

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

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended May 31, 2022

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**  
(State or other jurisdiction of  
incorporation or organization)

**47-1535633**  
(I.R.S. Employer Identification No.)

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

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

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

<u>Title of each class</u>	<u>Trading symbol</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.001 par value per share	RMCF	Nasdaq Global Market

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards 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 June 24, 2022, the registrant had outstanding 6,216,724 shares of its common stock, \$0.001 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 OPERATIONS  
(unaudited)

	Three Months Ended May 31,	
	2022	2021
<b>Revenues</b>		
Sales	\$ 5,950,238	\$ 5,830,198
Franchise and royalty fees	1,876,334	1,763,513
Total Revenue	7,826,572	7,593,711
<b>Costs and Expenses</b>		
Cost of sales	4,723,455	4,546,597
Franchise costs	494,212	551,650
Sales and marketing	528,009	412,657
General and administrative	1,631,223	844,821
Retail operating	471,532	444,067
Depreciation and amortization, exclusive of depreciation and amortization expense of \$159,706, \$151,899, respectively, included in cost of sales	127,478	148,015
Total costs and expenses	7,975,909	6,947,807
<b>Income (Loss) from Operations</b>	(149,337)	645,904
<b>Other Income</b>		
Interest Income	2,641	4,571
Gain on insurance recovery	-	167,123
Other income, net	2,641	171,694
<b>Income (Loss) Before Income Taxes</b>	(146,696)	817,598
<b>Income Tax Provision (Benefit)</b>	(31,755)	237,793
<b>Consolidated Net Income (Loss)</b>	\$ (114,941)	\$ 579,805
<b>Basic Earnings (Loss) per Common Share</b>	\$ (0.02)	\$ 0.09
<b>Diluted Earnings (Loss) per Common Share</b>	\$ (0.02)	\$ 0.09
<b>Weighted Average Common Shares Outstanding - Basic</b>	6,206,939	6,118,433
<b>Dilutive Effect of Employee Stock Awards</b>	-	171,277
<b>Weighted Average Common Shares Outstanding - Diluted</b>	6,206,939	6,289,710

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

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

	May 31, 2022 (unaudited)	February 28, 2022
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 5,989,510	\$ 7,587,374
Restricted cash	1,344,813	-
Accounts receivable, less allowance for doubtful accounts of \$819,183 and \$870,735, respectively	1,903,781	1,967,914
Notes receivable, current portion, less current portion of the valuation allowance of \$33,784 and \$47,228, respectively	15,330	8,680
Refundable income taxes	565,653	736,528
Inventories	5,059,762	4,354,202
Other	547,431	343,268
Total current assets	15,426,280	14,997,966
<b>Property and Equipment, Net</b>		
	5,602,864	5,499,890
<b>Other Assets</b>		
Goodwill, net	729,701	729,701
Franchise rights, net	1,985,634	2,078,066
Intangible assets, net	343,769	353,685
Deferred income taxes	1,273,965	1,388,271
Lease right of use asset	2,077,230	1,771,034
Other	52,148	62,148
Total other assets	6,462,447	6,382,905
<b>Total Assets</b>	<b>\$ 27,491,591</b>	<b>\$ 26,880,761</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 2,095,931	\$ 1,579,917
Accrued salaries and wages	1,962,184	2,125,430
Gift card liabilities	565,213	574,883
Other accrued expenses	216,317	239,644
Contract liabilities	198,787	195,961
Lease liability	660,812	595,897
Total current liabilities	5,699,244	5,311,732
<b>Lease Liability, Less Current Portion</b>	<b>1,458,464</b>	<b>1,218,256</b>
<b>Contract Liabilities, Less Current Portion</b>	<b>917,301</b>	<b>950,847</b>
<b>Commitments and Contingencies</b>		
<b>Stockholders' Equity</b>		
Preferred stock, \$.001 par value per share; 250,000 authorized; -0- shares issued and outstanding	-	-
Common stock, \$.001 par value, 46,000,000 shares authorized, 6,213,681 shares and 6,186,356 shares issued and outstanding, respectively	6,214	6,186
Additional paid-in capital	8,938,499	8,806,930
Retained earnings	10,471,869	10,586,810
Total stockholders' equity	19,416,582	19,399,926
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 27,491,591</b>	<b>\$ 26,880,761</b>

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)

	Three Months Ended May 31,	
	2022	2021
<b>Cash Flows From Operating Activities</b>		
Net income (loss)	\$ (114,941)	\$ 579,805
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	287,184	299,914
Provision for obsolete inventory	59,796	33,285
Provision for loss on accounts and notes receivable	(100,000)	-
Loss (gain) on sale or disposal of property and equipment	1,950	(164,286)
Expense recorded for stock compensation	131,597	146,157
Deferred income taxes	114,306	23,076
Changes in operating assets and liabilities:		
Accounts receivable	142,072	(114,876)
Refundable income taxes	170,875	255,974
Inventories	(750,752)	(386,868)
Contract Liabilities	(30,720)	(6,213)
Other current assets	(204,163)	(147,911)
Accounts payable	501,410	(123,087)
Accrued liabilities	(197,316)	(9,159)
Net cash provided by operating activities	11,298	385,811
<b>Cash Flows from Investing Activities</b>		
Proceeds received on notes receivable	15,411	21,634
Proceeds from sale or distribution of assets	600	-
Proceeds from insurance recovery	-	206,336
Purchases of property and equipment	(290,360)	(457,435)
Decrease in other assets	10,000	-
Net cash used in investing activities	(264,349)	(229,465)
<b>Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash</b>	(253,051)	156,346
<b>Cash, Cash Equivalents and Restricted Cash, Beginning of Period</b>	7,587,374	5,633,279
<b>Cash, Cash Equivalents and Restricted Cash, End of Period</b>	\$ 7,334,323	\$ 5,789,625

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

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

	Three Months Ended May 31,	
	2022	2021
<b>Common Stock</b>		
Balance at February 28:	\$ 6,186	\$ 6,074
Issuance of common stock	-	7
Equity compensation, restricted stock units and stock options	28	38
Balance at May 31:	6,214	6,119
<b>Additional Paid-in Capital</b>		
Balance at February 28:	8,806,930	7,971,712
Issuance of common stock	-	34,643
Equity compensation, restricted stock units and stock options	131,569	111,469
Balance at May 31:	8,938,499	8,117,824
<b>Retained Earnings</b>		
Balance at February 28:	10,586,810	10,989,783
Consolidated net income (loss)	(114,941)	579,805
Balance at May 31:	10,471,869	11,569,588
<b>Total Stockholders' Equity</b>	<b>\$ 19,416,582</b>	<b>\$ 19,693,531</b>
<b>Common Shares Outstanding</b>		
Balance at February 28:	6,186,356	6,074,293
Issuance of common stock	-	7,000
Equity compensation, restricted stock units and stock options	27,325	37,702
Balance at May 31:	6,213,681	6,118,995

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

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARIES  
NOTES TO INTERIM (UNAUDITED) 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), Aspen Leaf Yogurt, LLC (“ALY”), and U-Swirl International, Inc. (“U-Swirl”), and U-Swirl, Inc. (“SWRL”) (collectively, the “Company,” “we,” “us” or “our”).

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

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

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

In FY 2020 and early FY 2021 we entered into long-term strategic alliance and ecommerce agreements with Edible Arrangements®, LLC and its affiliates (“Edible”), whereby it was intended that we would become the exclusive provider of certain branded chocolate products to Edible, its affiliates and its franchisees. Under the strategic alliance, Rocky Mountain Chocolate Factory branded products are available for purchase both on Edible’s website as well as through over 1,000 franchised Edible locations nationwide. In addition, due to Edible’s significant e-commerce expertise and scale, we also executed an ecommerce licensing agreement with Edible, whereby Edible was expected to sell a wide variety of chocolates, candies and other confectionery products produced by the Company or its franchisees through Edible’s websites. There is no assurance that the strategic alliance and ecommerce agreements will be deployed into our operations and to our satisfaction, or that we will achieve the expected full benefits from these agreements. During FY 2022, certain disagreements arose between the Company and Edible related to the strategic alliance and ecommerce agreements resulting in continuing discussions, the result of which are not currently determinable. Purchases by Edible during the three months ended May 31, 2022 and 2021 were approximately \$311,000 and \$484,000, or 4.0% and 6.4% of the Company’s revenues, respectively. There can be no assurance historical revenue levels will be indicative of future revenues.

The following table summarizes the number of stores operating under the Rocky Mountain Chocolate Factory brand and frozen yogurt cafés at May 31, 2022:

	Sold, Not Yet Open	Open	Total
<b>Rocky Mountain Chocolate Factory</b>			
Company-owned stores	-	2	2
Franchise stores - Domestic stores and kiosks	5	154	159
International license stores	1	5	6
Cold Stone Creamery - co-branded	4	100	104
<b>U-Swirl (Including all associated brands)</b>			
Company-owned stores - co-branded	-	3	3
Franchise stores - Domestic stores	-	56	56
Franchise stores - Domestic - co-branded	1	6	7
International license stores	-	1	1
<b>Total</b>	<b>11</b>	<b>327</b>	<b>338</b>

During FY 2021 the Company initiated formal legal proceedings against Immaculate Confections (“IC”), the operator of RMCF locations in Canada. In its complaint, the Company alleged, among other things, that IC has utilized the Company’s trademarks and other intellectual property without authority to do so and that IC has been unjustly enriched by their use of the Company’s trademarks and intellectual property.

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARIES  
NOTES TO INTERIM (UNAUDITED) CONSOLIDATED FINANCIAL STATEMENTS

In June 2021 a court order was issued declaring the original 1991 Development Agreement for Canada between RMCF and IC had expired. In September 2021, the Company and IC reached a Settlement Agreement (the "IC Agreement") whereby the parties agreed to a six month negotiation period to explore alternative solutions. The six month period lapsed in March 2022, however the parties have continued negotiations and negotiations continue as of the date of this filing. The IC Agreement contains provisions that would require IC to de-identify its locations if a solution is not reached. IC operates approximately 49 locations in Canada. During the three months ended May 31, 2022 the Company recognized approximately \$30,000 of factory revenue from locations operated by IC in Canada compared with no revenue recognized from locations operated by IC in Canada during the three months ended May 31, 2021.

#### 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 (the "SEC") regulations. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the consolidated financial statements reflect all adjustments (of a normal and recurring nature) which are necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. The results of operations for the three months ended May 31, 2022 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, 2022 filed on May 27, 2022. The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

#### 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

Except for the recent accounting pronouncements described below, other recent accounting pronouncements are not expected to have a material impact on our condensed consolidated financial statements.

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 significantly changes the impairment model for most financial assets and certain other instruments. ASU 2016-13 will require immediate recognition of estimated credit losses expected to occur over the remaining life of many financial assets, which will generally result in earlier recognition of allowances for credit losses on loans and other financial instruments. ASU 2016-13 is effective for the Company's fiscal year beginning March 1, 2023 and subsequent interim periods. The Company is currently evaluating the impact the adoption of ASU 2016-13 will have on the Company's consolidated financial statements.

#### NOTE 2 – SUPPLEMENTAL CASH FLOW INFORMATION

	Three Months Ended May 31,	
	2022	2021
Cash paid (received) for:		
Interest	\$ -	\$ -
Income taxes	(316,937)	(49,952)

#### NOTE 3 – REVENUE FROM CONTRACTS WITH CUSTOMERS

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



ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARIES  
NOTES TO INTERIM (UNAUDITED) CONSOLIDATED FINANCIAL STATEMENTS

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

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

The following table summarizes contract liabilities as of May 31, 2022 and May 31, 2021:

	Three Months Ended May 31:	
	2022	2021
Contract liabilities at the beginning of the year:	\$ 1,146,808	\$ 1,119,646
Revenue recognized	(67,220)	(56,213)
Contract fees received	36,500	50,000
Amortized gain on the financed sale of equipment	-	(3,133)
Contract liabilities at the end of the period:	\$ 1,116,088	\$ 1,110,300

On May 31, 2022, annual revenue expected to be recognized in the future, related to performance obligations that are not yet fully satisfied, are estimated to be the following:

FYE 23	\$	154,951
FYE 24		172,857
FYE 25		157,873
FYE 26		145,751
FYE 27		129,060
Thereafter		355,596
Total	\$	1,116,088

*Gift Cards*

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

*Factory Sales of Confectionary Items, Retail Sales and Royalty and Marketing Fees*

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

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARIES  
NOTES TO INTERIM (UNAUDITED) CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 4 – DISAGGREGATION OF REVENUE

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

Three Months Ended May 31, 2022

Revenues recognized over time under ASC 606:					
	Franchising	Manufacturing	Retail	U-Swirl	Total
Franchise fees	\$ 53,853	\$ -	\$ -	\$ 13,367	\$ 67,220
Revenues recognized at a point in time:					
	Franchising	Manufacturing	Retail	U-Swirl	Total
Factory sales	-	5,157,610	-	-	5,157,610
Retail sales	-	-	250,410	542,218	792,628
Royalty and marketing fees	1,440,327	-	-	368,787	1,809,114
Total	\$ 1,494,180	\$ 5,157,610	\$ 250,410	\$ 924,372	\$ 7,826,572

Three Months Ended May 31, 2021

Revenues recognized over time under ASC 606:					
	Franchising	Manufacturing	Retail	U-Swirl	Total
Franchise fees	\$ 41,245	\$ -	\$ -	\$ 14,968	\$ 56,213
Revenues recognized at a point in time:					
	Franchising	Manufacturing	Retail	U-Swirl	Total
Factory sales	-	5,040,723	-	-	5,040,723
Retail sales	-	-	282,978	506,497	789,475
Royalty and marketing fees	1,392,482	-	-	314,818	1,707,300
Total	\$ 1,433,727	\$ 5,040,723	\$ 282,978	\$ 836,283	\$ 7,593,711

## NOTE 5 – INVENTORIES

Inventories consist of the following inventory at May 31, 2022 and February 28, 2022:

	May 31, 2022	February 28, 2022
Ingredients and supplies	\$ 2,908,856	\$ 2,753,068
Finished candy	2,777,054	2,168,084
U-Swirl food and packaging	44,548	56,319
Reserve for slow moving inventory	(670,696)	(623,269)
Total inventories	\$ 5,059,762	\$ 4,354,202

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARIES  
NOTES TO INTERIM (UNAUDITED) CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - PROPERTY AND EQUIPMENT, NET

Property and equipment at May 31, 2022 and February 28, 2022 consisted of the following:

	May 31, 2022	February 28, 2022
Land	\$ 513,618	\$ 513,618
Building	5,148,854	5,148,854
Machinery and equipment	10,492,716	10,207,182
Furniture and fixtures	790,197	787,921
Leasehold improvements	985,914	985,914
Transportation equipment	479,701	479,701
	18,411,000	18,123,190
Less accumulated depreciation	(12,808,136)	(12,623,300)
Property and equipment, net	\$ 5,602,864	\$ 5,499,890

Depreciation expense related to property and equipment totaled \$184,836 and \$178,575 during the three months ended May 31, 2022 and 2021, respectively.

NOTE 7 – GOODWILL AND INTANGIBLE ASSETS

Intangible assets at May 31, 2022 and February 28, 2022 consist of the following:

	Amortization Period	May 31, 2022 Gross Carrying Value	Accumulated Amortization	February 28, 2022 Gross Carrying Value	Accumulated Amortization
<b>Intangible assets subject to amortization</b>					
Store design	10 Years	\$ 394,826	\$ 245,135	\$ 394,826	\$ 240,409
Packaging licenses	3-5 Years	120,830	120,830	120,830	120,830
Packaging design	10 Years	430,973	430,973	430,973	430,973
Trademark/Non-competition agreements	5-20 Years	556,339	362,261	556,339	357,071
Franchise rights	20 Years	5,979,637	3,994,003	5,979,637	3,901,571
Total		7,482,605	5,153,202	7,482,605	5,050,854
<b>Goodwill and intangible assets not subject to amortization</b>					
Franchising segment-					
Company stores goodwill		\$ 515,065		\$ 515,065	
Franchising goodwill		97,318		97,318	
Manufacturing segment-goodwill		97,318		97,318	
Trademark		20,000		20,000	
Total		729,701		729,701	
Total Goodwill and Intangible Assets		\$ 8,212,306	\$ 5,153,202	\$ 8,212,306	\$ 5,050,854

Amortization expense related to intangible assets totaled \$102,348 and \$121,339 during the three months ended May 31, 2022 and 2021, respectively.

At May 31, 2022, annual amortization of placed in service intangible assets, based upon the Company's existing intangible assets and current useful lives, is estimated to be the following:

FYE 23	\$ 307,045
FYE 24	346,672
FYE 25	294,427
FYE 26	251,342
FYE 27	215,382
Thereafter	914,535
Total	\$ 2,329,403

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARIES  
NOTES TO INTERIM (UNAUDITED) CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 8 – LINE OF CREDIT

*Revolving Credit Line*

The Company has a \$5.0 million credit line for general corporate and working capital purposes, of which \$5.0 million was available for borrowing (subject to certain borrowing base limitations) as of May 31, 2022 (the “Credit Line”). The Credit Line is secured by substantially all of the Company’s assets, except retail store assets. Interest on borrowings is at the Secured Overnight Financing Rate plus 2.37% (3.2% at May 31, 2022 and 2.42% at February 28, 2022). Additionally, the Credit Line is subject to various financial ratio and leverage covenants. At May 31, 2022, the Company was in compliance with all such covenants. The Credit Line is subject to renewal in September 2022 and the Company believes it is likely to be renewed on terms similar to the current terms.

## NOTE 9 - STOCKHOLDERS' EQUITY

*Warrants*

In consideration of Edible entering into the exclusive supplier agreement and the performance of its obligations therein, on December 20, 2019, the Company issued Edible a warrant (the “Warrant”) to purchase up to 960,677 shares of the Company’s common stock (the “Warrant Shares”) at an exercise price of \$8.76 per share. The Warrant Shares vest in annual tranches in varying amounts following each contract year under the exclusive supplier agreement, subject to, and only upon, Edible’s achievement of certain revenue thresholds on an annual or cumulative five-year basis in connection with its performance under the exclusive supplier agreement. The Warrant expires six months after the final and conclusive determination of revenue thresholds for the fifth contract year and the cumulative revenue determination in accordance with the terms of the Warrant. As of May 31, 2022 no warrants have vested.

The Company determined that the grant date fair value of the warrants was de minimis and did not record any amount in consideration of the warrants. The Company utilized a Monte Carlo model for purposes of determining the grant date fair value.

*Stock-Based Compensation*

Under the Company’s 2007 Equity Incentive Plan (as amended and restated) (the “2007 Plan”), the Company may authorize and grant stock awards to employees, non-employee directors and certain other eligible participants, including stock options, restricted stock and restricted stock units.

The Company recognized \$131,597 of stock-based compensation expense during the three months ended May 31, 2022 compared with \$146,157 during the three months ended May 31, 2021. Compensation costs related to stock-based compensation are generally amortized over the vesting period of the stock awards.

The following table summarizes non-vested restricted stock unit transactions for common stock during the three months ended May 31, 2022 and 2021:

	Three Months Ended May 31,	
	2022	2021
Outstanding non-vested restricted stock units as of February 28 or 29:	105,978	209,450
Granted	55,336	-
Vested	(27,326)	(37,702)
Cancelled/forfeited	-	(900)
Outstanding non-vested restricted stock units as of May 31:	133,988	170,848
Weighted average grant date fair value	\$ 6.65	\$ 9.40
Weighted average remaining vesting period (in years)	2.36	3.41

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The following table summarizes stock option activity during the three months ended May 31, 2022 and 2021:

	Three Months Ended	
	2022	May 31, 2021
Outstanding stock options as of February 28:		
Granted	27,668	-
Exercised	-	-
Cancelled/forfeited	-	-
Outstanding stock options as of May 31:	27,668	-
Weighted average exercise price	6.38	n/a
Weighted average remaining contractual term (in years)	9.95	n/a

The Company did not issue any unrestricted shares of stock to non-employee directors during the three months ended May 31, 2022 compared with 7,000 shares issued during the three months ended May 31, 2021. In connection with these non-employee director stock issuances, the Company recognized \$0 and \$34,650 of stock-based compensation expense during the three months ended May 31, 2022 and 2021, respectively.

During the three months ended May 31, 2022, the Company issued 27,668 stock options and issued up to 55,336 performance-based restricted stock units subject to vesting based on the achievement of performance goals. These issuances were made to the Company's new Chief Executive Officer as a part of the incentive compensation structure for Mr. Sarlls. The stock options were issued with an aggregate grant date fair value of \$58,213 or \$2.10 per share. The performance-based restricted stock units were issued with an aggregate grant date fair value of \$168,304 or \$6.08 per share, based upon a target issuance of 27,668 shares. The stock options granted vest with respect to one-third of the shares on the last day of the Company's current fiscal year ending February 28, 2023, and vest as to remaining shares in equal quarterly increments on the last day of each quarter thereafter. The performance-based restricted stock units will vest following the end of the Company's fiscal year ending February 2025 with respect to the target number of performance-based restricted stock units if the Company achieves an annualized total shareholder return of 12.5% during the performance period, subject to continued service through the end of the performance period. The Compensation Committee has discretion to determine the number of performance-based restricted stock units between 0-200% of the target number that will vest based on achievement of performance below or above the target performance goal.

During the three months ended May 31, 2022, the Company recognized \$131,597 of stock-based compensation expense related to outstanding restricted stock units and stock options, compared to \$111,507 during the three months ended May 31, 2021. Except as noted above, restricted stock units generally vest in equal annual installments over a period of five to six years. Total unrecognized stock-based compensation expense of non-vested, non-forfeited restricted stock units, as of May 31, 2022, was \$865,549, which is expected to be recognized over the weighted average period of 2.36 years.

#### NOTE 10 - EARNINGS PER SHARE

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

The weighted-average number of shares outstanding used in the computation of diluted earnings per share does not include outstanding common shares issuable if their effect would be anti-dilutive. During the three months ended May 31, 2022, 960,677 shares of common stock warrants and 137,082 shares of issuable common stock were excluded from the computation of diluted earnings per share because their effect would have been anti-dilutive. During the three months ended May 31, 2021, 960,677 shares of common stock warrants and no shares of issuable common stock were excluded from the computation of diluted earnings per share because their effect would have been anti-dilutive.

#### NOTE 11 - LEASING ARRANGEMENTS

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

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

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

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

The Company accounts for payments related to lease liabilities on a straight-line basis over the lease term. As of May 31, 2022 and 2021, lease expense recognized in the Consolidated Statements of Operations was \$190,108 and \$209,025, respectively.

The lease liability reflects the present value of the Company's estimated future minimum lease payments over the life of its leases. This includes known escalations and renewal option periods reasonably assured of being exercised. Typically, renewal options are considered reasonably assured of being exercised if the sales performance of the location remains strong. Therefore, the Right of Use Asset and Lease Liability include an assumption on renewal options that have not yet been exercised by the Company, and are not currently a future obligation. The Company has separated non-lease components from lease components in the recognition of the Asset and Liability except in instances where such costs were not practical to separate. To the extent that occupancy costs, such as site maintenance, are included in the Asset and Liability, the impact is immaterial. For franchised locations, the related occupancy costs including property taxes, insurance and site maintenance are generally required to be paid by the franchisees as part of the franchise arrangement. In addition, the Company is the lessee under non-store related leases such as storage facilities and trucking equipment. For leases where the implicit rate is not readily determinable, the Company uses an incremental borrowing rate to calculate the lease liability that represents an estimate of the interest rate the Company would incur to borrow on a collateralized basis over the term of a lease. The weighted average discount rate used for operating leases was 3.3% as of May 31, 2022. The total estimated future minimum lease payments is \$2.3 million.

As of May 31, 2022, maturities of lease liabilities for our operating leases were as follows:

FYE 23	\$	519,117
FYE 24		518,508
FYE 25		369,545
FYE 26		271,903
FYE 27		181,947
Thereafter		462,121
Total	\$	2,323,141
Less: imputed interest		(203,865)
Present value of lease liabilities:	\$	2,119,276
Weighted average lease term		6.4

During the three months ended May 31, 2022 the Company entered into a lease for trailers used in the Company's trucking operations. This lease resulted in the Company recognizing a present value of future lease liability of \$456,885 based upon a total lease liability of \$502,894.

#### NOTE 12 – COMMITMENTS AND CONTINGENCIES

##### *Employment Agreement Payments upon a Change in Control*

We have entered into employment agreements with certain of our executives which contain, among other things, "change in control" severance provisions. The employment agreements for executives (other than Mr. Sarlls and Mr. Merryman) generally provide that, if the Company or the executive terminates the executive's employment under circumstances constituting a "triggering termination," the executive will be entitled to receive, among other benefits, 2.99 times the sum of (i) the executive's annual salary and (ii) the lesser of (a) two times the bonus that would be payable to the executive for the bonus period in which the change in control occurred or (b) 5% of the executive's annual salary. The executive will also receive an additional payment of \$18,000, which represents the estimated cost to the executive of obtaining accident, health, dental, disability and life insurance coverage for the 18-month period following the expiration of COBRA coverage. Additionally, all of the named executive officer's unvested restricted stock units will immediately vest and become exercisable and payable.

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A “change in control,” as used in these employment agreements, generally means a change in the control of the Company following any number of events, but specifically a proxy contest in which our Board of Directors prior to the transaction constitutes less than a majority of our Board of Directors after the transaction or the members of our Board of Directors during any consecutive two-year period who at the beginning of such period constituted the Board of Directors cease to be the majority of the Board of Directors at the conclusion of that period. We have determined that a change in control has taken place. A “triggering termination” generally occurs when an executive is terminated during a specified period preceding a change in control of us, or if the executive or the Company terminates the executive’s employment under circumstances constituting a triggering termination during a specified period after a change in control. A triggering termination may also include a voluntary termination under certain scenarios.

As a result of the changes in our Board of Directors over the past 12 months, the Company may be liable to each executive for change in control payments contingent upon a triggering termination event. As of May 31, 2022 the amount of the unrecorded cash severance payments and benefits contingent upon a subsequent triggering termination event are estimated to be approximately \$859,000 and the acceleration of unvested restricted stock units with an unrecognized expense of approximately \$08,000. The Company may further be liable for outplacement services obligations, consulting fees, and certain tax consequences associated with severance payments, benefits payments and stock awards. These additional obligations may have a material impact on the liability of the Company upon a triggering termination.

*Purchase contracts*

The Company frequently enters into purchase contracts of between six to eighteen months for chocolate and certain nuts. These contracts permit the Company to purchase the specified commodity at a fixed price on an as-needed basis during the term of the contract. Because prices for these products may fluctuate, the Company may benefit if prices rise during the terms of these contracts, but it may be required to pay above-market prices if prices fall and it is unable to renegotiate the terms of the contract. As of May 31, 2022, the Company was contracted for approximately \$141,000 of raw materials under such agreements. The Company has designated these contracts as normal under the normal purchase and sale exception under the accounting standards for derivatives. These contracts are not entered into for speculative purposes.

NOTE 13 - OPERATING SEGMENTS

The Company classifies its business interests into five reportable segments: Franchising, Manufacturing, Retail Stores, U-Swirl 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 the Company’s consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended February 28, 2022 filed on May 27, 2022. The Company evaluates performance and allocates resources based on operating contribution, which excludes unallocated corporate general and administrative costs and income tax expense or benefit. The Company’s reportable segments are strategic businesses that utilize common merchandising, distribution, and marketing functions, as well as common information systems and corporate administration. All inter-segment sales prices are market based. Each segment is managed separately because of the differences in required infrastructure and the differences in products and services:

Three Months Ended May 31, 2022	Franchising	Manufacturing	Retail	U-Swirl	Other	Total
Total revenues	\$ 1,495,454	\$ 5,404,278	\$ 250,410	\$ 924,372	\$ -	\$ 8,074,514
Intersegment revenues	(1,274)	(246,668)	-	-	-	(247,942)
Revenue from external customers	1,494,180	5,157,610	250,410	924,372	-	7,826,572
Segment profit (loss)	707,096	608,232	(12,232)	168,257	(1,618,049)	(146,696)
Total assets	1,201,855	10,751,227	637,637	4,903,780	9,997,092	27,491,591
Capital expenditures	1,182	249,315	317	29,475	10,071	290,360
Total depreciation & amortization	\$ 8,919	\$ 161,188	\$ 1,412	\$ 98,291	\$ 17,374	\$ 287,184

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Three Months Ended May 31, 2021	Franchising	Manufacturing	Retail	U-Swirl	Other	Total
Total revenues	\$ 1,435,366	\$ 5,285,106	\$ 282,978	\$ 836,283	\$ -	\$ 7,839,733
Intersegment revenues	(1,639)	(244,383)	-	-	-	(246,022)
Revenue from external customers	1,433,727	5,040,723	282,978	836,283	-	7,593,711
Segment profit (loss)	644,866	668,024	18,265	145,542	(659,099)	817,598
Total assets	1,430,823	10,075,833	638,670	5,379,850	8,277,451	25,802,627
Capital expenditures	1,182	432,411	1,068	1,399	21,375	457,435
Total depreciation & amortization	\$ 9,498	\$ 153,620	\$ 1,401	\$ 116,730	\$ 18,665	\$ 299,914

NOTE 14 – CONTESTED SOLICITATION OF PROXIES AND CHANGE IN CONTROL PAYMENTS

*Contested Solicitation of Proxies*

During the three months ended May 31, 2022, the Company incurred costs associated with a stockholder's contested solicitation of proxies in connection with its 2022 annual meeting of stockholders. During the three months ended May 31, 2022, the Company incurred approximately \$305,000 of costs associated with the contested solicitation of proxies, compared with no comparable costs incurred in the three months ended May 31, 2021. These costs are recognized as general and administrative expense in the Consolidated Statement of Operations.

NOTE 15 – RESTRICTED CASH

In accordance with the Letter Agreement between the Company and Bryan J. Merryman, the Company's former Chief Executive Officer, in March 2022, the Company established a rabbi trust with an outside third-party trustee, and contributed \$1,344,813 to the trust, which represents the aggregate amount of the termination payment and the cash payment for insurance coverage to be paid to Mr. Merryman upon his termination of his employment. This obligation is included in accrued salaries and wages at May 31, 2022 and February 28, 2022 on the accompanying consolidated balance sheet. This trust balance is classified as restricted cash on the accompanying consolidated balance sheet as of May 31, 2022.

Cash, cash equivalents and restricted cash as of May 31, 2022 and February 28, 2022 consisted of the following:

	May 31, 2022	February 28, 2022
Cash and cash equivalents	\$ 5,989,510	\$ 7,587,374
Restricted cash	1,344,813	-
Total cash, cash equivalents and restricted cash	\$ 7,334,323	\$ 7,587,374



## 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, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and are intended to come within the safe harbor protection provided by those sections. These forward-looking statements involve various risks and uncertainties. The nature of our operations and the environment in which we operate subject us to changing economic, competitive, regulatory and technological conditions, risks and uncertainties. The statements, other than statements of historical fact, included in this 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: inflationary impacts, the impacts of the COVID-19 pandemic on our business, including, among other things, online sales, factory sales, retail sales and royalty and marketing fees, our liquidity, our cost cutting and capital preservation measures, achievement of the anticipated potential benefits of the strategic alliance with Edible (as defined herein), our ability to provide products to Edible under the strategic alliance, the ability to increase our online sales through the agreements with Edible, the outcome of the legal proceedings initiated against Immaculate Confections, the operator of franchise/license locations in Canada, 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 and licensees either are, or may be, subject to and which could cause results to differ from forward-looking statements include, but are not limited to: local, state and federal laws regarding health, sanitation, safety, building and fire codes, franchising, licensing, employment, manufacturing, packaging and distribution of food products and motor carriers. For a detailed discussion of the risks and uncertainties that may cause our actual results to differ from the forward-looking statements contained herein, please see the section entitled “Risk Factors” contained in Item 1A. of our Annual Report on Form 10-K for the fiscal year ended February 28, 2022 filed on May 27, 2022, as amended on June 28, 2022. 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 (including its operating subsidiary with the same name, Rocky Mountain Chocolate Factory, Inc., a Colorado corporation (“RMCF”).*

### 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 wholly-owned 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 confectionery products. We also sell our candy in select locations outside of our system of retail stores and license the use of our brand with certain consumer products. As of May 31, 2022, there were two Company-owned, 100 licensee-owned and 159 franchised Rocky Mountain Chocolate Factory stores operating in 37 states, South Korea, the republic of Panama, and the Philippines. As of May 31, 2022, U-Swirl operated three Company-owned cafés and 63 franchised cafés located in 22 states and Qatar. U-Swirl operates self-serve frozen yogurt cafés under the names “U-Swirl,” “Yogurtini,” “CherryBerry,” “Yogli Mogli Frozen Yogurt,” “Fuzzy Peach Frozen Yogurt,” “Let’s Yo!” and “Aspen Leaf Yogurt”.

In FY 2020 and early FY 2021, we entered into a long-term strategic alliance and ecommerce agreements with Edible, whereby it was intended that we would become the exclusive provider of certain branded chocolate products to Edible, its affiliates and its franchisees. Under the strategic alliance, Rocky Mountain Chocolate Factory branded products are available for purchase both on Edible’s website as well as through over 1,000 franchised Edible locations nationwide. In addition, due to Edible’s significant e-commerce expertise and scale, we have also executed an ecommerce licensing agreement with Edible, whereby Edible is expected to sell a wide variety of chocolates, candies and other confectionery products produced by the Company or its franchisees through Edible’s websites. There is no assurance that the strategic alliance and ecommerce agreements will be deployed into our operations and to our satisfaction, or that we will achieve the expected full benefits from these agreements. During FY 2022, certain disagreements arose between the Company and Edible related to the strategic alliance and ecommerce agreements resulting in continuing discussions, the result of which are not currently determinable. There can be no assurance historical revenue levels will be indicative of future revenues.

**Labor and Supply Chain**

As a result of macro-economic inflationary trends and disruptions to the global supply chain, we have experienced and expect to continue experiencing higher raw material, labor, and freight costs. We have begun to see labor and logistics challenges, which we believe have contributed to lower factory, retail and e-commerce sales of our products due to the availability of material, labor and freight. In addition, we could experience additional lost sale opportunities if our products are not available for purchase as a result of continued disruptions in our supply chain relating to an inability to obtain ingredients or packaging, labor challenges at our logistics providers or our manufacturing facility, or if we or our franchisees experience delays in stocking our products. For additional information, see Item 1A. “*Risk Factors*” - *The Availability and Price of Principal Ingredients Used in Our Products Are Subject to Factors Beyond Our Control* in our Annual Report on Form 10-K for the fiscal year ended February 28, 2022, as amended by Amendment No. 1 on Form 10-K/A filed on June 28, 2022.

**Contested Solicitation of Proxies**

During the three months ended May 31, 2022, the Company incurred costs associated with a stockholder’s contested solicitation of proxies in connection with its 2022 annual meeting of stockholders. During the three months ended May 31, 2022, the Company incurred approximately \$305,000 of costs associated with the contested solicitation of proxies, compared with no comparable costs incurred in the three months ended May 31, 2021. These costs are recognized as general and administrative expense in the Consolidated Statement of Operations. Future costs associated with the stockholder’s contested solicitation of proxies may have a material impact on the result of future periods.

**Results of Operations****Three Months Ended May 31, 2022 Compared to the Three Months Ended May 31, 2021****Results Summary**

Basic earnings per share decreased from \$0.09 per share for the three months ended May 31, 2021 to a loss of \$(0.02) per share for the three months ended May 31, 2022. Revenues increased 3.1% from \$7.6 million for the three months ended May 31, 2021 to \$7.8 million for the three months ended May 31, 2022. Income from operations decreased from \$646,000 for the three months ended May 31, 2021 to a loss from operations of \$149,000 for the three months ended May 31, 2022. Net income decreased from \$580,000 for the three months ended May 31, 2021 to a net loss of \$115,000 for the three months ended May 31, 2022.

**Revenues**

(\$'s in thousands)	Three Months Ended May 31,		\$ Change	% Change
	2022	2021		
Factory sales	\$ 5,157.6	\$ 5,040.7	\$ 116.9	2.3%
Retail sales	792.7	789.5	3.2	0.4%
Franchise fees	67.2	56.2	11.0	19.6%
Royalty and marketing fees	1,809.1	1,707.3	101.8	6.0%
Total	\$ 7,826.6	\$ 7,593.7	\$ 232.9	3.1%

**Factory Sales**

The increase in factory sales for the three months ended May 31, 2022 compared to the three months ended May 31, 2021 was primarily due to a \$613,000 increase in sales of product to our network of franchised and licensed retail stores partially offset by a \$496,000 decrease in shipments of product to customers outside our network of franchised retail stores. Purchases by the Company’s largest customer, Edible, during the three months ended May 31, 2022 were approximately \$311,000, or 4.0% of the Company’s revenues, compared to \$484,000, or 6.4% of the Company’s revenues during the three months ended May 31, 2021. During the three months ended May 31, 2021, certain disagreements arose between the Company and Edible related to the strategic alliance and ecommerce agreements resulting in continuing discussions, the result of which are not currently determinable. There can be no assurance historical revenue levels will be indicative of future revenues.

The increase in sales of product to our network of franchised and licensed retail stores was primarily the result of an increase in same-store pounds purchased and an increase in sales resulting from increases to product pricing enacted to offset the impacts of inflation. Same store pounds purchased by domestic franchise and licensed locations increased 3.9% during the three months ended May 31, 2022 when compared to the three months ended May 31, 2021.

[Table of Contents](#)*Retail Sales*

Retail sales at Company-owned stores were relatively flat during the three months ended May 31, 2022 compared to the three months ended May 31, 2021.

*Royalty, Marketing Fees and Franchise Fees*

The increase in royalty and marketing fees for the three months ended May 31, 2022 compared to the three months ended May 31, 2021 was primarily due to an increase in same-store sales at domestic franchise frozen yogurt cafés. Same store sales at all domestic franchise locations increased 3.9% during the three months ended May 31, 2022 when compared to the three months ended May 31, 2021 with same-store sales at the Company's domestic franchise frozen yogurt cafés increasing 20.5% during the three months ended May 31, 2022 compared to the three months ended May 31, 2021.

The increase in franchise fees was primarily the result of a store closure and the acceleration of unrecognized franchise fee revenue during the three months ended May 31, 2022 compared to the three months ended May 31, 2021.

*Costs and Expenses**Cost of Sales*

(\$'s in thousands)	Three Months Ended		\$	%
	2022	May 31, 2021		
Cost of sales - factory	\$ 4,427.7	\$ 4,290.0	\$ 137.7	3.2%
Cost of sales - retail	295.8	256.6	39.2	15.3%
Franchise costs	494.2	551.7	(57.5)	(10.4)%
Sales and marketing	528.0	412.7	115.3	27.9%
General and administrative	1,631.2	844.8	786.4	93.1%
Retail operating	471.5	444.1	27.4	6.2%
Total	\$ 7,848.4	\$ 6,799.9	\$ 1,048.5	15.4%

*Gross Margin*

(\$'s in thousands)	Three Months Ended		\$	%
	2022	May 31, 2021		
Factory gross margin	\$ 729.9	\$ 750.7	\$ (20.8)	(2.8)%
Retail gross margin	496.9	532.9	(36.0)	(6.8)%
Total	\$ 1,226.8	\$ 1,283.6	\$ (56.8)	(4.4)%

(Percent)	Three Months Ended		%	%
	2022	May 31, 2021		
Factory gross margin	14.2%	14.9%	(0.7)%	(4.7)%
Retail gross margin	62.7%	67.5%	(4.8)%	(7.1)%
Total	20.6%	22.0%	(1.4)%	(6.4)%

*Adjusted Gross Margin*

(S's in thousands)	Three Months Ended		\$	%
	2022	May 31, 2021		
Factory gross margin	\$ 729.9	\$ 750.7	\$ (20.8)	(2.8)%
Plus: depreciation and amortization	159.7	151.9	7.8	5.1%
Factory adjusted gross margin	889.6	902.6	(13.0)	(1.4)%
Retail gross margin	496.9	532.9	(36.0)	(6.8)%
Total Adjusted Gross Margin	\$ 1,386.5	\$ 1,435.5	\$ (49.0)	(3.4)%
Factory adjusted gross margin	17.2%	17.9%	(0.7)%	(3.9)%
Retail gross margin	62.7%	67.5%	(4.8)%	(7.1)%
Total Adjusted Gross Margin	23.3%	24.6%	(1.3)%	(5.3)%

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

*Cost of Sales and Gross Margin*

Factory gross margins decreased 70 basis points to 14.2% in the three months ended May 31, 2022 compared to 14.9% during the three months ended May 31, 2021, due primarily to an increase in costs from wage and material inflation realized in the three months ended May 31, 2022 compared to the three months ended May 31, 2021, partially offset by an increase in product prices that became effective on May 1, 2022.

Retail gross margins decreased from 67.5% during the three months ended May 31, 2021 to 62.7% during the three months ended May 31, 2022. The decrease in retail gross margins was primarily the result of an increase in costs of raw material.

*Franchise Costs*

The decrease in franchise costs in the three months ended May 31, 2022 compared to the three months ended May 31, 2021 was due primarily to a decrease in professional fees, the result of litigation with our licensee in Canada incurred during the three months ended May 31, 2021 with no comparable legal expense in the three months ended May 31, 2022. As a percentage of total royalty and marketing fees and franchise fee revenue, franchise costs decreased to 26.3% in the three months ended May 31, 2022 from 31.3% in the three months ended May 31, 2021. This decrease as a percentage of royalty, marketing and franchise fees is primarily a result of higher royalty revenues and lower franchise costs during the three months ended May 31, 2022.

*Sales and Marketing*

The increase in sales and marketing costs for the three months ended May 31, 2022 compared to the three months ended May 31, 2021 was primarily due to an increase in online advertising costs.

*General and Administrative*

The increase in general and administrative costs for the three months ended May 31, 2022 compared to the three months ended May 31, 2021 was due primarily to an increase in professional fees and compensation expense. The increase in professional fees was primarily the result of legal support for our Board of Directors and legal costs associated with compensation arrangements for our former Chief Executive Officer and legal and professional costs associated with the search for and appointment of a new Chief Executive Officer. As a percentage of total revenues, general and administrative expenses increased to 20.8% in the three months ended May 31, 2022 compared to 11.1% in the three months ended May 31, 2021.

#### *Retail Operating Expenses*

The increase in retail operating expenses for the three months ended May 31, 2022 compared to the three months ended May 31, 2021 was primarily the result of an increase in salaries and wages in our Company-owned stores and cafés.

#### *Depreciation and Amortization*

Depreciation and amortization, exclusive of depreciation and amortization included in cost of sales, was \$127,000 in the three months ended May 31, 2022, a decrease of 13.9% from \$148,000 incurred in the three months ended May 31, 2021. This decrease was the result of a decrease in the amortization of our franchise rights. See Note 7 to the financial statements for a summary of annual amortization of intangible assets based upon existing intangible assets and current useful lives. Depreciation and amortization included in cost of sales increased 5.1% from \$152,000 in the three months ended May 31, 2021 to \$160,000 in the three months ended May 31, 2022. This increase was the result of investment in equipment.

#### *Other Income*

Other income was \$2,600 in the three months ended May 31, 2022 compared to other income of \$171,700 during the three months ended May 31, 2021. Net interest income was \$2,600 in the three months ended May 31, 2022 compared to net interest income of \$4,600 during the three months ended May 31, 2021.

The Company recognized a gain on insurance recovery of \$167,100 during the three months ended May 31, 2021, compared with no similar amounts recognized during the three months ended May 31, 2022.

#### *Income Tax Expense*

Our effective income tax rate was 21.6% for the three months ended May 31, 2022 and was 29.1% for the three months ended May 31, 2021. This change was primarily the result of the impact of different values of vested restricted stock units for financial reporting purposes compared to how the same vested restricted stock units are valued for tax purposes.

#### **Liquidity and Capital Resources**

As of May 31, 2022 and February 28, 2022, working capital was \$9.7 million.

Cash and cash equivalent balances, excluding restricted cash, decreased \$1.6 million from \$7.6 million as of February 28, 2022 to \$6.0 million as of May 31, 2022. This decrease in cash and cash equivalents was primarily due to funding of a rabbi trust established for severance payments to our former Chief Executive Officer and the resulting \$1.3 million increase in restricted cash balances. Our current ratio was 2.7 to 1 at May 31, 2022 compared to 2.8 to 1 at February 28, 2022. We monitor current and anticipated future levels of cash and cash equivalents in relation to anticipated operating, financing and investing requirements.

During the three months ended May 31, 2022, operating activities provided cash of \$11,298, primarily the result of operating results plus accounts payable of \$501,410, refundable income taxes of \$316,937, and depreciation and amortization of \$287,184, partially offset by an increase of inventory of \$750,752. During the three months ended May 31, 2021, operating activities provided cash of \$385,811, primarily the result of operating results and depreciation and amortization of \$299,914 partially offset by an increase of inventory of \$386,868.

For the three months ended May 31, 2022, investing activities used cash of \$264,349, primarily due to the purchases of property and equipment of \$290,360. In comparison, investing activities used cash of \$229,465 during the three months ended May 31, 2021, primarily due to the purchase of property and equipment of \$457,435 partially offset by proceeds from insurance recovery of \$206,336.

There were no cash flows from financing activities during the three months ended May 31, 2022 and 2021.

#### **Off-Balance Sheet Arrangements**

As of May 31, 2022, we had purchase obligations of approximately \$141,000. These purchase obligations primarily consist of contractual obligations for future purchases of commodities for use in our manufacturing.

#### **Impact of Inflation**

Inflationary factors such as increases in the costs of ingredients and labor directly affect 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 fixed assets, and is therefore potentially less than it would be if it were based on current replacement cost. While property and equipment acquired in prior years will ultimately have to be replaced at higher prices, it is expected that replacement will be a gradual process over many years.

### **Seasonality**

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

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

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

### **Item 4. Controls and Procedures**

#### **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 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 Securities and Exchange Commission'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 May 31, 2022.

#### **Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during the quarter ended May 31, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

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 material adverse effect on the Company's financial position, results of operations or cash flows.

**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, 2022 filed on May 27, 2022. 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, 2022.

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

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

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 [Second Amended and Restated Bylaws of Rocky Mountain Chocolate Factory, Inc., a Delaware corporation \(incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on December 6, 2019\).](#)
- 10.1 [Offer Letter, dated May 3, 2022, by and between Rocky Mountain Chocolate Factory, Inc. and Robert J. Sarlls \(incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on May 6, 2022\).](#) +
- 31.1\* [Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 31.2\* [Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 32.1\*\* [Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 32.2\*\* [Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 101.INS\* Inline XBRL Instance Document (the Instance Document does not appear in the Interactive Data File because it's XBRL (1))
- 101.SCH\* Inline XBRL Taxonomy Extension Schema Document (1)
- 101.CAL\* Inline XBRL Taxonomy Extension Calculation Linkbase Document (1)
- 101.DEF\* Inline XBRL Taxonomy Extension Definition Linkbase Document (1)
- 101.LAB\* Inline XBRL Taxonomy Extension Label Linkbase Document (1)
- 101.PRE\* Inline XBRL Taxonomy Extension Presentation Linkbase Document (1)
- 104\* Cover page Interactive Data File (formatted as Inline XBRL and combined in Exhibit 101.1)
- (1) These interactive data files shall not be deemed filed for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Exchange Act of 1937, as amended, or otherwise subject to liability under those sections.

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\* Filed herewith.

\*\* Furnished herewith.

+ Management contract or compensatory plan



**Signature**

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: July 15, 2022

/s/ Bryan J. Merryman  
Bryan J. Merryman,  
Chief Financial Officer

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

I, Robert J. Sarlls, 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: July 15, 2022

/s/ Robert J. Sarlls  
Robert J. Sarlls, Chief Executive Officer  
(Principal Executive Officer)

## 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: July 15, 2022

/s/ Bryan J. Merryman

Bryan J. Merryman, Chief Financial Officer  
(Principal Financial 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 May 31, 2022 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: July 15, 2022

By /s/ Robert J. Sarlls  
Robert J. Sarlls, Chief Executive Officer  
(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 May 31, 2022 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: July 15, 2022

By /s/ Bryan J. Merryman  
Bryan J. Merryman, Chief Financial Officer  
(Principal Financial Officer)