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 August 31, 2017

___ 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 ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☒
	Emerging growth company ☐

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

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

On September 30, 2017, the registrant had outstanding 5,903,436 shares of its common stock, $.001 par value.

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARIES

FORM 10-Q

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended August 31, 2017	Three Months Ended August 31, 2016	Six Months Ended August 31, 2017	Six Months Ended August 31, 2016
Revenues				
Sales	$ 6,063,381	$ 6,316,475	$ 13,270,320	$ 13,340,809
Franchise and royalty fees	2,203,310	2,285,487	4,342,818	4,637,352
Total revenues	8,266,691	8,601,962	17,613,138	17,978,161
Costs and Expenses				
Cost of sales	3,852,471	4,027,464	8,867,436	8,829,393
Franchise costs	558,407	503,287	1,073,199	1,051,000
Sales and marketing	566,031	663,010	1,192,383	1,317,139
General and administrative	976,647	981,149	2,105,353	2,221,207
Retail operating	616,927	658,666	1,189,751	1,325,615
Depreciation and amortization, exclusive of depreciation and amortization expense of $127,882, $103,726, $253,497 and $206,199, respectively, included in cost of sales	194,990	213,957	389,924	436,708
Restructuring and acquisition related charges	-	-	-	60,000
Total costs and expenses	6,765,473	7,047,533	14,818,046	15,241,062
Income from Operations	1,501,218	1,554,429	2,795,092	2,737,099
Other Income (Expense)				
Interest expense	(32,088)	(44,263)	(67,277)	(92,042)
Interest income	6,213	11,300	13,431	22,997
Other income (expense), net	(25,875)	(32,963)	(53,846)	(69,045)
Income Before Income Taxes	1,475,343	1,521,466	2,741,246	2,668,054
Income Tax Provision	547,059	546,653	999,290	961,407
Consolidated Net Income	$ 928,284	$ 974,813	$ 1,741,956	$ 1,706,647
Basic Earnings per Common Share	$ .16	$ .17	$ .30	$ .29
Diluted Earnings per Common Share	$ .16	$ .16	$ .29	$ .28
Weighted Average Common Shares Outstanding - Basic	5,876,727	5,829,083	5,865,549	5,832,299
Dilutive Effect of Stock Options and Restricted Stock Units	104,776	161,965	114,071	171,854
Weighted Average Common Shares Outstanding - Diluted	5,981,503	5,991,048	5,979,620	6,004,153

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

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

	August 31, 2017 (unaudited)	February 28, 2017
Assets		
Current Assets		
Cash and cash equivalents	$ 5,744,297	$ 5,779,195
Accounts receivable, less allowance for doubtful accounts of$536,040 and $487,446, respectively	2,959,011	3,855,823
Notes receivable, current portion, less current portion of the valuation allowance of$6,100 and $22,147, respectively	169,787	235,612
Refundable income taxes	173,310	47,863
Inventories, less reserve for slow moving inventory of $252,542 and $249,051, respectively	6,148,649	4,975,779
Other	387,772	256,548
Total current assets	15,582,826	15,150,820
Property and Equipment, Net	6,384,937	6,457,931
Other Assets		
Notes receivable, less current portion and valuation allowance of $42,647 and $26,500, respectively	331,366	370,769
Goodwill, net	1,046,944	1,046,944
Franchise Rights, net	4,635,825	4,826,172
Intangible assets, net	609,914	632,207
Deferred income taxes	796,887	858,874
Other	66,116	74,639
Total other assets	7,487,052	7,809,605
Total Assets	$ 29,454,815	$ 29,418,356
Liabilities and Stockholders' Equity		
Current Liabilities		
Current maturities of long term debt	$ 1,327,251	$ 1,302,501
Accounts payable	1,685,326	1,820,470
Accrued salaries and wages	642,821	608,510
Gift card liabilities	2,913,716	2,921,585
Other accrued expenses	303,831	253,497
Dividend payable	708,412	702,525
Deferred income	530,176	451,171
Total current liabilities	8,111,533	8,060,259
Long-Term Debt, Less Current Maturities	1,858,926	2,529,240
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock, $.001 par value per share; 250,000 authorized; -0- shares issued and outstanding		
Series A Junior Participating Preferred Stock,authorized 50,000 shares	-	-
Undesignated series, authorized 200,000 shares	-	-
Common stock, $.001 par value, 46,000,000 shares authorized, 5,903,436 shares and 5,854,372 shares issued and outstanding, respectively	5,903	5,854
Additional paid-in capital	5,863,788	5,539,357
Retained earnings	13,614,665	13,283,646
Total stockholders' equity	19,484,356	18,828,857
Total Liabilities and Stockholders' Equity	$ 29,454,815	$ 29,418,356

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)

	Six Months Ended August 31, 2017	2016
Cash Flows From Operating Activities		
Net income	$ 1,741,956	$ 1,706,647
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	643,421	642,907
Provision for obsolete inventory	43,660	42,456
Provision for loss on accounts and notes receivable	58,800	68,800
Loss on sale or disposal of property and equipment	17,912	4,022
Expense recorded for stock compensation	324,480	315,128
Deferred income taxes	61,987	204,221
Changes in operating assets and liabilities:		
Accounts receivable	756,766	239,579
Refundable income taxes	(125,447)	(264,623)
Inventories	(1,421,625)	(874,281)
Other current assets	(131,457)	(55,008)
Accounts payable	56,151	331,063
Accrued liabilities	76,776	(237,546)
Deferred income	85,270	30,188
Net cash provided by operating activities	2,188,650	2,153,553
Cash Flows From Investing Activities		
Addition to notes receivable	(14,292)	(90,846)
Proceeds received on notes receivable	135,733	161,657
Purchase of intangible assets	(8,508)	(294,892)
(Cost of) proceeds from sale or distribution of assets	(9,576)	55,868
Purchases of property and equipment	(283,988)	(931,989)
Decrease in other assets	7,697	35,168
Net cash used in investing activities	(172,934)	(1,065,034)
Cash Flows From Financing Activities		
Payments on long-term debt	(645,564)	(621,232)
Repurchase of common stock	-	(351,584)
Tax expense of stock awards	-	(34,128)
Dividends paid	(1,405,050)	(1,399,736)
Net cash used in financing activities	(2,050,614)	(2,406,680)
Net Decrease in Cash and Cash Equivalents	(34,898)	(1,318,161)
Cash and Cash Equivalents, Beginning of Period	5,779,195	6,194,948
Cash and Cash Equivalents, End of Period	$ 5,744,297	$ 4,876,787

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. 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 soft-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.

In January 2013, through its 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 August 31, 2017 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 Aspen Leaf Yogurt locations or sell and support frozen yogurt franchise locations, which was being supported by 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 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 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 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.

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

The Company's revenues are currently derived from three principal sources: sales to franchisees and others of chocolates and other confectionery products manufactured by the Company; the collection of initial franchise fees and royalties from franchisees' sales of both confectionary 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 operating under the Rocky Mountain Chocolate Factory brand and frozen yogurt cafés as of August 31, 2017:

	Sold, Not Yet Open	Open	Total
Rocky Mountain Chocolate Factory			
Company-owned stores	1	4	5
Franchise stores – Domestic stores and kiosks	9	186	195
International license stores	2	86	88
Cold Stone Creamery – co-branded	7	84	91
U-Swirl (Including all associated brands)			
Company-owned stores	-	2	2
Company-owned stores – co-branded	-	3	3
Franchise stores – Domestic stores	*	119	119
Franchise stores – Domestic – co-branded	*	13	13
International license stores	1	1	2
Total	20	498	518

*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. 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 six months ended August 31, 2017 are not necessarily indicative of the results to be expected for the entire fiscal year.

These consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended February 28, 2017.

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.

Recent Accounting Pronouncements

In January 2017, the Financial Accounting Standards Board (the "FASB") issued new guidance for goodwill impairment which requires only a single-step quantitative test to identify and measure impairment and record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value. The option to perform a qualitative assessment first for a reporting unit to determine if a quantitative impairment test is necessary does not change under the new guidance. This guidance is effective for the Company beginning in fiscal year 2020 with early adoption permitted. The Company adopted this guidance in fiscal year 2017. The adoption of this guidance had no impact on the Company's 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. We adopted this ASU for the first quarter of 2018 and during the three and six months ended August 31, 2017 the Company recognized $17,151 of income tax expense that would have been recorded to equity during the comparable periods of prior years.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires the recognition of lease assets and lease liabilities on the balance sheet by lessees for those leases currently classified as operating leases under ASC 840 "Leases." These amendments also require qualitative disclosures along with specific quantitative disclosures. These amendments are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. 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 expects that substantially all of its operating lease commitments will be subject to the new guidance and will be recognized as operating lease liabilities and right-of-use assets upon adoption. The Company anticipates ASU 2016-02 will have a material impact on the consolidated balance sheet. The impact of ASU 2016-02 is non-cash in nature, as such, it will not affect the Company's cash flows. The Company is currently evaluating the impact of ASU 2016-02 on the consolidated statement of income.

In January 2016, the 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 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 expects the adoption of the new guidance to change the timing of recognition of initial franchise fees, including master license and territory fees for our international business, and renewal fees. Currently, these fees are generally recognized upfront upon either opening of the respective franchise store or entry into a license agreement. The new guidance will generally require these fees to be recognized over the term of the related agreement, which we expect will result in a material impact to revenue recognized for franchise fees, license fees and renewal fees; we are still in the process of quantifying the material impact. The Company does not expect this new guidance to materially impact the recognition of royalty income or sales of products. The Company is continuing to evaluate the impact the adoption of this new guidance will have on these and other revenue transactions, as well as the presentation of marketing and advertising fee revenues and expenses, in addition to the impact on accounting policies and related disclosures. The Company is continuing to evaluate its accounting for contract fulfillment costs under ASC Topic 606 and the associated impact on the consolidated balance sheet. The Company anticipates that contract fulfillment costs under ASC Topic 606 will have no material impact to the Company's consolidated statement of income and statement of cash flows.

NOTE 2

– EARNINGS PER SHARE

Basic earnings per share is calculated using the weighted-average number of common shares outstanding. Diluted earnings per share reflects the potential dilution that could occur from common shares issuable through stock options and restricted stock units. For the three and six months ended August 31, 2017 and 2016, there were no stock options excluded from the computation of earnings per share 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:

	August 31, 2017	February 28, 2017
Ingredients and supplies	$ 3,067,031	$ 3,021,220
Finished candy	3,267,488	2,137,609
U-Swirl, Inc. food and packaging	66,672	66,001
Reserve for slow moving inventory	(252,542)	(249,051)
Total inventories	$ 6,148,649	$ 4,975,779

NOTE 4 – PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following:

	August 31, 2017	February 28, 2017
Land	$ 513,618	$ 513,618
Building	4,905,103	4,787,855
Machinery and equipment	10,450,540	10,598,355
Furniture and fixtures	1,062,878	1,047,319
Leasehold improvements	1,561,792	1,531,112
Transportation equipment	434,091	418,402
Asset Impairment	(47,891)	(47,891)
	18,880,131	18,848,770
Less accumulated depreciation	(12,495,194)	(12,390,839)
Property and equipment, net	$ 6,384,937	$ 6,457,931

NOTE 5 – STOCKHOLDERS' EQUITY

Cash Dividend

The Company paid a quarterly cash dividend of $0.12per share of per common share on March 10, 2017 to stockholders of record on February 24, 2017. The Company paid a quarterly cash dividend of $0.12 per share of common stock on May 22, 2017 payable on June 16, 2017 to stockholders of record on June 6, 2017. The Company declared a quarterly cash dividend of $0.12 per share of common stock on August 17, 2017 payable on September 15, 2017 to stockholders of record on September 5, 2017.

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. The Company did not repurchase any shares during the three and six months ended August 31, 2017. As of August 31, 2017, approximately $638,000 remains available under the repurchase plan for further stock repurchases.

Stock-Based Compensation

At August 31, 2017, 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 $190,065 and $324,480 of stock-based compensation expense during the three- and six-month periods ended August 31, 2017, respectively, compared to $147,354 and $315,128 during the three- and six-month periods ended August 31, 2016, respectively. Compensation costs related to stock-based compensation are generally amortized over the vesting period of the stock awards.

As of August 31, 2017, the Company does not have any stock options outstanding. The following table summarizes stock option activity during the six months ended August 31, 2017 and 2016:

	Six Months Ended August 31, 2017	Six Months Ended August 31, 2016
Outstanding stock options as of February 28 or 29:	-	12,936
Granted	-	-
Exercised	-	-
Cancelled/forfeited	-	(12,936)
Outstanding stock options as of August 31:	-	-
Weighted average exercise price	n/a	n/a
Weighted average remaining contractual term (in years)	n/a	n/a

The following table summarizes restricted stock unitactivity during the six months ended August 31, 2017 and 2016:

	Six Months Ended August 31, 2017	Six Months Ended August 31, 2016
Outstanding non-vested restricted stock units as of February 28 or 29:	123,658	181,742
Granted	-	-
Vested	(44,064)	(48,084)
Cancelled/forfeited	(1,360)	-
Outstanding non-vested restricted stock units as of August 31:	78,234	133,658
Weighted average grant date fair value	$ 12.17	$ 12.20
Weighted average remaining vesting period (in years)	1.76	2.73

The Company did not issue any fully vested, unrestricted shares of stock to non-employee directors during the six months ended August 31, 2017 compared to 2,000 shares issued during the six months ended August 31, 2016. In connection with these non-employee director stock issuances, the Company recognized $0 and $20,420 of stock-based compensation expense during the six months ended August 31, 2017 and 2016, respectively.

During the three months ended August 31, 2017, the Company issued 5,000 shares ofcommon stock under the Company's equity incentive plan to an independent contractor providing information technology consulting services to the Company. These shares were issued as a part of the compensation for services rendered to the Company by the contractor. Associated with this unrestricted stock award, the Company recognized $59,100 in expense during the three months ended August 31, 2017.

During the three- and six-month periods ended August 31, 2017, the Company recognized $130,965 and $265,380, 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 six-month periods ended August 31, 2017 and 2016, 44,064 and 48,084 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 August 31, 2017 was $896,432, which is expected to be recognized over the weighted-average period of 2.0 years.

NOTE 6 – SUPPLEMENTAL CASH FLOW INFORMATION

	Six Months Ended August 31, 2017	Six Months Ended August 31, 2016
Cash paid for:		
Interest, net	$ 53,345	$ 68,699
Income taxes	1,062,750	1,096,123
Non-Cash Operating Activities		
Accrued Inventory	325,922	139,305
Non-Cash Financing Activities		
Dividend Payable	708,412	702,525
Sale of assets to buyers for notes receivable:		
Long-lived assets	$ -	$ 80,989

NOTE 7 – OPERATING SEGMENTS

The Company classifies its business interests into five reportable segments: Franchising, Manufacturing, Retail Stores, U-Swirloperations and Other. The accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 1 to these consolidated financial statements and Note 1 to the Company's consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended February 28, 2017. 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 August 31, 2017	Franchising	Manufacturing	Retail	U-Swirl	Other	Total
Total revenues	$ 1,492,673	$ 5,211,974	$ 484,963	$ 1,408,678	$ -	$ 8,598,288
Intersegment revenues	(1,109)	(330,488)	-	-	-	(331,597)
Revenue from external customers	1,491,564	4,881,486	484,963	1,408,678	-	8,266,691
Segment profit (loss)	667,702	1,309,468	32,498	413,642	(947,967)	1,475,343
Total assets	1,236,795	13,014,273	1,166,435	9,055,699	4,981,613	29,454,815
Capital expenditures	5,636	169,538	12,736	3,208	16,144	207,262
Total depreciation & amortization	$ 11,554	$ 132,144	$ 3,832	$ 143,188	$ 32,154	$ 322,872

Three Months Ended August 31, 2016	Franchising	Manufacturing	Retail	U-Swirl	Other	Total
Total revenues	$ 1,507,151	$ 5,233,439	$ 455,516	$ 1,666,435	$ -	$ 8,862,541
Intersegment revenues	(1,391)	(259,188)	-	-	-	(260,579)
Revenue from external customers	1,505,760	4,974,251	455,516	1,666,435	-	8,601,962
Segment profit (loss)	680,811	1,229,289	77,661	482,844	(949,139)	1,521,466
Total assets	1,450,725	12,650,885	970,002	10,141,313	4,687,240	29,900,165
Capital expenditures	-	230,042	3,299	6,132	58,090	297,563
Total depreciation & amortization	$ 14,168	$ 107,883	$ 3,356	$ 160,481	$ 31,795	$ 317,683

Six Months Ended August 31, 2017	Franchising	Manufacturing	Retail	U-Swirl	Other	Total
Total revenues	$ 3,099,159	$ 11,710,184	$ 846,990	$ 2,603,987	$ -	$ 18,260,320
Intersegment revenues	(2,415)	(644,767)	-	-	-	(647,182)
Revenue from external customers	3,096,744	11,065,417	846,990	2,603,987	-	17,613,138
Segment profit (loss)	1,430,391	2,696,507	(3,933)	653,838	(2,035,557)	2,741,246
Total assets	1,236,795	13,014,273	1,166,435	9,055,699	4,981,613	29,454,815
Capital expenditures	5,636	218,598	16,336	5,824	37,594	283,988
Total depreciation & amortization	$ 22,946	$ 262,006	$ 7,658	$ 286,278	$ 64,533	$ 643,421

Six Months Ended August 31, 2016	Franchising	Manufacturing	Retail	U-Swirl	Other	Total
Total revenues	$ 3,055,186	$ 11,286,182	$ 761,092	$ 3,429,270	$ -	$ 18,531,730
Intersegment revenues	(2,752)	(550,817)	-	-	-	(553,569)
Revenue from external customers	3,052,434	10,735,365	761,092	3,429,270	-	17,978,161
Segment profit (loss)	1,351,438	2,462,295	62,996	950,623	(2,159,298)	2,668,054
Total assets	1,450,725	12,650,885	970,002	10,141,313	4,687,240	29,900,165
Capital expenditures	9,126	707,163	3,321	30,476	181,903	931,989
Total depreciation & amortization	$ 27,825	$ 214,160	$ 6,704	$ 326,446	$ 67,772	$ 642,907

Revenue from one customer of the Company's Manufacturing segment represented approximately $2.2 million, or 12.3 percent, of the Company's revenues from external customers during the six months ended August 31, 2017, compared to $1.5 million, or 8.6 percent of the Company's revenues from external customers during the six months ended August 31, 2016.

NOTE 8 – GOODWILL AND INTANGIBLE ASSETS

Intangible assets consist of the following:

		August 31, 2017		February 28, 2017	
	Amortization Period (Years)	Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Intangible assets subject to amortization					
Store design	10	$ 220,778	$ 211,903	$ 220,778	$ 211,152
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	715,340	114,301	715,339	92,758
Franchise rights	20	5,979,637	1,343,812	5,971,129	1,144,957
Total		7,467,558	2,221,819	7,459,049	2,000,670
Intangible assets not subject to amortization					
Franchising segment-					
Company stores goodwill		$ 1,099,328	$ 267,020	$ 1,099,328	$ 267,020
Franchising goodwill		295,000	197,682	295,000	197,682
Manufacturing segment-goodwill		295,000	197,682	295,000	197,682
Trademark		20,000	-	20,000	-
Total goodwill		1,709,328	662,384	1,709,328	662,384
Total Intangible Assets		$ 9,176,886	$ 2,884,203	$ 9,168,377	$ 2,663,054

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$221,381 and $211,125 during the six months ended August 31, 2017 and 2016, respectively.

At August 31, 2017, annual amortization of intangible assets, based upon our existing intangible assets and current useful lives, is estimated to be the following:

2018	224,435
2019	452,069
2020	438,912
2021	427,203
2022	404,022
Thereafter	3,299,098
Total	$ 5,245,739

NOTE 9 – RESTRUCTURING AND ACQUISITION RELATED CHARGES

The Company did not record any restructuring charges in the three and six months ended August 31, 2017.

Restructuring and acquisition charges incurred were comprised oflease settlement costs of $60,000 for the six months ended August 31, 2016, relating to the closure of an ALY Company-owned location.

NOTE 10 – SALE OR DISTRIBUTION OF ASSETS

During the three months ended August 31, 2017, the Company acquired two franchise stores in satisfaction of certain receivables due by the Franchisees to the Company. The Company subsequently sold one of the stores and is planning to operate the other store as a Company-owned store. During the three months ended August 31, 2016, the Company sold two Company-owned U-Swirl locations and financed the transfer of a 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 six months ended August 31, 2017 and 2016:

	2017	2016
Notes receivable	$ 62,609	$ 145,585

NOTE 11 – 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 August 31, 2017 and February 28, 2017, notes payable consisted of the following:

	August 31, 2017	February 28, 2017
Promissory note	$ 3,186,177	$ 3,831,741
Less: current maturities	(1,327,251)	(1,302,501)
Long-term obligations	$ 1,858,926	$ 2,529,240

The following table summarizes annual maturities of our notes payable as of August 31,2017:

	Amount
2018	$ 656,891
2019	1,352,894
2020	1,176,392
Total minimum payments	$ 3,186,177
Less: current maturities	(1,327,251)
Long-term obligations	$ 1,858,926

NOTE 12 – 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. 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 complaintin 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 and we filed an answer to this action on June 6, 2016.

On July 11, 2017, the Oklahoma Court granted summary judgement in favor of SWRL and RMCF on all of the claims made by the CherryBerry Entities, and in connection therewith, on September 26, 2017, the Oklahoma Court dismissed all counterclaims made by SWRL. The Company does not expect any further proceedings with respect to this matter.

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 document may be identified by the use of forward-looking words such as "will," "intend," "believe," "expect," "anticipate," "should," "plan," "estimate," "potential," or similar expressions. Factors which could cause results to differ include, but are not limited to: changes in the confectionery business environment, seasonality, consumer interest in our products, general economic conditions, the success of our frozen yogurt business, receptiveness of our products internationally, consumer and retail trends, costs and availability of raw materials, competition, the success of our co-branding strategy, the success of international expansion efforts and the effect of government regulations. Government regulations 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 28, 2017. 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

We are an international franchisor, confectionery manufacturer and retail operator. Founded in 1981, we are headquartered in Durango, Colorado and manufacture an extensive line of premium chocolate candies and other confectionery products. Our subsidiary, U-Swirl International, Inc. ("U-Swirl"), franchises and operates soft-serve frozen yogurt cafés. Our revenues and profitability are derived principally from our franchised/license system of retail stores that feature chocolate, frozen yogurt and other confectionary products. We also sell our candy in selected locations outside of our system of retail stores and license the use of our brand with certain consumer products. As of August 31, 2017, there were four Company-owned, 86 licensee-owned and 186 franchised Rocky Mountain Chocolate Factory stores operating in 39 states, Canada, South Korea, and the Philippines. As of August 31, 2017, U-Swirl operated five Company-owned cafés and 133 franchised cafés located in 31 states and Canada. U-Swirl operates self-serve frozen yogurt cafés under the names "U-Swirl," "Yogurtini," "CherryBerry," "Yogli Mogli Frozen Yogurt," "Fuzzy Peach Frozen Yogurt," "Let's Yo!" and "Aspen Leaf Yogurt".

In 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 down 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. 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.

Results of Operations

Three Months Ended August 31, 2017 Compared to the Three Months Ended August 31, 2016

Basic earnings per share decreased 5.9% from $0.17 in the three months ended August 31, 2016 to $0.16 in the three months ended August 31, 2017. Revenues decreased 3.9% from $8.6 million in the three months ended August 31, 2016 to $8.3 million in the three months ended August 31, 2017. Operating income decreased 3.4% from $1.55 million in the three months ended August 31, 2016 to $1.50 million in the three months ended August 31, 2017. Net income decreased 4.8% from $975,000 in the three months ended August 31, 2016 to $928,000 in the three months ended August 31, 2017. The decrease in operating income was due primarily to lower revenue in the three months ended August 31, 2017 compared to the three months ended August 31, 2016.

Revenues	Three Months Ended August 31,				$	%
($'s in thousands)		2017		2016	Change	Change
Factory sales	$	4,881.5	$	4,974.3	$ (92.8)	(1.9%)
Retail sales		1,181.9		1,342.2	(160.3)	(11.9%)
Franchise fees		163.0		49.5	113.5	229.3%
Royalty and marketing fees		2,040.3		2,236.0	(195.7)	(8.8%)
Total	$	8,266.7	$	8,602.0	$ (335.3)	(3.9%)

Factory Sales

The decrease in factory sales for the three months ended August 31, 2017 versus the three months ended August 31, 2016 was primarily due to a 39.5% increase in shipments of product to customers outside our network of franchise retail locations more than offset by a 6.2% decrease in purchases by our network of franchised and licensed stores. Same store pounds purchased by domestic Rocky Mountain Chocolate Factory franchise and license locations decreased 4.2% in the three months ended August 31, 2017, compared with the three months ended August 31, 2016.

Retail Sales

The decrease in retail sales was primarilydue 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 decreased 4.1% in the three months ended August 31, 2017 compared to the three months ended August 31, 2016.

Royalties, Marketing Fees and Franchise Fees

The decrease in royalties and marketing fees from the three months ended August 31, 2016 to the three months ended August 31, 2017 resulted from a 15.8% decrease in domestic franchise units in operation and lower same store sales. The average number of total domestic franchise stores in operation decreased from 385 in the three months ended August 31, 2016 to 324 during the three months ended August 31, 2017. This decrease is the result of domestic store closures exceeding domestic store openings. Same store sales at total franchise stores and cafés in operation decreased 2.4% during the three months ended August 31, 2017 compared to the three months ended August 31, 2016. Franchise fee revenues increased as a result of an increase in international license fees recognized during the three months ended August 31, 2017 compared to the three months ended August 31, 2016. During the three months ended August 31, 2017, U-Swirl entered into a master license agreement for the State of Qatar.

Costs and Expenses	Three Months Ended August 31,				$	%
($'s in thousands)		2017		2016	Change	Change
Cost of sales – factory	$	3,461.2	$	3,593.4	$ (132.2)	(3.7%)
Cost of sales - retail		391.3		434.1	(42.8)	(9.9%)
Franchise costs		558.4		503.3	55.1	10.9%
Sales and marketing		566.0		663.0	(97.0)	(14.6%)
General and administrative		976.6		981.1	(4.5)	(0.5%)
Retail operating		616.9		658.7	(41.8)	(6.3%)
Total	$	6,570.4	$	6,833.6	$ (263.2)	(3.9%)

Gross Margin	Three Months Ended August 31,				$	%
($'s in thousands)		2017		2016	Change	Change
Factory gross margin	$	1,420.3	$	1,380.9	$ 39.4	2.9%
Retail gross margin		790.6		908.1	(117.5)	(12.9%)
Total	$	2,210.9	$	2,289.0	$ (78.1)	(3.4%)

Gross Margin	Three Months Ended August 31, 2017	2016	% Change	% Change
(Percent)				
Factory gross margin	29.1%	27.8%	1.3%	4.7%
Retail gross margin	66.9%	67.7%	(0.8%)	(1.2%)
Total	36.5%	36.2%	0.3%	0.8%

Adjusted Gross Margin ($'s in thousands)	Three Months Ended August 31, 2017	2016	$ Change	% Change
Factory gross margin	$ 1,420.3	$ 1,380.9	$ 39.4	2.9%
Plus: depreciation and amortization	127.9	103.7	24.2	23.3%
Factory adjusted gross margin	1,548.2	1,484.6	63.6	4.3%
Retail gross margin	790.6	908.1	(117.5)	(12.9%)
Total Adjusted Gross Margin	$ 2,338.8	$ 2,392.7	$ (53.9)	(2.3%)
Factory adjusted gross margin	31.7%	29.8%	1.9%	6.4%
Retail gross margin	66.9%	67.7%	(0.8%)	(1.2%)
Total Adjusted Gross Margin	38.6%	37.9%	0.7%	1.8%

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

Cost of Sales

Factory margins increased 130 basis points in the three months ended August 31, 2017 compared to the three months ended August 31, 2016 due primarily to lower costs of certain materials partially offset by increased costs of overhead in the three months ended August 31, 2017 compared to the three months ended August 31, 2016. 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 change in units in operation during the three months ended August 31, 2017 compared to the prior year.

Franchise Costs

The increase in franchise costs in the three months ended August 31, 2017 versus the three months ended August 31, 2016 is due primarily to an increase in legal and professional expense in the three months ended August 31, 2017 compared to the three months ended August 31, 2016. As a percentage of total royalty and marketing fees and franchise fee revenue, franchise costs increased to 25.3% in the three months ended August 31, 2017 from 22.0% in the three months ended August 31, 2016.

Sales and Marketing

The decrease in sales and marketing costs for the three months ended August 31, 2017 compared to the three months ended August 31, 2016 is primarily due to lower marketing related compensation and lower marketing-related costs associated with U-Swirl franchise locations, the result of fewer units in operation.

General and Administrative

General and administrative costs were approximately unchanged during the three months ended August 31, 2017 compared to the three months ended August 31, 2016. For the three months ended August 31, 2017, approximately $90,000 of U-Swirl general and administrative costs were consolidated within our results, compared with $98,000 in the three months ended August 31, 2016. As a percentage of total revenues, general and administrative expenses increased to 11.8% in the three months ended August 31, 2017 compared to 11.4% in the three months ended August 31, 2016.

Retail Operating Expenses

The decrease in retail operating expenses for the three months ended August 31, 2017 compared to the three months ended August 31, 2016 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, increased from 49.1% in the three months ended August 31, 2016 to 52.2% in the three months ended August 31, 2017. This increase is primarily the result of the change 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 $195,000 in the three months ended August 31, 2017, a decrease of 8.9% from $214,000 incurred in the three months ended August 31, 2016. This decrease was the result of fewer Company-owned store assets in service. Depreciation and amortization included in cost of sales increased 23.3% from $104,000 in the three months ended August 31, 2016 to $128,000 in the three months ended August 31, 2017. This increase was the result of an increase in production assets in service.

Restructuring and Acquisition Related Charges

There were no restructuring and acquisition related charges during the three months ended August 31, 2017 or 2016.

Other Income

Net interest expense was $26,000 in the three months ended August 31, 2017 compared to net interest expense of $33,000 incurred in the three months ended August 31, 2016. 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 forthe three months ended August 31, 2017 was 37.1%, compared to 35.9% for the three months ended August 31, 2016. The increase of 1.2% was primarily due to an increase in income tax expense associated with the vesting of restricted stock units. Beginning March 1, 2017 the Company adopted ASU No. 2019-09, which requires recognition of excess tax benefits and tax deficiencies in the income statement.

Beginning on March 1, 2016, the results of U-Swirl were included in our consolidated income tax return, and on the same date, were removed from SWRL's consolidated tax return. This is a result of the foreclosure on the outstanding stock of U-Swirl in satisfaction of debt with SWRL as discussed above. The consolidated tax return 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 were changes of control with respect to the net operating losses of U-Swirl when we acquired a 60% ownership interest of SWRL in January 2013 and when we foreclosed upon the stock of U-Swirl International, Inc. in February 2016.

Six Months Ended August 31, 2017 Compared to the Six Months Ended August 31, 2016

Basic earnings per share increased 3.4% to $0.30 for the six months ended August 31, 2017 compared to $0.29 for the six months ended August 31, 2016. Revenues decreased 2.0% to $17.6 million for the six months ended August 31, 2017 compared to $18.0 million in the six months ended August 31, 2016. Operating income increased 2.1% from $2.74 million in the six months ended August 31, 2016 to $2.80 million in the six months ended August 31, 2017. Net income increased 2.1% from $1.71 million in the six months ended August 31, 2016 to $1.74 million in the six months ended August 31, 2017. The increase in operating income and net income was due primarily to higher factory sales and factory gross margin in the six months ended August 31, 2017 compared to the six months ended August 31, 2016.

Revenues	Six Months Ended August 31,		$	%
($'s in thousands)	2017	2016	Change	Change
Factory sales	$ 11,065.4	$ 10,735.4	$ 330.0	3.1%
Retail sales	2,204.9	2,605.4	(400.5)	(15.4%)
Franchise fees	412.1	155.0	257.1	165.9%
Royalty and marketing fees	3,930.7	4,482.4	(551.7)	(12.3%)
Total	$ 17,613.1	$ 17,978.2	$ (365.1)	(2.0%)

Factory Sales

The increase in factory sales for the six months ended August 31, 2017 versus the six months ended August 31, 2016 was primarily due to a 22.0% increase in shipments of product to customers outside our network of franchise retail locations partially offset by a 2.2% decrease in purchases by our network of franchised and licensed stores. Same store pounds purchased by domestic Rocky Mountain Chocolate Factory franchise and license locations decreased 1.2% in the six months ended August 31, 2017, compared with the six months ended August 31, 2016.

Retail Sales

The decrease in retail sales was primarilydue 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 decreased 5.0% in the six months ended August 31, 2017 compared to the six months ended August 31, 2016.

Royalties, Marketing Fees and Franchise Fees

The decrease in royalties and marketing fees from the six months ended August 31, 2016 to the three months ended August 31, 2017 resulted from a 15.9% decrease in domestic franchise units in operation and lower same store sales. The average number of total domestic franchise stores in operation decreased from 389 in the six months ended August 31, 2016 to 327 during the six months ended August 31, 2017. This decrease is the result of domestic store closures exceeding domestic store openings. Same store sales at total franchise stores and cafés in operation decreased 3.2% during the six months ended August 31, 2017 compared to the six months ended August 31, 2016. Franchise fee revenues increased as a result of an increase in international license fees recognized during the six months ended August 31, 2017 compared to the six months ended August 31, 2016. During the six months ended August 31, 2017, U-Swirl entered into a master license agreement covering the State of Qatar and Rocky Mountain Chocolate Factory entered into master license agreements covering the countries of Vietnam and Panama. There were no international license agreements entered into during the six months ended August 31, 2016.

Costs and Expenses	Six Months Ended August 31,		$	%
($'s in thousands)	2017	2016	Change	Change
Cost of sales – factory	$ 8,119.8	$ 7,975.3	$ 144.5	1.8%
Cost of sales - retail	747.6	854.1	(106.5)	(12.5%)
Franchise costs	1,073.2	1,051.0	22.2	2.1%
Sales and marketing	1,192.4	1,317.1	(124.7)	(9.5%)
General and administrative	2,105.4	2,221.2	(115.8)	(5.2%)
Retail operating	1,189.8	1,325.6	(135.8)	(10.2%)
Total	$ 14,428.2	$ 14,744.3	$ (316.1)	(2.1%)

Gross margin	Six Months Ended August 31,		$	%
($'s in thousands)	2017	2016	Change	Change
Factory gross margin	$ 2,945.6	$ 2,760.1	$ 185.5	6.7%
Retail gross margin	1,457.3	1,751.3	(294.0)	(16.8%)
Total	$ 4,402.9	$ 4,511.4	$ (108.5)	(2.4%)

Gross Margin	Six Months Ended August 31,		%	%
	2017	2016	Change	Change
Factory gross margin	26.6%	25.7%	0.9%	3.5%
Retail gross margin	66.1%	67.2%	(1.1%)	(1.6%)
Total	33.2%	33.8%	(0.6%)	(1.8%)

Adjusted Gross Margin ($'s in thousands)	Six Months Ended August 31, 2017	 2016	$ Change	% Change
Factory gross margin	$ 2,945.6	$ 2,760.1	$ 185.5	6.7%
Plus: depreciation and amortization	253.5	206.2	47.3	22.9%
Factory adjusted gross margin	3,199.1	2,966.3	232.8	7.8%
Retail gross margin	1,457.3	1,751.3	(294.0)	(16.8%)
Total Adjusted Gross Margin	$ 4,656.4	$ 4,717.6	$ (61.2)	(1.3%)
Factory adjusted gross margin	28.9%	27.6%	1.3%	4.7%
Retail gross margin	66.1%	67.2%	(1.1%)	(1.6%)
Total Adjusted Gross Margin	35.1%	35.4%	(0.3%)	(0.8%)

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

Costs and Expenses

Cost of Sales

Factory margins increased 90 basis points in the six months ended August 31, 2017 compared to the six months ended August 31, 2016 due primarily to lower costs of certain materials in the six months ended August 31, 2017 compared to the six months ended August 31, 2016. 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 change in units in operation during the six months ended August 31, 2017 compared to the prior year.

Franchise Costs

The increase in franchise costs in the six months ended August 31, 2017 versus the six months ended August 31, 2016 is due primarily to an increase in legal and professional expenses. As a percentage of total royalty and marketing fees and franchise fee revenue, franchise costs increased to 24.7% in the six months ended August 31, 2017 from 22.7% in the six months ended August 31, 2016. This increase as a percentage of royalty, marketing and franchise fees is primarily a result of lower franchise revenues.

Sales and Marketing

The decrease in sales and marketing costs for the six months ended August 31, 2017 compared to the six months ended August 31, 2016 is primarily due to lower marketing related compensation and lower marketing-related costs associated with U-Swirl franchise locations.

General and Administrative

The decrease in general and administrative costs for the six months ended August 31, 2017 compared to the six months ended August 31, 2016 is due primarily to the continued reduction of duplicative general and administrative costs and lower compensation costs. For the six months ended August 31, 2017, approximately $193,000 of U-Swirl general and administrative costs were consolidated within our results, compared with $261,000 in the six months ended August 31, 2016. As a percentage of total revenues, general and administrative expenses decreased to 12.0% in the six months ended August 31, 2017 compared to 12.4% in the six months ended August 31, 2016.

Retail Operating Expenses

The decrease in retail operating expenses for the six months ended August 31, 2017 compared to the six months ended August 31, 2016 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, increased from 50.9% in the six months ended August 31, 2016 to 54.0% in the six months ended August 31, 2017. This increase is primarily the result of the change 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 $390,000 in the six months ended August 31, 2017, a decrease of 10.7% from $437,000 incurred in the six months ended August 31, 2016. This decrease was the result of fewer Company-owned store assets in service. Depreciation and amortization included in cost of sales increased 22.9% from $206,000 in the six months ended August 31, 2016 to $253,000 in the six months ended august 31, 2017. This increase was the result of an increase in production assets in service.

Restructuring and acquisition related charges

There were no restructuring and acquisition related charges during the six months ended August 31, 2017 compared to $60,000 during the six months ended August 31, 2016. The decrease is primarily the result of lease settlement costs related to the closure of an ALY company-owned location incurred during the six months ended August 31, 2016 with no comparable expense incurred during the six months ended August 31, 2017.

Other Income

Net interest expense was $54,000 in the six months ended August 31, 2017, a decrease of 22.0% compared to net interest expense of $69,000 in the six months ended August 31, 2016. 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 forthe six months ended August 31, 2017 was 36.5%, compared to 36.0% for the six months ended August 31, 2016. The increase of 0.5% was primarily due to an increase in income tax expense associated with the vesting of restricted stock units. Beginning March 1, 2017 the Company adopted ASU No. 2019-09, which requires recognition of excess tax benefits and tax deficiencies in the income statement. .

Beginning on March 1, 2016, the results of U-Swirl were included in our consolidated income tax return, and on the same date, were removed from SWRL's consolidated tax return. This is a result of the foreclosure on the outstanding stock of U-Swirl in satisfaction of debt with SWRL as discussed above. The consolidated tax return 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 were changes of control with respect to the net operating losses of U-Swirl when we acquired a 60% ownership interest of SWRL in January 2013 and when we foreclosed upon the stock of U-Swirl International, Inc. in February 2016.

Liquidity and Capital Resources

As of August 31, 2017, working capital was $7.5 million, compared with $7.1 million as of February 28, 2017, an increase of $0.4 million. The increase in working capital was primarily due to operating results mostly offset by the payment of dividends and repayments of debt.

Cash and cash equivalent balances were approximately unchanged at $5.7 million as of August 31, 2017 compared to $5.8 million as of February 28, 2017 as a result of cash flow used by financing activities, including repayment of debt and payment of dividends. Our current ratio was 1.9 to 1 at August 31, 2017 and February 28, 2017. We monitor current and anticipated future levels of cash and cash equivalents in relation to anticipated operating, financing and investing requirements.

For the six months ended August 31, 2017, we had net income of $1,741,956. Operating activities provided cash of $2,188,650, with the principal adjustment to reconcile the net income to net cash provided by operating activities being depreciation and amortization of $643,421 and the change in inventory of ($1,421,625). During the comparable 2016 period, we had net income of $1,706,647, and operating activities provided cash of $2,153,553. The principal adjustment to reconcile the net income to net cash provided by operating activities was depreciation and amortization of $642,907 and the change in inventory of ($874,281).

For the six months ended August 31, 2017, investing activities used cash of $172,934, primarily due to the purchases of property, equipment of $283,988. In comparison, investing activities used cash of $1,065,034 during the six months ended August 31, 2016 primarily due to the purchase of property and equipment of $931,989.

Financing activities used cash of $2,050,614 for the six months ended August 31, 2017 and used cash of $2,406,680 during the prior year period. This was primarily due to decreased cash used to repurchase common stock during the six months ended August 31, 2017.

We have a $5.0 million ($5.0 million available as of August 31, 2017) 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 August 31, 2017, we were in compliance with all such covenants. The line of credit is subject to renewal in September 2019. As of August 31, 2017, no amount was outstanding under this line of credit.

The Company's outstanding long-term debt is comprised of a promissory note used to finance business acquisitions of SWRL (unpaid balance as of August 31, 2017, $3.2 million). The promissory note allowed the Company to borrow up to a maximum of $7.0 million to finance business acquisitions and bears interest at a fixed annual rate of 3.75%. Additionally, the promissory note is subject to various financial ratio and leverage covenants. As of August 31, 2017, 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 of 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. The Company did not repurchase any shares during the three and six months ended August 31, 2017. As of August 31, 2017, approximately $638,000 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 August 31, 2017, 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

The Company is subject to seasonal fluctuations in sales, which cause fluctuations in quarterly results of operations. Historically, the strongest sales of the Company's products have occurred during key holidays and the summer vacation season. In addition, quarterly results have been, and in the future are likely to be, affected by the timing of new store openings and sales of franchises. Because of the seasonality of the Company's 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 August 31, 2017, based on future contractual obligations for ingredients, we estimate that a 10.0% change in the prices of contracted ingredients would result in a $159,000 favorable or unfavorable price benefit or cost, respectively, resulting from our contracts.

The Company has a $5 million bank line of credit that bears interest at a variable rate. As of August 31, 2017, no amount was outstanding under the line of credit. We do not believe that we are exposed to any material interest rate risk related to this line of credit.

The Company also entered into a $7.0 million promissory note with interest at a fixed rate of 3.75% annually to finance the previous acquisitions by SWRL. As of August 31, 2017, $3.2 million was outstanding under this promissory note. We do not believe that we are exposed to any material interest rate risk related to this promissory note.

Item 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.

Management, with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of August 31, 2017.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended August 31, 2017 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

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 (together with the CherryBerry Entities, 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. Pursuant to the CherryBerry Purchase Agreement, if the proceeds from the sale of any of the CB Shares on the open market was less than $0.50 per share and the CherryBerry Selling Parties complied 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. 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 and we filed an answer to this action on June 6, 2016.

On July 11, 2017, the Oklahoma Court granted summary judgement in favor of SWRL and RMCF on all of the claims made by the CherryBerry Entities, and in connection therewith, on September 26, 2017, the Oklahoma Court dismissed all counterclaims made by SWRL. The Company does not expect any further proceedings with respect to this matter.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part 1, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended February 28, 2017. There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the fiscal year ended February 28, 2017.

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

Issuer Purchases of Equity Securities

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 did not repurchase any shares during the three and six months ended August 31, 2017. As of August 31, 2017, approximately $638,000 remains available under the repurchase plan for further stock repurchases.

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).

10.1* Revolving Line of Credit Note, dated September 13, 2017, between Rocky Mountain Chocolate Factory, Inc. and Wells Fargo Bank, National Association.

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.

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* 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: October 10, 2017

/s/ Bryan J. Merryman

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

EXHIBIT 10.1

REVOLVING LINE OF CREDIT NOTE

$5,000,000.00 Denver, Colorado
September 1, 2017

FOR VALUE RECEIVED, the undersigned ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. ("Borrower") promises to pay to the order of WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank") at its office at C7300-081, 1700 Lincoln Street, 8th Floor, Suite 800, Denver, CO 80203, or at such other place as the holder hereof may designate, in lawful money of the United States of America and in immediately available funds, the principal sum of Five Million Dollars ($5,000,000.00), or so much thereof as may be advanced and be outstanding pursuant to the terms of the Credit Agreement, as defined herein, with interest thereon, to be computed on each advance from the date of its disbursement as set forth herein.

DEFINITIONS:

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

(a) "Daily One Month LIBOR" means, for any day, the rate of interest equal to LIBOR then in effect for delivery for a one (1) month period.

(b) "LIBOR" means the rate of interest per annum determined by Bank based on the rate for United States dollar deposits for delivery of funds for one (1) month as published by the ICE Benchmark Administration Limited, a United Kingdom company, at approximately 11:00 a.m., London time, or, for any day not a London Business Day, the immediately preceding London Business Day (or if not so published, then as determined by Bank from another recognized source or interbank quotation); provided, however, that if LIBOR determined as provided above would be less than zero percent (0.0%), then LIBOR shall be deemed to be zero percent (0.0%).

(c) "London Business Day" means any day that is a day for trading by and between banks in dollar deposits in the London interbank market.

INTEREST:

(a) Interest. The outstanding principal balance of this Note shall bear interest (computed on the basis of a 360-day year, actual days elapsed) at a fluctuating rate per annum determined by Bank to be two and twenty five hundredths percent (2.25%) above Daily One Month LIBOR in effect from time to time. Bank is hereby authorized to note the date and interest rate applicable to this Note and any payments made thereon on Bank's books and records (either manually or by electronic entry) and/or on any schedule attached to this Note, which notations shall be prima facie evidence of the accuracy of the information noted.

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

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

BORROWING AND REPAYMENT:

(a) Borrowing and Repayment of Principal. Borrower may from time to time during the term of this Note borrow, partially or wholly repay its outstanding borrowings, and reborrow, subject to all of the limitations, terms and conditions of this Note and of any document executed in connection with or governing this Note; provided however, that the total outstanding borrowings under this Note shall not at any time exceed the principal amount stated above. The unpaid principal balance of this obligation at any time shall be the total amounts advanced hereunder by the holder hereof less the amount of principal payments made hereon by or for Borrower, which balance may be endorsed hereon from time to time by the holder. The outstanding principal balance of this Note shall be due and payable in full on September 30, 2019.

(b) Payment of Interest. Interest accrued on this Note shall be payable on the last day of each month, commencing September 30, 2017, and on the maturity date set forth above.

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

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

PREPAYMENT:

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

EVENTS OF DEFAULT:

This Note is made pursuant to and is subject to the terms and conditions of that certain Credit Agreement between Borrower and Bank dated as of October 30, 2015, as amended from time to time (the "Credit Agreement"). Any default in the payment or performance of any obligation under this Note, or any defined event of default under the Credit Agreement, shall constitute an "Event of Default" under this Note.

MISCELLANEOUS:

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

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

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

IN WITNESS WHEREOF, the undersigned has executed this Note as of the date firstwritten above.

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC.

By: /s/ Bryan J. Merryman
BRYAN MERRYMAN, COO, CFO

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: October 10, 2017

/s/ Franklin E. Crail
Franklin E. Crail, President, Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)

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: October 10, 2017

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

Exhibit 32.1

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

In connection with the Quarterly Report of Rocky Mountain Chocolate Factory, Inc. (the "Company") on Form 10-Q for the quarterly period ended August 31,2017 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: October 10, 2017

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

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

In connection with the Quarterly Report of Rocky Mountain Chocolate Factory, Inc. (the "Company") on Form 10-Q for the quarterly period ended August 31,2017 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: October 10, 2017

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