2018	444,917
2019	451,348
2020	438,191
2021	426,481
Thereafter	3,691,541
Total	$ 5,562,899

NOTE 9 – RELATED PARTY TRANSACTIONS

Our President and Chief Executive Officer has members of his immediate family with ownership interests in retail marketing businesses. These businesses have provided services to the Company and may provide services in the future. For the nine months ended November 30, 2016, the Company paid $47,222 and no amount was recorded to accounts payable that related to these businesses. Transactions with these businesses have been immaterial to our results of operations.

NOTE 10 – RESTRUCTURING AND ACQUISITION RELATED CHARGES

Restructuring and acquisition charges incurred were comprised of lease settlement costs of $60,000 during the nine months ended November 30, 2016, relating to the closure of an ALY Company-owned location.

The Company did not record any restructuring charges in the three and nine months ended November 30, 2015.

NOTE 11 – SALE OR DISTRIBUTION OF ASSETS

During the nine months ended November 30, 2016, the Company sold two Company-owned U-Swirl locations and financed the transfer of a franchised Rocky Mountain Chocolate Factory location. During the nine months ended November 30, 2015, the Company sold one Company-owned Rocky Mountain Chocolate Factory location and financed the upgrade and reopening of a former franchised Rocky Mountain Chocolate Factory location. These locations were sold for notes receivable. Associated with these asset disposal activities, the Company recorded the following in the nine months ended November 30, 2016 and 2015:

	2016	2015
Notes receivable	$ 145,585	$ 264,433

NOTE 12 – NOTE PAYABLE

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

As of November 30, 2016 and February 29, 2016, notes payable consisted of the following:

	November 30, 2016	February 29, 2016
Promissory note	$ 4,149,339	$ 5,085,133
Less: current maturities	(1,290,099)	(1,254,007)
Long-term obligations	$ 2,859,240	$ 3,831,126

The following table summarizes annual maturities of our notes payable as of November 30, 2016:

	Amount
2017	$ 317,620
2018	1,302,503
2019	1,352,897
2020	1,176,319
Total minimum payments	$ 4,149,339
Less: current maturities	(1,290,099)
Long-term obligations	$ 2,859,240

NOTE 13 - CONTINGENCIES

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

In January 2014, SWRL entered into an Asset Purchase Agreement (the "CherryBerry Purchase Agreement") with CherryBerry Enterprises LLC, CherryBerry Corporate LLC, CherryBerry LLC (collectively, the "CherryBerry Entities"), and their respective owners (collectively, the "CherryBerry Selling Parties"), pursuant to which SWRL acquired the franchise rights of frozen yogurt stores branded as "CherryBerry" (the "CherryBerry Acquisition"). As a part of the consideration for the CherryBerry Acquisition, SWRL agreed to issue an aggregate of 4,000,000 shares of SWRL common stock (the "CB Shares") to the CherryBerry Selling Parties, which were subject to a one-year lock-up agreement. The CB Shares were issued to the CherryBerry Selling Parties in February 2015. Pursuant to the terms of the CherryBerry Purchase Agreement, following expiration of the lock-up period, if any of the CherryBerry Selling Parties desired to sell their CB Shares, they must first offer such shares to SWRL and RMCF prior to any sale of the CB Shares on the open market. If the proceeds from the sale of any of the CB Shares is less than $0.50 per share and the CherryBerry Selling Parties comply with other terms of the CherryBerry Purchase Agreement, SWRL agreed to pay a shortfall payment equal to the difference of the sale price of the CB Shares and $0.50 per share, multiplied by the number of shares sold by the CherryBerry Selling Parties. If SWRL had been required to pay the shortfall payment on February 29, 2016, the shortfall payment would have been approximately $1,800,000. SWRL determined the likelihood of incurring the liability to be less than probable and has not recorded a contingent liability at November 30, 2016. In July and August 2015, the CherryBerry Selling Parties submitted to SWRL several requests for payment of approximately $205,000 of shortfall payments based on the sale of a portion of the CB Shares.

In August 2015, SWRL filed a lawsuit against the CherryBerry Selling Parties, a former officer and director of SWRL and unknown other parties, in the District Court for La Plata County, Colorado, alleging wrongful actions on their part to cause the price of SWRL's common stock to decline and thereafter making an improper demand for the shortfall payment described above, and certain other actions in violation of various provisions of the CherryBerry Purchase Agreement. SWRL sought unspecified damages, attorney's fees, other costs, and a determination that the shortfall payment arrangement is void. In September 2015, the CherryBerry Selling Parties filed an answer and counterclaim to the lawsuit in the U.S. District Court for the District of Colorado, and moved the lawsuit to federal court in the U.S. District Court for the District of Colorado (the "Colorado District Court"). In addition, the CherryBerry Entities added RMCF to the lawsuit through a third-party complaint. The complaint alleged that SWRL materially breached the CherryBerry Purchase Agreement by not paying the shortfall payment, that SWRL is the alter ego of RMCF and RMCF is liable for any obligations of SWRL, and that the SWRL Loan Agreement should be recharacterized as equity. The CherryBerry Entities sought payment in full of the shortfall payment under the CherryBerry Purchase Agreement, declaratory judgements that SWRL is the alter ego of RMCF and the SWRL Loan Agreement should be recharacterized as equity, and interest, attorney's fees, costs and other equitable relief.

On January 13, 2016, the CherryBerry Entities dismissed without prejudice their counterclaim and third-party complaint in the Colorado District Court, and thereafter on January 13, 2016, the CherryBerry Entities refiled the exact claims (the "Oklahoma Action") in the United States District Court for the Northern District of Oklahoma (the "Oklahoma Court"). Also on January 13, 2016, RMCF filed a lawsuit against the CherryBerry Entities in the Colorado District Court seeking a declaratory judgment that it is not the alter ego of SWRL and that the SWRL Loan Agreement should not be re-characterized as equity (the "Colorado Action"). On that same date, SWRL filed a complaint against the CherryBerry Selling Parties asserting the same claims as it had asserted previously. RMCF filed a motion to dismiss for lack of jurisdiction and improper venue and in the alternative a motion to transfer venue in response to the Oklahoma Action, and the CherryBerry Selling Parties subsequently filed a motion to dismiss the Colorado Action. In April 2016, the Colorado District Court granted in part the CherryBerry Selling Parties' motion and administratively closed the case. In addition, in April 2016, the Oklahoma Court denied RMCF's motion (and SWRL's similar motion). On April 8, 2016, the CherryBerry Entities moved to add RMCF as a defendant on the alter ego and re-characterization claims in the Oklahoma Action. On May 9, 2016, the Oklahoma Court granted that application. We intend to vigorously assert and defend our rights in this lawsuit.

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

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q ("Quarterly Report") includes statements of our expectations, intentions, plans and beliefs that constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and are intended to come within the safe harbor protection provided by those sections. These forward-looking statements involve various risks and uncertainties. The nature of our operations and the environment in which we operate subject us to changing economic, competitive, regulatory and technological conditions, risks and uncertainties. The statements, other than statements of historical fact, included in this Quarterly Report are forward-looking statements. Many of the forward-looking statements contained in this Quarterly Report may be identified by the use of forward-looking words such as "will," "intend," "believe," "expect," "anticipate," "should," "plan," "estimate," "potential," or similar expressions. Factors which could cause results to differ include, but are not limited to: changes in the confectionery business environment, seasonality, consumer interest in our products, general economic conditions, the ability to attract and retain qualified franchisees, the success of our franchised stores,the success of our frozen yogurt business, receptiveness of our products internationally, consumer and retail trends, costs and availability of raw materials, competition, the success of our co-branding strategy, the success of international expansion efforts and the effect of government regulations. Government regulations which we and our franchisees either are or may be subject to and which could cause results to differ from forward-looking statements include, but are not limited to: local, state and federal laws regarding health, sanitation, safety, building and fire codes, franchising, employment, manufacturing, packaging and distribution of food products and motor carriers. For a detailed discussion of the risks and uncertainties that may cause our actual results to differ from the forward-looking statements contained herein, please see the "Risk Factors" contained in Item 1A. of our Annual Report on Form 10-K for the fiscal year ended February 29, 2016. These forward-looking statements apply only as of the date of this Quarterly Report. As such they should not be unduly relied upon for more current circumstances. Except as required by law, we undertake no obligation to release publicly any revisions to these forward-looking statements that might reflect events or circumstances occurring after the date of this Quarterly Report or those that might reflect the occurrence of unanticipated events.

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

Overview

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) (collectively, the "Company," "we," "us," or "our") is an international franchisor, confectionery manufacturer and retail operator. Founded in 1981, we are headquartered in Durango, Colorado and manufacture an extensive line of premium chocolate candies and other confectionery products. Our subsidiary, U-Swirl International, Inc. ("U-Swirl"), franchises and operates self-serve frozen yogurt cafés. Our revenues and profitability are derived principally from our franchised/license system of retail stores that feature chocolate, frozen yogurt and other confectionery products. We also sell our candy in selected locations outside of our system of retail stores and license the use of our brand with certain consumer products. As of November 30, 2016, there were 4 Company-owned, 82 Cold Stone Creamery co-branded and 285 franchised Rocky Mountain Chocolate Factory stores operating in 40 states, Canada, Japan, South Korea, the Philippines, the Kingdom of Saudi Arabia and the United Arab Emirates. As of November 30, 2016, U-Swirl operated 5 Company-owned cafés and 168 franchised cafés located in 35 states, Canada and the United Arab Emirates. U-Swirl operates and franchises self-serve frozen yogurt cafés under the names "U-Swirl," "Yogurtini," "CherryBerry," "Josie's Frozen Yogurt," "Yogli Mogli Frozen Yogurt," "Fuzzy Peach Frozen Yogurt," "Let's Yo!," and "Aspen Leaf Yogurt".

Effective March 1, 2015, we reorganized to create a holding company structure. Our operating subsidiary with the same name, Rocky Mountain Chocolate Factory, Inc., a Colorado corporation ("RMCF"), which was previously the public company, became a wholly-owned subsidiary of a newly formed entity, Rocky Mountain Chocolate Factory, Inc., a Delaware corporation ("Newco"), and all of the outstanding shares of common stock of RMCF were exchanged on a one-for-one basis for shares of common stock of Newco. Our new holding company began trading on March 2, 2015 on the NASDAQ Global Market under the symbol "RMCF", which was the same symbol used by RMCF prior to the holding company reorganization.

In January 2013, through our wholly-owned subsidiaries, including Aspen Leaf Yogurt, LLC ("ALY"), we entered into two agreements to sell all of the assets of our ALY frozen yogurt stores, along with our interest in the self-serve frozen yogurt franchises and retail units branded as "Yogurtini" which we also acquired in January 2013, to U-Swirl, Inc., a publicly traded company (OTCQB: SWRL) ("SWRL"), in exchange for a 60% controlling equity interest in SWRL, which was subsequently diluted to 39% as of February 29, 2016 following various issuances of common stock of SWRL. At that time, U-Swirl was a wholly-owned subsidiary of SWRL, and was the operating subsidiary for all of SWRL's operations. Upon completion of these transactions, we ceased to directly operate any Company-owned ALY locations or sell and support frozen yogurt franchise locations, which was being supported by SWRL.

In fiscal year ("FY") 2014, SWRL acquired the franchise rights and certain other assets of self-serve frozen yogurt concepts under the names "CherryBerry," "Yogli Mogli Frozen Yogurt" and "Fuzzy Peach Frozen Yogurt." In connection with these acquisitions, the Company entered into a credit facility with Wells Fargo, N.A. used to finance the acquisitions of SWRL, and in turn, the Company entered into a loan and security agreement with SWRL to cover the purchase price and other costs associated with the acquisitions (the "SWRL Loan Agreement"). Borrowings under the SWRL Loan Agreement were secured by all of the assets of SWRL, including all of the outstanding stock of its wholly-owned subsidiary, U-Swirl. Under the SWRL Loan Agreement, SWRL was subject to various financial covenants. SWRL was not compliant with the financial covenants during the year ended February 29, 2016 and the loan matured on January 16, 2016 without payment in full by SWRL. Upon the occurrence and during the continuance of an event of default, we were entitled to charge interest on all amounts due under the SWRL Loan Agreement at the default rate of 15% per annum, accelerate payment of all amounts due under the SWRL Loan Agreement, and foreclose on all or any portion of the security interest. As a result of the defaults, we issued a demand for payment of all obligations under the SWRL Loan Agreement. SWRL was unable to repay the obligations under the SWRL Loan Agreement, and as a result, we foreclosed on all of the outstanding stock of U-Swirl on February 29, 2016 in full satisfaction of the amounts owed under the SWRL Loan Agreement. This resulted in U-Swirl becoming a wholly-owned subsidiary of the Company as of February 29, 2016 and concurrently the Company ceased to have financial control of SWRL as of February 29, 2016. As of February 29, 2016, SWRL had no operating assets.

Results of Operations

Three Months Ended November 30, 2016 Compared to the Three Months Ended November 30, 2015

Basic earnings per share increased 112.5% from $.08 in the three months ended November 30, 2015 to $.17 in the three months ended November 30, 2016. Revenues increased 1.5% from $9.8 million in the three months ended November 30, 2015 to $10.0 million in the three months ended November 30, 2016. Operating income increased 29.0% from $1.3 million in the three months ended November 30, 2015 to $1.6 million in the three months ended November 30, 2016. Net income increased 129.5% from $441,000 in the three months ended November 30, 2015 to $1.0 million in the three months ended November 30, 2016. The increase in revenues was primarily the result of higher factory sales mostly offset by lower royalty and marketing fees and lower retail sales. The increase in operating income was primarily the result of lower operating costs. The increase in net income and earnings per share is the result of a decline in operating costs and a decrease in the earnings attributable to the non-controlling interest.

Revenues	Three Months Ended November 30,		$	%
($'s in thousands)	2016	2015	Change	Change
Factory sales	$ 7,424.4	$ 7,107.3	$ 317.1	4.5%
Retail sales	826.2	917.5	(91.3)	(10.0%)
Franchise fees	86.4	60.2	26.2	43.5%
Royalty and Marketing fees	1,618.2	1,722.3	(104.1)	(6.0%)
Total	$ 9,955.2	$ 9,807.3	$ 147.9	1.5%

Factory Sales

The increase in factory sales for the three months ended November 30, 2016 versus the three months ended November 30, 2015 was primarily due to a 15.8% increase in shipments of product to customers outside our network of franchise retail locations. The increase in shipments of products to customers outside our network of franchise retail locations was the result of an increase in purchases from new customers. Same store pounds purchased by domestic Rocky Mountain Chocolate Factory franchise and license locations decreased 0.8% in the three months ended November 30, 2016, compared with the three months ended November 30, 2015.

Retail Sales

The decrease in retail sales was primarily due to changes in retail units in operation resulting from the sale of certain Company-owned locations and the closure of a certain underperforming Company-owned location. Same store sales at all Company-owned stores and cafés increased 3.6% in the three months ended November 30, 2016 compared to the three months ended November 30, 2015.

Royalties, Marketing Fees and Franchise Fees

The decrease in royalties and marketing fees from the three months ended November 30, 2015 to the three months ended November 30, 2016 resulted from a 12.9% decrease in domestic franchise units in operation partially offset by higher same store sales. The average number of total domestic franchise stores in operation decreased from 419 in the three months ended November 30, 2015 to 365 during the three months ended November 30, 2016. This decrease is the result of domestic store closures exceeding domestic store openings, primarily the result of franchise and license closures of U-Swirl franchise locations. Same store sales at total franchise stores and cafés in operation increased 1.1% during the three months ended November 30, 2016 compared to the three months ended November 30 2015. Franchise fees increased primarily as a result of an increase in franchise transfers and the associated fees and an increase in the average franchise fee recognized on domestic franchise openings during the three months ended November 30, 2016 compared to the three months ended November 30, 2015.

Costs and Expenses	Three Months Ended November 30,		$	%
($'s in thousands)	2016	2015	Change	Change
Cost of sales – factory	$ 5,221.7	$ 4,957.4	$ 264.3	5.3%
Cost of sales - retail	322.5	343.6	(21.1)	(6.1%)
Franchise costs	520.6	657.6	(137.0)	(20.8%)
Sales and marketing	642.0	593.8	48.2	8.1%
General and administrative	880.5	1,087.6	(207.1)	(19.0%)
Retail operating	551.2	670.0	(118.8)	(17.7%)
Total	$ 8,138.5	$ 8,310.0	$ (171.5)	(2.1%)

Gross Margin	Three Months Ended November 30,		$	%
($'s in thousands)	2016	2015	Change	Change
Factory gross margin	$ 2,202.7	$ 2,149.9	$ 52.8	2.5%
Retail	503.7	573.9	(70.2)	(12.2%)
Total	$ 2,706.4	$ 2,723.8	$ (17.4)	(0.6%)

Gross Margin	Three Months Ended November 30,		%	%
	2016	2015	Change	Change
(Percent)				
Factory gross margin	29.7%	30.2%	(0.5%)	(1.7%)
Retail	61.0%	62.6%	(1.6%)	(2.6%)
Total	32.8%	33.9%	(1.1%)	(3.2%)

Adjusted Gross Margin	Three Months Ended November 30,		$	%
($'s in thousands)	2016	2015	Change	Change
Factory gross margin	$ 2,202.7	$ 2,149.9	$ 52.8	2.5%
Plus: depreciation and amortization	118.2	98.0	20.2	20.6%
Factory adjusted gross margin	2,320.9	2,247.9	73.0	3.2%
Retail	503.7	573.9	(70.2)	(12.2%)
Total Adjusted Gross Margin	$ 2,824.6	$ 2,821.8	$ 2.8	0.1%
Factory adjusted gross margin	31.3%	31.6%	(0.3%)	(0.9%)
Retail	61.0%	62.6%	(1.6%)	(2.6%)
Total Adjusted Gross Margin	34.2%	35.2%	(1.0%)	(2.8%)

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

Cost of Sales

Factory margins decreased 50 basis points in the three months ended November 30, 2016 compared to the three months ended November 30, 2015 due primarily to lower costs of certain materials more than offset by increased costs of labor and overhead in the three months ended November 30, 2016 compared to the three months ended November 30, 2015. The decrease in Company-owned store margin is due primarily to a decrease in Company-owned café revenue resulting from the sale of yogurt and the associated higher margins. This change is the result of a decrease in units in operation during the three months ended November 30, 2016 compared to the prior year.

Franchise Costs

The decrease in franchise costs in the three months ended November 30, 2016 versus the three months ended November 30, 2015 is due primarily to lower franchise costs associated with supporting U-Swirl franchise units as a result of the foreclosure of U-Swirl in the prior year and the associated focus on reduction of duplicative franchise costs. As a percentage of total royalty and marketing fees and franchise fee revenue, franchise costs decreased to 30.5% in the three months ended November 30, 2016 from 36.9% in the three months ended November 30, 2015.

Sales and Marketing

The increase in sales and marketing costs for the three months ended November 30, 2016 compared to the three months ended November 30, 2015 is primarily due to higher marketing related compensation associated with additional sales staff partially offset by lower marketing-related costs associated with U-Swirl franchise locations. Marketing costs for U-Swirl franchise locations declined because of lower marketing fee revenues, the result of fewer franchise stores in operation.

General and Administrative

The decrease in general and administrative costs for the three months ended November 30, 2016 compared to the three months ended November 30, 2015 is due primarily to the foreclosure of U-Swirl in the prior year and the associated focus on reduction of duplicative general and administrative costs. For the three months ended November 30, 2016, approximately $86,000 of U-Swirl general and administrative costs were consolidated within our results, compared with $287,000 in the three months ended November 30, 2015. As a percentage of total revenues, general and administrative expenses decreased to 8.8% in the three months ended November 30, 2016 compared to 11.1% in the three months ended November 30, 2015.

Retail Operating Expenses

The decrease in retail operating expenses for the three months ended November 30, 2016 compared to the three months ended November 30, 2015 was due primarily to changes in units in operation, resulting from the sale of certain Company-owned units and the closure of certain underperforming Company-owned units. Retail operating expenses, as a percentage of retail sales, decreased from 73.0% in the three months ended November 30, 2015 to 66.7% in the three months ended November 30, 2016. This decrease is primarily the result of the decrease in units in operation from the prior year.

Depreciation and Amortization

Depreciation and amortization, exclusive of depreciation and amortization included in cost of sales, was $202,000 in the three months ended November 30, 2016, a decrease of 17.9% from $246,000 incurred in the three months ended November 30, 2015. This decrease was the result of fewer Company-owned store assets in service. Depreciation and amortization included in cost of sales increased 20.6% from $98,000 in the three months ended November 30, 2015 to $118,000 in the three months ended November 30, 2016. This increase was the result of an increase in production assets in service.

Other Income

Net interest expense was $31,300 in the three months ended November 30, 2016 compared to net interest expense of $38,800 incurred in the three months ended November 30, 2015. This change was the result of less interest expense incurred on lower average outstanding promissory note balances.

Income Tax Expense

Our effective income tax rate for the three months ended November 30, 2016 was 36.1%, compared to 36.2% for the three months ended November 30, 2015. For the three months ended November 30, 2015, the financial statements presented represent the consolidated statements of two separate consolidated groups for income tax purposes. The Company has filed income tax returns consolidating the results of the Company and its wholly-owned subsidiary, ALY. SWRL has filed a separate consolidated income tax return for the results of SWRL and its wholly owned subsidiary, U-Swirl. RMCF and SWRL have filed separate income tax returns because RMCF owned only 39% of SWRL. Beginning on March 1, 2016, the results of U-Swirl will be included in RMCF's consolidated income tax return, and on the same date, will be removed from SWRL's consolidated tax return. This is a result of the foreclosure of RMCF on the outstanding stock of U-Swirl in satisfaction of debt between RMCF and SWRL. The consolidated tax return for RMCF for future periods will include all operating results of U-Swirl. SWRL will file separate income tax returns in future periods, however, there are no remaining operating assets held by SWRL.

U-Swirl has significant net operating loss carryovers. In accordance with Section 382 of the Internal Revenue Code, deductibility of U-Swirl's U.S. net operating loss carryovers may be subject to annual limitation in the event of a change in control. We have performed a preliminary evaluation as to whether a change in control has taken place, and have concluded that there was a change of control with respect to the net operating losses of U-Swirl when the Company acquired a 60% ownership interest in January 2013.

Nine Months Ended November 30, 2016 Compared to the Nine Months Ended November 30, 2015

Basic earnings per share increased 38.2% from $.34 in the nine months ended November 30, 2015 compared to $.47 in the nine months ended November 30, 2016. Revenues decreased 5.1% to $27.9 million for the nine months ended November 30, 2016 compared to $29.4 million in the nine months ended November 30, 2015. Operating income decreased 0.2% from $4.36 million in the nine months ended November 30, 2015 to $4.35 million in the nine months ended November 30, 2016. Net income increased 37.0% from $2.0 million in the nine months ended November 30, 2015 to $2.7 million in the nine months ended November 30, 2016. The decrease in operating income was due primarily to a decrease in revenue mostly offset by a decrease in operating expenses. This decrease was more than offset by no amount of net income being attributable to non-controlling interest.

Revenues	Nine Months Ended November 30,			
($'s in thousands)	2016	2015	$ Change	% Change
Factory sales	$ 18,159.8	$ 18,600.1	$ (440.3)	(2.4%)
Retail sales	3,431.6	3,880.0	(448.4)	(11.6%)
Franchise fees	241.5	444.4	(202.9)	(45.7%)
Royalty and marketing fees	6,100.5	6,521.4	(420.9)	(6.5%)
Total	$ 27,933.4	$ 29,445.9	$ (1,512.5)	(5.1%)

Factory Sales

The decrease in factory sales for the nine months ended November 30, 2016 versus the nine months ended November 30, 2015 was primarily due to a 10.4% decrease in shipments of product to customers outside our network of franchised retail stores, a 3.5% decrease in the average number of domestic Rocky Mountain Chocolate Factory franchised stores in operation, and a 2.7% decrease in same-store pounds purchased by our network of franchise and license stores. Revenue from one customer of the Company's Manufacturing segment represented approximately $2.1 million, or 11.6% of factory sales, during the nine months ended November 30, 2016 compared to revenue of $3.1 million, or 16.7% of factory sales, from the same customer in the nine months ended November 30, 2015.

Retail Sales

The decrease in retail sales was primarily due to changes in retail units in operation resulting from the sale of certain Company-owned locations and the closure of a certain underperforming Company-owned location. Same store sales at all Company-owned stores and cafés increased 2.1% in the nine months ended November 30, 2016 compared to the nine months ended November 30, 2015.

Royalties, Marketing Fees and Franchise Fees

The decrease in royalties and marketing fees for the nine months ended November 30, 2016 compared to the nine months ended November 30, 2015 resulted from an 11.6% decrease in franchise units in operation partially offset by higher same store sales. The average number of total franchise stores in operation decreased from 430 in the nine months ended November 30, 2015 to 380 during the nine months ended November 30, 2016. This decrease is the result of domestic store closures exceeding domestic store openings, primarily the result of franchise and license closures of U-Swirl franchise locations. Same store sales at total franchise stores and cafés in operation increased 0.5% during the nine months ended November 30, 2016 compared to the nine months ended November 30, 2015. Franchise fee revenues decreased as a result of no international license fees being recognized in the nine months ended November 30, 2016 and license fees associated with the license agreements for the development and franchising of CherryBerry stores in the Canadian province of Ontario being recognized in the nine months ended November 30, 2015.

Costs and Expenses	Nine Months Ended November 30,			
($'s in thousands)	2016	2015	$ Change	% Change
Cost of sales – factory	$ 13,196.9	$ 13,472.1	$ (275.2)	(2.0%)
Cost of sales - retail	1,176.6	1,277.0	(100.4)	(7.9%)
Franchise costs	1,571.6	1,871.1	(299.5)	(16.0%)
Sales and marketing	1,959.1	1,832.8	126.3	6.9%
General and administrative	3,101.7	3,550.8	(449.1)	(12.6%)
Retail operating	1,876.8	2,318.4	(441.6)	(19.0%)
Total	$ 22,882.7	$ 24,322.2	$ (1,439.5)	(5.9%)

Gross margin	Nine Months Ended November 30,		$	%
($'s in thousands)	2016	2015	Change	Change
Factory gross margin	$ 4,962.9	$ 5,128.0	$ (165.1)	(3.2%)
Retail	2,255.0	2,603.0	(348.0)	(13.4%)
Total	$ 7,217.9	$ 7,731.0	$ (513.1)	(6.6%)

Gross Margin	Nine Months Ended November 30,		%	%
	2016	2015	Change	Change
(Percent)				
Factory gross margin	27.3%	27.6%	(0.3%)	(1.1%)
Retail	65.7%	67.1%	(1.4%)	(2.1%)
Total	33.4%	34.4%	(1.0%)	(2.9%)

Adjusted Gross Margin	Nine Months Ended November 30,		$	%
($'s in thousands)	2016	2015	Change	Change
Factory gross margin	$ 4,962.9	$ 5,128.0	$ (165.1)	(3.2%)
Plus: depreciation and amortization	324.4	300.7	$ 23.7	7.9%
Factory adjusted gross margin	5,287.3	5,428.7	(141.4)	(2.6%)
Retail	2,255.0	2,603.0	(348.0)	(13.4%)
Total Adjusted Gross Margin	$ 7,542.3	$ 8,031.7	$ (489.4)	(6.1%)
Factory adjusted gross margin	29.1%	29.2%	(0.1%)	(0.3%)
Retail	65.7%	67.1%	(1.4%)	(2.1%)
Total Adjusted Gross Margin	34.9%	35.7%	(0.8%)	(2.2%)

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

Costs and Expenses

Cost of Sales

Factory margins decreased 30 basis points in the nine months ended November 30, 2016 compared to the nine months ended November 30, 2015 due primarily to lower costs of certain materials more than offset by increased costs of labor and overhead. The decrease in Company-owned store margin is due primarily to a decrease in Company-owned revenues from higher margin items. This change is the result of a decrease in units in operation and lower revenues associated with Company-owned frozen yogurt cafés during the nine months ended November 30, 2016 compared to the prior year.

Franchise Costs

The decrease in franchise costs in the nine months ended November 30, 2016 versus the nine months ended November 30, 2015 is due primarily to lower franchise costs associated with supporting U-Swirl franchise units as a result of the foreclosure of U-Swirl in the prior year and the associated focus on reduction of duplicative franchise costs. As a percentage of total royalty and marketing fees and franchise fee revenue, franchise costs decreased to 24.8% in the nine months ended November 30, 2016 from 26.9% in the nine months ended November 30, 2015. This decrease as a percentage of royalty, marketing and franchise fees is primarily a result of lower franchise costs.

Sales and Marketing

The increase in sales and marketing costs for the nine months ended November 30, 2016 compared to the Nine months ended November 30, 2015 is primarily due to higher marketing related compensation associated with additional sales staff partially offset by lower marketing-related costs associated with U-Swirl franchise locations. Marketing costs for U-Swirl franchise locations declined because of lower marketing fee revenues resulting from fewer franchise stores in operation.

General and Administrative

The decrease in general and administrative costs for the nine months ended November 30, 2016 compared to the nine months ended November 30, 2015 is due primarily to the foreclosure of U-Swirl in the prior year and the associated focus on reduction of duplicative general and administrative costs. For the nine months ended November 30, 2016, approximately $347,000 of U-Swirl general and administrative costs were consolidated within our results, compared with $956,000 in the nine months ended November 30, 2015. As a percentage of total revenues, general and administrative expenses decreased to 11.1% in the nine months ended November 30, 2016 compared to 12.1% in the nine months ended November 30, 2015.

Retail Operating Expenses

The decrease in retail operating expenses for the nine months ended November 30, 2016 compared to the nine months ended November 30, 2015 was due primarily to changes in units in operation, resulting from the sale of certain Company-owned units and the closure of certain underperforming Company-owned units. Retail operating expenses, as a percentage of retail sales, decreased from 59.8% in the nine months ended November 30, 2015 to 54.7% in the nine months ended November 30, 2016. This decrease is primarily the result of a decrease in units in operation from the prior year.

Depreciation and Amortization

Depreciation and amortization, exclusive of depreciation and amortization included in cost of sales, was $638,000 in the nine months ended November 30, 2016, a decrease of 16.4% from $763,000 incurred in the nine months ended November 30, 2015. This decrease was the result of fewer Company-owned store assets in service. Depreciation and amortization included in cost of sales increased 7.9% from $301,000 in the nine months ended November 30, 2015 to $324,000 in the nine months ended November 30, 2016. This increase was the result of an increase in production assets in service.

Restructuring and acquisition related charges

Restructuring and acquisition related charges of $60,000 during the nine months ended November 30, 2016 increased from $0 during the nine months ended November 30, 2015. The increase is primarily the result of lease settlement costs related to the closure of an ALY Company-owned location.

Other Income

Net interest expense was $100,300 in the nine months ended November 30, 2016, a decrease of 20.7% compared to net interest expense of $126,600 in the nine months ended November 30, 2015. This change was the result of less interest expense incurred on lower average outstanding promissory note balances.

Income Tax Expense

Our effective income tax rate for the nine months ended November 30, 2016 was 36.1%, compared to 30.4% for the nine months ended November 30, 2015. The increase of 5.7% is primarily due to the tax consequences of a change in the controlling interest in SWRL and foreclosure upon the stock of U-Swirl. For the nine months ended November 30, 2015, the financial statements presented represent the consolidated statements of two separate consolidated groups for income tax purposes. The Company has filed income tax returns consolidating the results of the Company and its wholly-owned subsidiary, ALY. SWRL has filed a separate consolidated income tax return for the results of SWRL and its wholly owned subsidiary, U-Swirl. RMCF and SWRL have filed separate income tax returns because RMCF owned only 39% of SWRL. Beginning on March 1, 2016, the results of U-Swirl will be included in RMCF's consolidated income tax return, and on the same date, will be removed from SWRL's consolidated tax return. This is a result of the foreclosure of RMCF on the outstanding stock of U-Swirl in satisfaction of debt between RMCF and SWRL. The consolidated tax return for RMCF for future periods will include all operating results of U-Swirl. SWRL will file separate income tax returns in future periods, however, there are no remaining operating assets held by SWRL.

U-Swirl has significant net operating loss carryovers. In accordance with Section 382 of the Internal Revenue Code, deductibility of U-Swirl's U.S. net operating loss carryovers may be subject to annual limitation in the event of a change in control. We have performed a preliminary evaluation as to whether a change in control has taken place, and have concluded that there was a change of control with respect to the net operating losses of U-Swirl when the Company acquired a 60% ownership interest in January 2013.

Liquidity and Capital Resources

As of November 30, 2016, working capital was $7.2 million, compared with $7.4 million as of February 29, 2016, a decrease of $200,000. The decrease in working capital was primarily due to the payment of dividends, payments on long term debt and repurchases of common stock partially offset by positive operating results.

Cash and cash equivalent balances decreased $1.6 million from $6.2 million as of February 29, 2016 to $4.6 million as of November 30, 2016 as a result of cash flow used by financing activities, including repayment of indebtedness, payment of dividends and stock repurchases. Our current ratio was 1.9 to 1 at November 30, 2016 and February 29, 2016. We monitor current and anticipated future levels of cash and cash equivalents in relation to anticipated operating, financing and investing requirements.

For the nine months ended November 30, 2016, we had net income of $2,718,446. Operating activities provided cash of $2,997,051, with the principal adjustment to reconcile the net income to net cash provided by operating activities being depreciation and amortization of $962,632, stock compensation expense of $447,581 and an increase in accounts payable of $156,150 mostly offset by an increase to inventory of $771,281 and an increase in accounts receivable of $650,708. During the comparable 2015 period, we had net income of $2,947,215, and operating activities provided cash of $4,605,010. The principal adjustment to reconcile the net income to net cash provided by operating activities was depreciation and amortization of $1,064,211 and stock compensation expense of $615,740.

For the nine months ended November 30, 2016, investing activities used cash of $1,171,779, primarily due to the purchases of property and equipment of $1,048,667. In comparison, investing activities used cash of $558,244 during the nine months ended November 30, 2015 primarily due to the purchases of property and equipment of $625,180.

Financing activities used cash of $3,423,767 for the nine months ended November 30, 2016 and used cash of $6,050,217 during the prior year period. This was primarily due to a decrease in cash used to repurchase common stock during the nine months ended November 30, 2016 compared to the nine months ended November 30, 2015.

We have a $5.0 million ($5.0 million available as of November 30, 2016) working capital line of credit collateralized by substantially all of our assets with the exception of our retail store assets. Additionally, the line of credit is subject to various financial ratio and leverage covenants. As of November 30, 2016, we were in compliance with all such covenants. The line is subject to renewal on September 30, 2017. As of November 30, 2016, no amount was outstanding under this line of credit.

The Company's long-term debt is comprised of a promissory note, the proceeds of which were loaned to SWRL and used to finance business acquisitions by SWRL (unpaid balance as of November 30, 2016, $4.1 million). The promissory note allowed the Company to borrow up to a maximum of $7.0 million to finance business acquisitions and bears interest at a fixed annual rate of 3.75%. The promissory note matures on January 15, 2020, with amortized principal and accrued interest due monthly on the promissory note. Additionally, the promissory note is subject to various financial ratio and leverage covenants. As of November 30, 2016, we were in compliance with all such covenants.

As discussed above, in FY 2014, SWRL acquired the franchise rights and certain other assets of self-serve frozen yogurt concepts under the names "CherryBerry," "Yogli Mogli Frozen Yogurt" and "Fuzzy Peach Frozen Yogurt." In connection with these acquisitions, the Company entered into a credit facility with Wells Fargo Bank, N.A. used to finance the acquisitions by SWRL, and in turn, the Company entered into the SWRL Loan Agreement with SWRL. Borrowings under the SWRL Loan Agreement were secured by all of the assets of SWRL, including all of the outstanding stock of its wholly-owned subsidiary, U-Swirl. Under the SWRL Loan Agreement, SWRL was subject to various financial covenants. SWRL was not compliant with the financial covenants during the year ended February 29, 2016 and the loan matured on January 16, 2016 without payment in full by SWRL. Upon the occurrence and during the continuance of an event of default, we were entitled to charge interest on all amounts due under the SWRL Loan Agreement at the default rate of 15% per annum, accelerate payment of all amounts due under the SWRL Loan Agreement, and foreclose on all or any portion of the security interest. As a result of the defaults, we issued a demand for payment of all obligations under the SWRL Loan Agreement. SWRL was unable to repay the obligations under the SWRL Loan Agreement, and as a result, we foreclosed on all of the outstanding stock of U-Swirl as of February 29, 2016 in full satisfaction of the amounts owed under the SWRL Loan Agreement. This resulted in U-Swirl becoming a wholly-owned subsidiary of the Company as of February 29, 2016, and concurrently the Company ceased to have financial control of SWRL as of February 29, 2016. As of February 29, 2016, SWRL had no operating assets.

On July 15, 2014, the Company publicly announced a plan to repurchase up to $3.0 million of its common stock in the open market or in private transactions, whenever deemed appropriate by management. On January 13, 2015, the Company announced a plan to purchase up to an additional $2,058,000 of its common stock under the repurchase plan, and on May 21, 2015, the Company announced a further increase to the repurchase plan by authorizing the purchase of up to an additional $2,090,000 of its common stock under the repurchase plan. During the nine months ended November 30, 2016, the Company repurchased 35,108 shares under the repurchase plan at an average price of $10.01 per share. As of November 30, 2016, approximately $638,121 remains available under the repurchase plan for further stock repurchases.

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

Off-Balance Sheet Arrangements

As of November 30, 2016, we had no off-balance sheet arrangements or obligations.

Impact of Inflation

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

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

Seasonality

We are subject to seasonal fluctuations in sales, which cause fluctuations in quarterly results of operations. Historically, the strongest sales of our confectionary products have occurred during the Christmas holiday through Mother's Day. We believe the strongest sales of frozen yogurt products will occur during the summer months. In addition, quarterly results have been, and in the future are likely to be, affected by the timing of new store openings and sales of franchises. Because of the seasonality of our business and the impact of new store openings and sales of franchises, results for any quarter are not necessarily indicative of results that may be achieved in other quarters or for a full fiscal year.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

We frequently enter into purchase contracts of between six to eighteen months for chocolate and certain nuts. These contracts permit us to purchase the specified commodity at a fixed price on an as-needed basis during the term of the contract. Because prices for these products may fluctuate, we may benefit if prices rise during the terms of these contracts, but we may be required to pay above-market prices if prices fall and we are unable to renegotiate the terms of the contract. As of November 30, 2016, based on future contractual obligations for ingredients, we estimate that a 10.0% change in the prices of contracted ingredients would result in a $200,000 favorable or unfavorable price benefit or cost, respectively, resulting from our contracts.

We have a $5.0 million bank line of credit that bears interest at a variable rate. As of November 30, 2016, no amount was outstanding under the line of credit. We do not believe that we are exposed to any material interest rate risk related to this credit facility.

The Company also entered into a $7.0 million promissory note with interest at a fixed rate of 3.75% annually to finance the previous acquisitions by SWRL. As of November 30, 2016, $4.1 million was outstanding under this promissory note. We do not believe that we are exposed to any material interest rate risk related to this promissory note.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) that are designed to ensure that material information relating to us is made known to the officers who certify as to our financial reports and to other members of senior management and the Board of Directors. These disclosure controls and procedures are designed to ensure that information required to be disclosed in our reports that are filed or submitted under the Exchange Act, are recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Company management, with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective as of November 30, 2016.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended November 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may become involved in legal proceedings arising in the ordinary course of our business. Except as described below, we are not presently a party to any litigation that we believe to be material and we are not aware of any pending or threatened litigation against us that we believe could have a material adverse effect on our business, operating results, financial condition or cash flows.

In January 2014, SWRL entered into an Asset Purchase Agreement (the "CherryBerry Purchase Agreement") with CherryBerry Enterprises LLC, CherryBerry Corporate LLC, CherryBerry LLC (collectively, the "CherryBerry Entities"), and their respective owners (collectively, the "CherryBerry Selling Parties"), pursuant to which SWRL acquired the franchise rights of frozen yogurt stores branded as "CherryBerry" (the "CherryBerry Acquisition"). As a part of the consideration for the CherryBerry Acquisition, SWRL agreed to issue an aggregate of 4,000,000 shares of SWRL common stock (the "CB Shares") to the CherryBerry Selling Parties, which were subject to a one-year lock-up agreement. The CB Shares were issued to the CherryBerry Selling Parties in February 2015. Pursuant to the terms of the CherryBerry Purchase Agreement, following expiration of the lock-up period, if any of the CherryBerry Selling Parties desired to sell their CB Shares, they must first offer such shares to SWRL and RMCF prior to any sale of the CB Shares on the open market. If the proceeds from the sale of any of the CB Shares is less than $0.50 per share and the CherryBerry Selling Parties comply with other terms of the CherryBerry Purchase Agreement, SWRL agreed to pay a shortfall payment equal to the difference of the sale price of the CB Shares and $0.50 per share, multiplied by the number of shares sold by the CherryBerry Selling Parties. If SWRL had been required to pay the shortfall payment on February 29, 2016, the shortfall payment would have been approximately $1,800,000. SWRL determined the likelihood of incurring the liability to be less than probable and has not recorded a contingent liability at November 30, 2016. In July and August 2015, the CherryBerry Selling Parties submitted to SWRL several requests for payment of approximately $205,000 of shortfall payments based on the sale of a portion of the CB Shares.

In August 2015, SWRL filed a lawsuit against the CherryBerry Selling Parties, a former officer and director of SWRL and unknown other parties, in the District Court for La Plata County, Colorado, alleging wrongful actions on their part to cause the price of SWRL's common stock to decline and thereafter making an improper demand for the shortfall payment described above, and certain other actions in violation of various provisions of the CherryBerry Purchase Agreement. SWRL sought unspecified damages, attorney's fees, other costs, and a determination that the shortfall payment arrangement is void. In September 2015, the CherryBerry Selling Parties filed an answer and counterclaim to the lawsuit in the U.S. District Court for the District of Colorado, and moved the lawsuit to federal court in the U.S. District Court for the District of Colorado (the "Colorado District Court"). In addition, the CherryBerry Entities added RMCF to the lawsuit through a third-party complaint. The complaint alleged that SWRL materially breached the CherryBerry Purchase Agreement by not paying the shortfall payment, that SWRL is the alter ego of RMCF and RMCF is liable for any obligations of SWRL, and that the SWRL Loan Agreement should be recharacterized as equity. The CherryBerry Entities sought payment in full of the shortfall payment under the CherryBerry Purchase Agreement, declaratory judgements that SWRL is the alter ego of RMCF and the SWRL Loan Agreement should be recharacterized as equity, and interest, attorney's fees, costs and other equitable relief.

On January 13, 2016, the CherryBerry Entities dismissed without prejudice their counterclaim and third-party complaint from the Colorado District Court, and thereafter on January 13, 2016, the CherryBerry Entities refiled the exact claims (the "Oklahoma Action") in the United States District Court for the Northern District of Oklahoma (the "Oklahoma Court"). Also on January 13, 2016, RMCF filed a lawsuit against the CherryBerry Entities in the Colorado District Court seeking a declaratory judgment that it is not the alter ego of SWRL and that the SWRL Loan Agreement should not be re-characterized as equity (the "Colorado Action"). On that same date, SWRL filed a complaint against the CherryBerry Selling Parties asserting the same claims as it had asserted previously. RMCF filed a motion to dismiss for lack of jurisdiction and improper venue and in the alternative a motion to transfer venue in response to the Oklahoma Action, and the CherryBerry Selling Parties subsequently filed a motion to dismiss the Colorado Action. In April 2016, the Colorado District Court granted in part the CherryBerry Selling Parties' motion and administratively closed the case. In addition, in April 2016, the Oklahoma Court denied RMCF's motion (and SWRL's similar motion). On April 8, 2016, the CherryBerry Entities moved to add RMCF as a defendant on the alter ego and re-characterization claims in the Oklahoma Action. On May 9, 2016, the Oklahoma Court granted that application. We intend to vigorously assert and defend our rights in this lawsuit.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part 1, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended February 29, 2016. 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, 2016.

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

Issuer Purchases of Equity Securities

The Company did not repurchase any shares during the three months ended November 30, 2016.

On July 15, 2014, the Company publicly announced a plan to repurchase up to $3.0 million of its common stock in the open market or in private transactions, whenever deemed appropriate by management. On January 13, 2015, the Company announced a plan to purchase up to an additional $2,058,000 of its common stock under the repurchase plan, and on May 21, 2015, the Company announced a further increase to the repurchase plan by authorizing the purchase of up to an additional $2,090,000 of its common stock under the repurchase plan. The Company plans to continue the repurchase plan until it has been completed. The number, price, structure and timing of the repurchases, if any, will be at the Company's sole discretion and future repurchases will be evaluated by the Company depending on market conditions, liquidity needs and other factors. The repurchase authorization does not have an expiration date and does not oblige the Company to acquire any particular amount of its common stock. The Board of Directors may suspend, modify or terminate the repurchase program at any time without prior notice.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

3.1 Amended and Restated Certificate of Incorporation of Rocky Mountain Chocolate Factory, Inc., a Delaware corporation (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on March 2, 2015).

3.2 Certificate of Designations of Series A Junior Participating Preferred Stock, par value $0.001 per share, of Rocky Mountain Chocolate Factory, Inc., a Delaware corporation (incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K filed on March 2, 2015).

3.3 Amended and Restated Bylaws of Rocky Mountain Chocolate Factory, Inc., a Delaware corporation (incorporated by reference to Exhibit 3.3 to the Current Report on Form 8-K filed on March 2, 2015).

31.1* Certification of Chief Executive Officer Filed Pursuant To Section 302 of The Sarbanes-Oxley Act of 2002.

31.2* Certification of Chief Financial Officer Filed Pursuant To Section 302 of The Sarbanes-Oxley Act of 2002.

32.1** Certification of Chief Executive Officer Furnished Pursuant To Section 906 of The Sarbanes-Oxley Act of 2002.

32.2** Certification of Chief Financial Officer Furnished Pursuant To Section 906 of The Sarbanes-Oxley Act of 2002.

101.INS *XBRL Instance Document.

101.SCH *XBRL Taxonomy Extension Schema Document.

101.CAL *XBRL Taxonomy Extension Calculation Linkbase Document.

101.DEF *XBRL Taxonomy Extension Definition Linkbase Document.

101.LAB *XBRL Taxonomy Extension Label Linkbase Document.

101.PRE *XBRL Taxonomy Extension Presentation Linkbase Document.

---

* Filed herewith.
** Furnished herewith.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC.
(Registrant)

Date: January 13, 2017	/s/ Bryan J. Merryman
	Bryan J. Merryman, Chief Operating Officer, Chief Financial Officer, Treasurer and Director

Exhibit 31.1

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

I, Franklin E. Crail, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Rocky Mountain Chocolate Factory, Inc.;

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

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

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

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

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

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 13, 2017

/s/ Franklin E. Crail

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

Exhibit 31.2

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

I, Bryan J. Merryman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Rocky Mountain Chocolate Factory, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: January 13, 2017

/s/ Bryan J. Merryman

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

Exhibit 32.1

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

In connection with the Quarterly Report of Rocky Mountain Chocolate Factory, Inc. (the "Company") on Form 10-Q for the quarterly period ended November 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company certifies, in his capacity as such, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

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

Dated: January 13, 2017

By: /s/ Franklin E. Crail
Franklin E. Crail, President, Chief Executive Officer and Chairman of the Board of Directors

Exhibit 32.2

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

In connection with the Quarterly Report of Rocky Mountain Chocolate Factory, Inc. (the "Company") on Form 10-Q for the quarterly period ended November 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company certifies, in his capacity as such, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

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

Dated: January 13, 2017

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