CHICOPEE BANCORP, INC.
Form 4
July 30, 2007

FORM 4

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

OMB APPROVAL	
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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
TREMBLE JUDITH T

(Last) (First) (Middle)

70 CENTER STREET

(Street)

CHICOPEE, MA 01013

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
CHICOPEE BANCORP, INC. [CBNK]

3. Date of Earliest Transaction (Month/Day/Year)
07/26/2007

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director
_____ 10% Owner
_____ Officer (give title below)
_____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	07/26/2007		A		4,136	A	$ 0	4,136	I	By Stock Award (1)
Common Stock								2,500	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount o Underlying Securities (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Share
Stock Options (right to buy)	$ 14.29	07/26/2007		A		11,600		07/26/2007(2)	07/26/2017	Common Stock	11,600

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
TREMBLE JUDITH T 70 CENTER STREET CHICOPEE, MA 01013	X			

Signatures

By: /s/ W. Guy Ormsby, Power of Attorney	07/27/2007
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Stock Awards granted pursuant to the Chicopee Bancorp, Inc. 2007 Equity Incentive Plan vest in five annual installments commencing on July 26, 2008.

(2) Stock Options granted pursuant to the Chicopee Bancorp, Inc. 2007 Equity Incentive Plan vest in five annual installments commencing on July 26, 2008.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. id=TBL665.finRow.3.trail.2 noWrap> $11.36 .1100

Second Quarter

$13.98 $11.90 .1100

First Quarter

$13.45	$11.09	.1100

Fiscal Year Ended February 28, 2013	HIGH	LOW	Dividends declared
Fourth Quarter	$12.57	$10.21	.1100
Third Quarter	$12.96	$10.00	.1100
Second Quarter	$13.97	$10.10	.1100
First Quarter	$11.09	$9.09	.1100

Holders

On April 30, 2014, there were approximately 400 record holders of our common stock. We believe that there are more than 800 beneficial owners of our common stock.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data presented below for the fiscal years ended February 28 or 29, 2010 through 2014, are derived from the financial statements of the Company, which have been audited by EKS&H LLLP, an independent registered public accounting firm. The selected financial data should be read in conjunction with the financial statements and related Notes thereto included elsewhere in this report and "Management's Discussion and Analysis of Financial Condition and Results of Operations.”

As described in Item 1, “Business” above, on January 14, 2013, we acquired a controlling interest in U-Swirl, Inc. Beginning on January 14, 2013 and continuing through February 28, 2014, the results of operations, assets and liabilities of U-Swirl, Inc. have been included in our Consolidated Financial Statements. We have consolidated $5,501,539 and $1,951,092 of assets, $3,758,634 and $945,569 of liabilities and an operating loss of $806,892 and $320,446 of U-Swirl, Inc. for the years ended February 28, 2014 and 2013, respectively.

All material inter-Company balances have been eliminated upon consolidation.

(Amounts in thousands, except per share data)

	YEARS ENDED FEBRUARY 28 or 29,				
	2014	2013	2012	2011	2010
Selected Statement of Operations Data					
Total revenues	$39,185	$36,315	$34,627	$31,128	$28,437
Operating income	5,236	2,540	5,853	5,950	5,671

Net income	$4,392	$1,478	$3,876	$3,911	$3,580
Basic Earnings per Common Share	$0.72	$0.24	$0.63	$0.65	$0.60
Diluted Earnings per Common Share	$0.68	$0.24	$0.62	$0.62	$0.58
Weighted average common shares outstanding	6,100	6,079	6,111	6,051	6,013
Weighted average common shares outstanding, assuming dilution	6,437	6,219	6,295	6,290	6,210
Selected Balance Sheet Data					
Working capital	$9,034	$8,981	$10,573	$9,831	$8,930
Total assets	37,466	23,834	24,163	21,439	18,920
Long-term debt	6,292	-	-	-	-
Stockholders' equity	22,165	17,389	18,736	16,654	14,731
Cash Dividend Declared per Common Share	$.440	$.440	$.400	$.400	$.400

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Current Trends and Outlook

Our business was significantly affected by the global recession during 2008-2009. We continued to experience this difficult environment throughout FY 2010 and FY 2011. The environment somewhat improved from FY 2012 to FY 2014, though we do not believe that the challenges have fully reversed. As a result, we have and will continue to focus on managing the business in a seasoned, disciplined and controlled manner.

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The financing that our franchisees have historically relied upon was substantially affected by the changes in banking and lending requirements in the years after the global recession. Limited financing alternatives for domestic franchise growth have led us to pursue a strategy of expansion through Co-branding with complimentary concepts such as ice cream and frozen yogurt, international development, sale of our products to specialty markets, licensing the Rocky Mountain Chocolate Factory brand for use with other appropriate consumer products, and selected entry of Rocky Mountain Chocolate Factory branded products into other wholesale channels, along with business acquisitions as primary drivers of growth. This is a trend that continued in FY 2014 and into the foreseeable future.

Going forward in FY 2015, we are taking a conservative view of market conditions in the United States. We will continue to focus on our long-term objectives while seeking to maintain flexibility to respond to market conditions, including the pursuit of international growth opportunities to reduce our dependence on the domestic economy.

We are a product-based international franchisor. Our revenues and profitability are derived principally from our franchised system of retail stores that feature chocolate, frozen yogurt and other confectionery products. We also sell our candy in selected locations outside our system of retail stores to build brand awareness. We operate six Rocky Mountain Chocolate Factory and 13 U-Swirl retail units as a laboratory to test marketing, design and operational initiatives.

We are subject to seasonal fluctuations in sales because of the location of our franchisees, which have traditionally been located in resort or tourist locations, and the nature of the products we sell, which are highly seasonal. As we expanded our geographical diversity to include regional centers and our franchise offerings to include frozen desserts, we have seen some moderation to our seasonal sales mix. Seasonal fluctuation in sales causes fluctuations in quarterly results of operations. Historically, the strongest sales of our products have occurred during key holidays and summer vacation seasons. Additionally, quarterly results have been, and in the future are likely to be, affected by the timing of new store openings and 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.

The most important factors in continued growth in our earnings are ongoing unit growth, increased same store sales and increased same store pounds purchased from the factory. Historically, unit growth has more than offset decreases in same store sales and same store pounds purchased.

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

Efforts to reverse the decline in same store pounds purchased from the factory by franchised stores and to increase total factory sales depend on many factors, including new store openings, competition, the receptivity of our franchise system to our product introductions and promotional programs. In FY 2014, same store pounds purchased from the factory by franchised stores increased approximately 2.6% in the first quarter, increased approximately 2.2% in the second quarter, declined approximately 4.9% in the third quarter, declined approximately 0.5% in the fourth quarter, and declined approximately 0.1% overall in FY 2014 as compared to the same periods in FY 2013.

In May 2009, we announced the expansion of the co-branding test relationship with Cold Stone Creamery. The Company and Cold Stone Creamery, Inc. have agreed to expand the co-branding relationship to several hundred potential locations, based upon the performance of several test locations, operating under the test agreement announced in October 2008. We believe that if this co-branding strategy continues to prove financially viable it could represent a significant future growth opportunity. As of February 28, 2014, Cold Stone licensees operated 65 co-branded locations.

On April 30, 2012 we announced the execution of a Master Licensing Agreement covering the country of Japan. Under the terms of the Agreement, the Licensee will pay the Company a Master License Fee for the right to open Rocky Mountain Chocolate Factory stores for its own account and for the account of franchisees throughout the country of Japan. The Agreement requires at least 10 new stores to open each year for 10 years, for a total minimum of 100 stores in the Licensed Territory by the expiration of the initial term of the Agreement. As of March 31, 2014, three units were operating under the Agreement.

On January 14, 2013, Ulysses Asset Acquisition, LLC (“Newco”), a wholly-owned subsidiary formed in the State of Colorado on January 2, 2013, entered into an agreement to acquire substantially all of the assets of YHI, Inc. and Yogurtini International, LLC (collectively, “Yogurtini”), which are the franchisors of self-serve frozen yogurt retail units branded as “Yogurtini.” In addition, on January 14, 2013, we entered into two agreements to sell all of our membership interests in Newco and substantially all of our assets in Aspen Leaf Yogurt, LLC (“ALY”) to U-Swirl, Inc., a publicly traded company (QTCQB: SWRL), in exchange for a 60% controlling equity interest in U-Swirl, Inc. Upon completion of these transactions, we ceased to directly operate any Company-owned Aspen Leaf Yogurt locations or sell and support franchise locations.

We believe that the acquisition of a controlling interest in U-Swirl, Inc. provides us with the ability to reverse operating losses incurred by the development and operation of Aspen Leaf Yogurt, LLC and provides an opportunity to continue to expand our presence in the self-serve frozen yogurt industry. Our ability to execute on this strategy is dependent upon continued expansion of the franchise network of U-Swirl, Inc. and the success of the franchisees.

On January 17, 2014, we entered into an Asset Purchase Agreement (the “CherryBerry Purchase Agreement”) with CherryBerry Enterprises LLC, CherryBerry Corporate LLC and CherryBerry LLC (collectively, “CherryBerry”), which are the franchisors of self-serve frozen yogurt retail stores branded as “CherryBerry”, and the members of CherryBerry. Pursuant to the CherryBerry Purchase Agreement, U-Swirl purchased certain assets of CherryBerry used in its business of franchising frozen yogurt stores, including all of its franchise rights and one company-owned store (the “CherryBerry Acquisition”). The assets were acquired for approximately $4.25 million in cash and 4 million shares of U-Swirl common stock.

On January 17, 2014, we entered into an Asset Purchase Agreement (the “Yogli Mogli Purchase Agreement”) with Yogli Mogli LLC and certain of its affiliates (collectively, “Yogli Mogli”), which are the franchisors of self-serve frozen yogurt retail stores branded as “Yogli Mogli”. Pursuant to the Yogli Mogli Purchase Agreement, U-Swirl purchased certain assets of Yogli Mogli used in its business of franchising frozen yogurt stores, including all of its franchise rights and four company-owned stores (the “Yogli Mogli Acquisition”, and together with the CherryBerry Acquisition, the “Acquisitions”). The assets were acquired for approximately $2.15 million in cash and $200,000 in shares of U-Swirl common stock.

On February 20, 2014 we entered into an Asset Purchase Agreement (the “Fuzzy Peach Purchase Agreement”) to acquire the business assets of Fuzzy Peach Franchising, LLC. The acquisition of all intellectual property and worldwide franchise and license rights includes the rights associated with 17 Fuzzy Peach Frozen Yogurt stores. We purchased the Fuzzy Peach Franchising, LLC assets for $481,000 in cash paid at the time of closing, plus an earn-out that could increase the purchase price by up to another $349,000 based upon royalty income generated by Fuzzy Peach stores over the next twelve months.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosures. Estimates and assumptions include, but are not limited to, the carrying value of accounts and notes receivable from franchisees, inventories, the useful lives of fixed assets, goodwill, and other intangible assets, income taxes, contingencies and litigation. We base our estimates on analyses, of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

We believe that the following represent our more critical estimates and assumptions used in the preparation of our financial statements, although not all inclusive.

Accounts and Notes Receivable - In the normal course of business, we extend credit to customers, primarily franchisees, that satisfy pre-defined credit criteria. We believe that we have a limited concentration of credit risk primarily because our receivables are secured by the assets of the franchisees to which we ordinarily extend credit, including, but not limited to, their franchise rights and inventories. An allowance for doubtful accounts is determined through analysis of the aging of accounts receivable, assessments of collectability based on historical trends, and an evaluation of the impact of current and projected economic conditions. The process by which we perform our analysis is conducted on a customer by customer, or franchisee by franchisee, basis and takes into account, among other relevant factors, sales history, outstanding receivables, customer financial strength, as well as customer specific and geographic market factors relevant to projected performance. The Company monitors the collectability of its accounts receivable on an ongoing basis by assessing the credit worthiness of its customers and evaluating the impact of reasonably likely changes in economic conditions that may impact credit risks. Estimates with regard to the collectability of accounts receivable are reasonably likely to change in the future.

We recorded an average expense of approximately $299,300 per year for potential uncollectible accounts over the three-year period ended February 28, 2014. Write-offs of uncollectible accounts net of recoveries averaged approximately $242,500 over the same period. The provision for uncollectible accounts is recognized as general and administrative expense in the Statements of Income. Over the past three years, the allowances for doubtful notes and accounts have ranged from 6.5% to 11.5% of gross receivables.

Revenue Recognition - We recognize revenue on sales of products to franchisees and other customers at the time of delivery. Franchise fee revenue is recognized upon the opening of the store. We also recognize a marketing and promotion fee of one percent (1%) of the Rocky Mountain Chocolate Factory and U-Swirl franchised stores' gross retail sales and a royalty fee based on gross retail sales. Beginning with franchise store openings in the third quarter of fiscal year 2004, we modified our royalty structure. Under the current structure, we recognize no royalty on Rocky Mountain Chocolate Factory franchised stores' retail sales of products purchased from us and recognize a ten percent (10%) royalty on all other sales of product sold at franchise locations. For franchise stores opened prior to the third quarter of FY 2004 we recognize a royalty fee of five percent (5%) of franchised stores' gross retail sales. Rebates received from purveyors that supply products to our franchisees are included in franchise royalties and fees. Product rebates are recognized in the period in which they are earned. Rebates related to company-owned locations are offset against operating costs.

Inventories - Our inventories are stated at the lower of cost or market value and are reduced by an allowance for slow-moving, excess, discontinued and shelf-life expired inventories. Our estimate for such allowance is based on our review of inventories on hand compared to estimated future usage and demand for our products. Such review encompasses not only potentially perishable inventories but also specialty packaging, much of it specific to certain holiday seasons. If actual future usage and demand for our products are less favorable than those projected by our review, inventory reserve adjustments may be required. We closely monitor our inventory, both perishable and non-perishable, and related shelf and product lives. Historically we have experienced low levels of obsolete inventory or returns of products that have exceeded their shelf life. Over the three-year period ended February 28, 2014, the Company recorded expense averaging $54,700 per year for potential inventory losses, or approximately 0.3% of total cost of sales for that period.

Consolidation – The management of RMCF accounts for the activities of Rocky Mountain Chocolate Factory and our wholly owned subsidiary, Aspen Leaf Yogurt, LLC. On January 14, 2013 we acquired a majority interest in U-Swirl, Inc., a publicly traded company (OTCQB: SWRL). Prior to January 14, 2013 our financial statements exclude the financial information of U-Swirl, Inc. The management of U-Swirl, Inc. separately accounts for the activities of U-Swirl, Inc. utilizing critical accounting policies substantially the same as those of RMCF. Beginning on January 14, 2013 and continuing through February 28, 2014, the results of operations, assets and liabilities of U-Swirl, Inc. have been included in our Consolidated Financial Statements. We have consolidated $5,501,539 and $1,951,092 of assets, $3,758,634 and $945,569 of liabilities and an operating loss of $806,892 and $320,446 for the years ended February 28, 2014 and 2013, respectively. All material inter-Company balances have been eliminated upon consolidation.

Goodwill – Goodwill consists of the excess of purchase price over the fair market value of acquired assets and liabilities. Effective March 1, 2002, under ASC Topic 350, all goodwill with indefinite lives is no longer subject to amortization. ASC Topic 350 requires that an impairment test be conducted annually or in the event of an impairment indicator. Our test conducted in FY 2014 showed no impairment of our goodwill.

Franchise Rights – Franchise Rights consists of the purchase price paid in consideration of certain rights associated with Franchise Agreements. These franchise agreements provide for future payments to the franchisor of royalty and marketing fees. We consider franchise rights to have a 20 year life.

Other accounting estimates inherent in the preparation of the Company's financial statements include estimates associated with its evaluation of the recoverability of deferred tax assets, as well as those used in the determination of liabilities related to litigation and taxation. Various assumptions and other factors underlie the determination of these significant estimates. The process of determining significant estimates is fact specific and takes into account factors such as historical experience, current and expected economic conditions, and product mix. The Company constantly re-evaluates these significant factors and makes adjustments where facts and circumstances dictate. Historically, actual results have not significantly deviated from those determined using the estimates described above.

Results of Operations

Fiscal 2014 Compared To Fiscal 2013

Results Summary

Basic earnings per share increased 200.0% from $.24 in FY 2013 to $.72 in FY 2014. Revenues increased 7.9% from $36.3 million for FY 2013 to $39.2 million for FY 2014. Operating income increased 106.1% from $2.5 million in FY 2013 to $5.2 million in FY 2014. Net income increased 197.2% from $1.5 million in FY 2013 to $4.4 million in FY 2014. The increase in operating income and net income for FY 2014 compared to FY 2013 is due primarily to an impairment loss for ALY operations being recognized during FY 2013 in the amount of $2.01 million for long-lived assets related to eight underperforming Company-owned stores.

Revenues	For the Year Ended			
	February 28,		$	%
($'s in thousands)	2014	2013	Change	Change
Factory sales	$25,218.9	$24,651.5	$567.4	2.3 %
Retail sales	6,443.4	5,492.6	950.8	17.3 %
Royalty and marketing fees	7,070.5	5,876.9	1,193.6	20.3 %
Franchise fees	452.0	294.2	157.8	53.6 %
Total	$39,184.8	$36,315.2	$2,869.6	7.9 %

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Factory Sales

The increase in factory sales for FY 2014 compared to FY 2013 was primarily due to an increase in sales to international licensed stores and an 28.9% increase in shipments of product to customers outside our network of franchised retail stores. These increases were partially offset by a 0.1% decrease in same-store pounds purchased by franchise locations FY 2014 compared with FY 2013. The increases were also partially offset by a 5.5% decrease in the average number of domestic Rocky Mountain Chocolate Factory franchised stores in operation.

Retail Sales

The increase in retail sales was primarily due to changes in units in operation, resulting from the acquisition of a majority ownership in U-Swirl, Inc. and the acquisition of CherryBerry and Yogli Mogli business assets, which included the acquisition of five additional Company owned cafés. Additionally, same store sales at Company-owned stores and cafés decreased 0.7% during FY 2014, compared with FY 2013.

Royalties, Marketing Fees and Franchise Fees

The increase in royalties and marketing fees during FY 2014, compared with FY 2013, resulted from a 28.9% increase in domestic franchise stores in operation during FY 2014 compared to FY 2013, primarily as a result of our acquisition of a majority ownership position in U-Swirl, Inc. and accordingly, the U-Swirl franchise system. This increase was partially offset by a 5.5% decrease in the number of domestic Rocky Mountain Chocolate Factory franchises in operation. The average number of domestic Rocky Mountain Chocolate Factory franchise stores in operation decreased from 236 during FY 2013 to 223 during FY 2014. This decrease is the result of domestic store closures exceeding domestic store openings. Franchise fee revenues increased primarily as a result of the license fees associated with the license agreements for the development and franchising of Rocky Mountain Chocolate Factory stores in South Korea and the Kingdom of Saudi Arabia. Same store sales at domestic Rocky Mountain Chocolate Factory locations increased 1.2% during FY 2014, compared with FY 2013.

U-Swirl, Inc. Café Sales, Royalties, Marketing Fees and Franchise Fees

During FY 2014, U-Swirl, Inc. revenue totaled $5,528,600 compared with $506,000 of U-Swirl, Inc. revenue consolidated within our results for FY 2013. We began consolidation of U-Swirl, Inc. results when we acquired a majority ownership interest in January 2013.

Costs and Expenses	For the Year Ended			
	February 28,		$	%
($'s in thousands)	2014	2013	Change	Change
Cost of sales – factory adjusted	$17,303.1	$16,803.9	$499.2	3.0 %
Cost of sales - retail	2,310.3	2,151.2	159.1	7.4 %
Franchise costs	2,062.5	2,080.1	(17.6)	(0.8 %)
Sales and marketing	2,153.8	1,939.0	214.8	11.1 %
General and administrative	5,003.3	3,846.9	1,156.4	30.1 %
Retail operating	3,303.5	3,371.7	(68.2)	(2.0 %)
Total	$32,136.5	$30,192.8	$1,943.7	6.4 %

Adjusted Gross Margin	For the Year Ended			
	February 28,		$	%
($'s in thousands)	2014	2013	Change	Change
Factory adjusted gross margin	$7,915.8	$7,847.6	$68.2	0.9 %
Retail	4,133.1	3,341.4	791.7	23.7 %
Total	$12,048.9	$11,189.0	$859.9	7.7 %

Adjusted Gross Margin	For the Year Ended			
	February 28,		%	%
	2014	2013	Change	Change
(Percent)				
Factory adjusted gross margin	31.4%	31.8%	(0.4%)	(1.3%)
Retail	64.1%	60.8%	3.3 %	5.4 %
Total	38.1%	37.1%	1.0 %	2.7 %

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Adjusted gross margin, a non-GAAP measure, is equal to the sum of our factory adjusted gross margin plus our retail gross margin calculated in accordance with GAAP. Factory adjusted gross margin is equal to factory gross margin minus depreciation and amortization expense. We believe adjusted gross margin and factory adjusted gross margin are helpful in understanding our past performance as a supplement to gross margin and other performance measures calculated in conformity with accounting principles generally accepted in the United States ("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 an analytical tool 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. The following table provides a reconciliation of factory adjusted gross margin to factory gross margin, the most comparable performance measure under GAAP:

	For the Year Ended February 28,	
($'s in thousands)	2014	2013
Factory adjusted gross margin	$7,915.8	$7,847.6
Less: Depreciation and Amortization	292.9	286.6
Factory GAAP gross margin	$7,622.9	$7,561.0

Cost of Sales and Gross Margin

Factory adjusted gross margin decreased 40 basis points during FY 2014 compared to FY 2013 due to an increase in the average selling price of products to domestic franchise units being more than offset by increases in the costs of certain materials. The increase in Company-owned store margin is due primarily to an increase in U-Swirl stores in operation and associated higher margins.

Franchise Costs

The decrease in franchise costs for FY 2014 compared to FY 2013 is due primarily to a decrease in franchise development costs associated with Aspen Leaf Yogurt due to the sale of the Aspen Leaf Yogurt concept to U-Swirl in January 2013, partially offset by increased franchise costs from the consolidation of U-Swirl, Inc. As a percentage of total royalty and marketing fees and franchise fee revenue, franchise costs decreased to 27.4% during FY 2014 from 33.7% during FY 2013. This decrease as a percentage of royalty, marketing and franchise fees is primarily a result of a 21.9% increase in royalty, marketing and franchise fee revenue as a result of an increase in system-wide franchise stores during FY 2014 compared to FY 2013.

Sales and Marketing

The increase in sales and marketing expense during FY 2014 compared to FY 2013 is due primarily to increased marketing-related compensation costs and an increase in marketing costs associated with U-Swirl, Inc. franchise locations.

General and Administrative

The increase in general and administrative costs during FY 2014 compared with FY 2013 is due primarily to the consolidation of U-Swirl, Inc.'s general and administrative costs and an increase in compensation related expenses. During FY 2014, approximately $1,453,000 of U-Swirl, Inc. general and administrative costs were consolidated within our results, compared with approximately $411,000 during FY 2013. As a percentage of total revenues, general and administrative expenses increased to 12.8% in FY 2014 compared to 10.6% in FY 2013.

Retail Operating Expenses

The decrease in retail operating expense was primarily due to a change in the mix of Company-owned stores in operation, resulting from the acquisition of a majority interest in U-Swirl, Inc. in January 2013, the acquisition of CherryBerry in January 2014, the acquisition of Yogli Mogli in January 2014, and the associated change in operating expenses during FY 2014 compared with FY 2013. The average number of Company-owned stores in operation increased from 17 during FY 2013 to 19 units during FY 2014. Retail operating expenses, as a percentage of retail sales, decreased from 61.4% during FY 2013 to 51.3% in FY 2014. This decrease is primarily the result of a change in units in operation and the resulting increase in retail sales, resulting from the acquisition of a majority interest in U-Swirl, Inc. in January 2013 and the acquisition of CherryBerry and Yogli Mogli in January 2014.

Depreciation and Amortization

Depreciation and amortization of $1,027,000 in FY 2014 increased 9.8% from the $935,000 incurred in FY 2013 due to an increase in amortization related to increased franchise rights, trademark and intangible assets resulting from business acquisitions during FY 2014.

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Explanation of Responses:

Interest Income

Interest income of approximately $85,000 realized in FY 2014 represents an increase of $41,000 from the $44,000 realized in FY 2013 due to higher balances of notes receivable.

Income Tax Expense

Our effective income tax rate in FY 2014 was 40.7% which is a decrease of 6.9% compared to an effective rate of 47.7% during FY 2013. As described further in Note 6 to the Consolidated Financial Statements, the decrease in the effective tax rate is primarily due to the tax consequences of acquiring a controlling interest in U-Swirl, Inc.

Investment Gain

An investment gain of $18,380 was recognized during FY 2014 compared with no amount recognized in FY 2013. This gain was recognized as a result of us transferring 300,000 shares of U-Swirl, Inc. common stock for services provided in conjunction with business acquisitions during FY 2014. The gain represents the excess of the fair value of services, compared to our basis in the shares transferred.

Fiscal 2013 Compared To Fiscal 2012

Results Summary

Basic earnings per share decreased 61.9% from $.63 in FY 2012 to $.24 in FY 2013. Revenues increased 4.9% from $34.6 million for FY 2012 to $36.3 million for FY 2013. Operating income decreased 57.6% from $5.9 million in FY 2012 to $2.5 million in FY 2013. Net income decreased 61.5% from $3.9 million in FY 2012 to $1.5 million in FY 2013. The decrease in operating income and net income for FY 2013 compared to FY 2012 is due primarily to a loss on the sale of long lived assets associated with the sale of certain Aspen Leaf Yogurt long-lived assets and restructuring charges associated with the acquisition of a 60% majority interest in U-Swirl, Inc.

Revenues	For the Year Ended

	February 28,		$	%
($'s in thousands)	2013	2012	Change	Change
Factory sales	$24,651.5	$23,597.1	$1,054.4	4.5 %
Retail sales	5,492.6	5,278.5	214.1	4.1 %
Royalty and marketing fees	5,876.9	5,495.6	381.3	6.9 %
Franchise fees	294.2	255.7	38.5	15.1 %
Total	$36,315.2	$34,626.9	$1,688.3	4.9 %

Factory Sales

The increase in factory sales in FY 2013 compared to FY 2012 was primarily due to a 4.0% increase in shipments of product to customers outside our network of franchised retail stores and a 4.6% increase in purchases by our network of franchised and licensed retail stores during FY 2013 compared with FY 2012.

Retail Sales

The increase in retail sales in FY 2013 compared to FY 2012 was primarily due to an increase in the average number of Company-owned stores in operation as a result of Company-owned Aspen Leaf Yogurt locations in operation for the full year, partially offset by the sale of three Company-owned Rocky Mountain Chocolate Factory locations during the year and the closing of one Company-owned Rocky Mountain Chocolate Factory location. Same-store sales at Company-owned Rocky Mountain Chocolate Factory stores increased 1.7% in FY 2013 compared to FY 2014.

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Royalties, Marketing Fees and Franchise Fees

Royalties and marketing fees increased 6.9% in FY 2013 compared with FY 2012 as a result of an increase in royalties based on the Company's purchase based royalty structure, an increase in same store sales and an increase in royalties from co-branded locations, partially offset by a decrease in domestic franchise units. Same store sales at franchise locations increased 0.2% during FY 2013 compared to FY 2012. Average licensed locations in operation increased from 45 units FY 2012 to 53 units in FY 2013. The average number of domestic units in operation decreased 3.7% from 245 in FY 2012 to 236 in FY 2013. The increase in franchise fee revenue during FY 2013, compared with the prior year period was the result of an increase in international license fees partially offset by a decrease in domestic franchise openings from 12 during FY 2012 to 10 openings during FY 2013.

Costs and Expenses	For the Year Ended February 28,		$	%
($'s in thousands)	2013	2012	Change	Change
Cost of sales – factory adjusted	$16,803.9	$16,150.9	$653.0	4.0 %
Cost of sales - retail	2,151.2	2,158.3	(7.1)	(0.3%)
Franchise costs	2,080.1	1,796.5	283.6	15.8 %
Sales and marketing	1,939.0	1,683.7	255.3	15.2 %
General and administrative	3,846.9	3,044.6	802.3	26.4 %
Retail operating	3,371.7	3,189.2	182.5	5.7 %
Total	$30,192.8	$28,023.2	$2,169.6	7.7 %

Adjusted Gross Margin	For the Year Ended February 28,		$	%
($'s in thousands)	2013	2012	Change	Change
Factory adjusted gross margin	$7,847.6	$7,446.2	$401.4	5.4 %
Retail	3,341.4	3,120.2	221.2	7.1 %
Total	$11,189.0	$10,566.4	$622.6	5.9 %

Adjusted Gross Margin	For the Year Ended February 28,		%	%
	2013	2012	Change	Change
(Percent)				
Factory adjusted gross margin	31.8%	31.6%	0.2 %	0.6 %
Retail	60.8%	59.1%	1.7 %	2.9 %
Total	37.1%	36.6%	0.5 %	1.4 %

Adjusted gross margin, a non-GAAP measure, is equal to the sum of our factory adjusted gross margin plus our retail gross margin calculated in accordance with GAAP. Factory adjusted gross margin is equal to factory gross margin minus depreciation and amortization expense. We believe adjusted gross margin and factory adjusted gross margin is helpful in understanding our past performance as a supplement to gross margin and factory gross margin and other performance measures calculated in conformity with accounting principles generally accepted in the United States ("GAAP"). We believe that adjusted gross margin and factory adjusted gross margin are useful to investors because it provides 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 to gross margin and factory adjusted gross margin have limitations as an analytical tool because it excludes 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 a measure of performance only in conjunction with GAAP measures of performance such as gross margin and factory gross margin. The following table provides a reconciliation of factory adjusted gross margin to factory gross margin, the most comparable performance measure under GAAP:

	For the Year Ended February 28,	
($'s in thousands)	2013	2012
Factory adjusted gross margin	$7,847.6	$7,446.2
Less: Depreciation and Amortization	286.6	278.3
Factory GAAP gross margin	$7,561.0	$7,167.9

Cost of Sales

Factory margins were approximately unchanged, increasing 20 basis points in FY 2013 compared with FY 2012. The increase in Company-owned store margin is due primarily to lower costs associated with Aspen Leaf Yogurt grand openings, a change in the number of Company-owned stores in operation, and the associated change in product mix.

Franchise Costs

The increase in franchise costs for FY 2013 compared to FY 2012 is due primarily to an increase in travel and support costs associated with our international development initiative, an increase in franchise opportunity advertising costs and an increase in compensation related costs. As a percentage of total royalty and marketing fees and franchise fee revenue, franchise costs increased to 33.7% in the FY 2013 from 31.2% in FY 2012. This increase as a percentage of royalty, marketing and franchise fees is primarily a result of higher franchise costs relative to revenues.

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Sales and Marketing

The increase in sales and marketing costs for FY 2013 compared to FY 2012 is primarily due to an increase in marketing-related compensation and benefit costs.

General and Administrative

The increase in general and administrative expense in FY 2013 compared to FY 2012 is due primarily to costs associated with restructuring of Aspen Leaf Yogurt, an increase in compensation costs and an increase in travel costs associated with our international development initiative. As a percentage of total revenues, general and administrative expenses increased to 10.6% in FY 2013 compared to 8.8% in FY 2012.

Retail Operating Expenses

The increase in retail operating expenses was due to an increase in the average number of Company-owned stores in operation as a result of Company-owned Aspen Leaf Yogurt locations in operation for the full year, partially offset by the sale of three Company-owned Rocky Mountain Chocolate Factory locations during the year and the closing of one Company-owned Rocky Mountain Chocolate Factory location. For FY 2013, a pre-restructuring operating loss of approximately $713,000 compared to an operating loss of $586,000 during FY 2012 was incurred related to the opening and operation of Aspen Leaf Yogurt locations. Retail operating expenses, as a percentage of retail sales, increased from 60.4% in FY 2012 to 61.4% in FY 2013.

Depreciation and Amortization

Depreciation and amortization of $935,000 in FY 2013 increased 24.6% from the $751,000 incurred in FY 2012 due to an increase in the number of Company-owned stores in operation and the depreciation expense associated with those assets.

Interest Income

Interest income of approximately $44,000 realized in FY 2013 represents a decrease of $15,000 from the $59,000 realized in FY 2012 due to lower balances of notes receivable.

Income Tax Expense

Our effective income tax rate in FY 2013 was 47.7% which is an increase of 13.3% compared to an effective rate of 34.4% during FY 2012. As described further in Note 6 to the Consolidated Financial Statements, the increase in the effective tax rate is primarily due to the tax consequences of acquiring a 60% majority interest in U-Swirl, Inc.

Liquidity and Capital Resources

As of February 28, 2014, working capital was $9.0 million compared with $9.0 million as of February 28, 2013. Working capital was unchanged due primarily to our operating results less the payment of $2.7 million in cash dividends and the use of long-term financing to fund business acquisitions.

Cash and cash equivalent balances increased from $5.3 million as of February 28, 2013 to $5.9 million as of February 28, 2014 as a result of cash flows generated by operating activities being greater than cash flows used in financing and investing activities. The Company's current ratio was 2.1 to 1 at February 28, 2014 in comparison with 2.6 to 1 at February 28, 2013. The Company monitors current and anticipated future levels of cash and cash equivalents in relation to anticipated operating, financing and investing requirements.

The Company has a $5 million credit line, of which $5 million was available (subject to certain borrowing base limitations) as of February 28, 2014, secured by substantially all of the Company's assets except retail store assets. Additionally, the line of credit is subject to various financial ratio and leverage covenants. At February 28, 2014 the Company was in compliance with all such covenants. The credit line is subject to renewal in July 2014.

The Company's long-term debt is comprised of a promissory note used to finance the Company's business acquisitions (unpaid balance as of February 28, 2014, $6.4 million).

The table below presents significant contractual obligations of the Company at February 28, 2014.

(Amounts in thousands)

Contractual Obligations	Total	Less than 1 year	2-3 Years	4-5 years	More Than 5 years
Line of credit	-	-	-	-	-
Notes payable	6,400	108	2,464	2,659	1,169
Operating leases	3,350	1,148	1,472	678	52
Other long-term obligations	1,112	467	566	79	-
Total	10,862	1,723	4,502	3,416	1,221

For FY 2015, the Company anticipates making capital expenditures of approximately $900,000, which will be used to maintain and improve existing factory and administrative infrastructure and update certain Company-owned stores. The Company believes that cash flow from operations will be sufficient to fund capital expenditures and working capital requirements for FY 2015. If necessary, the Company has an available bank line of credit to help meet these requirements.

Off-Balance Sheet Arrangements

As of February 28, 2014, 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 the Company's operations. Most of the Company's leases provide for cost-of-living adjustments and require it to pay taxes, insurance and maintenance expenses, all of which are subject to inflation. Additionally, the Company’s future lease cost for new facilities may include potentially escalating costs of real estate and construction. There is no assurance that the Company will be able to pass on increased costs to its customers.

Depreciation expense is based on the historical cost to the Company of its fixed assets, and is therefore potentially less than it would be if it were based on 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 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company does not engage in commodity futures trading or hedging activities and does not enter into derivative financial instrument transactions for trading or other speculative purposes. The Company also does not engage in transactions in foreign currencies or in interest rate swap transactions that could expose the Company to market risk. However, the Company is exposed to some commodity price and interest rate risks.

The Company frequently enters into purchase contracts of between six to eighteen months for chocolate and certain nuts. These contracts permit the Company to purchase the specified commodity at a fixed price on an as-needed basis during the term of the contract. Because prices for these products may fluctuate, the Company may benefit if prices rise during the terms of these contracts, but it may be required to pay above-market prices if prices fall and it is unable to renegotiate the terms of the contract. As of February 28, 2014, based on future contractual obligations for chocolate products, we estimate that a 10.0% increase or decrease in the prices of cocoa would result in a $52,000 favorable or unfavorable price benefit or cost resulting from our contracts.

The Company has a $5 million bank line of credit that bears interest at a variable rate. As of February 28, 2014, no amount was outstanding under the line of credit. We do not believe that we are exposed to any material interest rate risk related to this credit facility.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of

Rocky Mountain Chocolate Factory, Inc. and Subsidiaries

Durango, Colorado

We have audited the accompanying consolidated balance sheets of Rocky Mountain Chocolate Factory, Inc. and Subsidiaries (the “Company”) as of February 28, 2014 and February 28, 2013, and the related consolidated statements of income, changes in stockholders’ equity, and cash flows for each of the years in the three-year period ended February 28, 2014. Our audits also included the financial statement schedule listed in the Index at Item 15. These consolidated financial statements and schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting (“Internal Control”). Our audits included consideration of Internal Control as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s Internal Control. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rocky Mountain Chocolate Factory, Inc. and Subsidiaries as of February 28, 2014 and February 28, 2013, and the results of its operations and its cash flows for each of the years in the three-year period ended February 28, 2014 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects, the information set forth therein.

/s/ EKS&H LLLP

June 11, 2014

Denver, Colorado

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ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	FOR THE YEARS ENDED FEBRUARY 28 or 29		
	2014	2013	2012
Revenues			
Sales	$31,662,273	$30,144,059	$28,875,629
Franchise and royalty fees	7,522,534	6,171,142	5,751,263
Total revenues	39,184,807	36,315,201	34,626,892
Costs and Expenses			
Cost of sales, exclusive of depreciation and amortization expense of $292,914, $286,541 and $278,266, respectively	19,613,411	18,955,136	18,309,236
Franchise costs	2,062,548	2,080,128	1,796,492
Sales & marketing	2,153,766	1,939,006	1,683,646
General and administrative	5,003,337	3,846,940	3,044,569
Retail operating	3,303,436	3,371,702	3,189,215
Depreciation and amortization	1,026,775	935,377	750,860
Loss on the sale of assets – Aspen Leaf Yogurt long-lived assets	-	2,011,917	-
Restructuring and acquisition related charges	786,013	635,168	-
Total costs and expenses	33,949,286	33,775,374	28,774,018
Operating Income	5,235,521	2,539,827	5,852,874
Other Income (Expense)			
Interest expense	(49,333)	-	-
Interest income	84,596	43,667	58,904
Investment gain	18,380	-	-
Other, net	53,643	43,667	58,904
Income Before Income Taxes	5,289,164	2,583,494	5,911,778
Income Tax Expense	2,154,660	1,233,460	2,035,746
Consolidated Net Income	3,134,504	1,350,034	3,876,032
Less: Net (loss) income attributable to non-controlling interest	(1,257,940)	(128,178)	-
Net Income attributable to RMCF	$4,392,444	$1,478,212	$3,876,032
Basic Earnings per Common Share	$.72	$.24	$.63
Diluted Earnings per Common Share	$.68	$.24	$.62

Weighted Average Common Shares Outstanding	6,100,032	6,078,575	6,111,480
Dilutive Effect of Employee Stock Awards	336,879	140,426	183,599
Weighted Average Common Shares Outstanding, Assuming Dilution	6,436,911	6,219,001	6,295,079

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

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ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	AS OF FEBRUARY 28			
	2014		2013	
Assets				
Current Assets				
Cash and cash equivalents	$	5,859,729	$	5,321,696
Accounts receivable, less allowance for doubtful accounts of $543,683 and $507,806, respectively		5,347,752		3,916,320
Notes receivable, current portion, less current portion of the valuation allowance of $33,047 and $10,382, respectively		357,360		197,078
Refundable income taxes		160,890		-
Inventories, less reserve for slow moving inventory of $204,068 and $253,148, respectively		4,410,763		4,221,036
Deferred income taxes		538,871		628,633
Other		316,378		259,170
Total current assets		16,991,743		14,543,933
Property and Equipment, Net		8,488,198		6,777,143
Other Assets				
Notes receivable, less current portion and allowance for doubtful accounts of $24,200 and $37,400, respectively		509,784		469,362
Goodwill, net		4,216,444		1,046,944
Franchise rights		6,489,248		800,000
Intangible assets, net		602,183		635
Other		167,939		195,928
Total other assets		11,985,598		2,512,869
Total Assets	$	37,465,539	$	23,833,945
Liabilities and Stockholders' Equity				
Current Liabilities				
Current maturities of long term debt	$	108,023	$	-
Accounts payable		1,971,530		1,998,897
Accrued salaries and wages		776,567		1,184,739
Other accrued expenses		2,627,872		1,294,487
Dividend payable		675,422		667,532
Deferred income		1,798,781		417,484
Total current liabilities		7,958,195		5,563,139
Long-Term Debt, Less Current Maturities		6,291,977		-
Deferred Income Taxes		1,050,489		881,694

Commitments and Contingencies

Stockholders' Equity				
Preferred stock, $.10 par value; 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, $.03 par value; 100,000,000 shares authorized; 6,140,200 and 6,068,470 shares issued and outstanding, respectively		184,206		182,054
Additional paid-in capital		9,892,973		7,559,442
Retained earnings		10,344,794		8,642,093
Non-controlling interest in equity of subsidiary		1,742,905		1,005,523
Total stockholders’ equity		22,164,878		17,389,112
Total liabilities and stockholders’ equity	$	37,465,539	$	23,833,945

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

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ROCKY MOUNTAIN CHOCOLATE FACTORY, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	FOR THE YEARS ENDED FEBRUARY 28 or 29		
	2014	2013	2012
Common Stock			
Balance at beginning of year	$182,054	$184,872	$182,099
Repurchase and retirement of common stock	-	(4,899)	-
Issuance of common stock	120	120	120
Exercise of stock options, vesting of restricted stock units and other	2,032	1,961	2,653
Balance at end of year	184,206	182,054	184,872
Additional Paid-In Capital			
Balance at beginning of year	7,559,442	8,712,743	8,060,041
Repurchase and retirement of common stock	-	(1,710,453)	-
Issuance of common stock	48,280	37,080	41,200
Exercise of stock options, vesting of restricted stock units and other	746,667	461,695	586,540
Transfers (to) from non-controlling interest	1,469,752	-	-
Tax benefit from employee stock transactions	68,832	58,377	24,962
Balance at end of year	9,892,973	7,559,442	8,712,743
Retained Earnings			
Balance at beginning of year	8,642,093	9,838,205	8,411,975
Net income	4,392,444	1,478,212	3,876,032
Cash dividends declared	(2,689,743)	(2,674,324)	(2,449,802)
Balance at end of year	10,344,794	8,642,093	9,838,205
Non-controlling Interest in Equity of Subsidiary			
Balance at beginning of year	1,005,523	-	-
Net income (loss)	(1,257,940)	(128,178)	-
Non-controlling interest in acquired business	-	664,612	-
Contributions, net	1,995,322	469,089	-
Balance at end of year	1,742,905	1,005,523	-
Total Stockholders' Equity	$22,164,878	$17,389,112	$18,735,820
Common Shares			
Balance at beginning of year	6,068,470	6,162,389	6,069,976
Repurchase and retirement of common stock	-	(163,300)	-
Issuance of common stock	4,000	4,000	4,000
Exercise of stock options, vesting of restricted stock units and other	67,730	65,381	88,413
Balance at end of year	6,140,200	6,068,470	6,162,389

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

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ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	FOR THE YEARS ENDED FEBRUARY 28 or 29		
	2014	2013	2012
Cash Flows From Operating Activities:			
Net income	4,392,444	1,478,212	3,876,032
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,026,775	935,377	750,860
Provision for loss on accounts and notes receivable	216,000	330,000	352,000
Provision for inventory loss	44,127	60,000	60,000
Asset impairment and store closure losses	65,000	172,000	28,000
(Gain) loss on sale of assets	21,236	1,994,069	27,153
Expense recorded for stock compensation	601,969	418,633	457,449
Deferred income taxes	258,557	(1,144,622)	733,875
Changes in operating assets and liabilities:			
Accounts receivable	(1,408,048)	(235,345)	479,099
Refundable income taxes	(160,890)	724,911	(605,023)
Inventories	12,793	98,478	154,143
Other assets	(63,958)	18,664	(11,137)
Accounts payable	(439,014)	513,119	(197,772)
Accrued liabilities	915,213	1,065,090	147,782
Deferred income	1,381,297	(58,516)	(105,410)
Net cash provided by operating activities	6,863,501	6,370,070	6,147,051
Cash Flows From Investing Activities:			
Additions to notes receivable	(784,098)	(285,191)	(102,529)
Proceeds received on notes receivable	344,010	113,633	226,896
Proceeds from sale or distribution of assets	2,600	888,700	52,800
Acquisitions, net of cash acquired and franchise rights	-	(1,688)	-
Intangible assets	(8,949,534)	(800,000)	-
Increase in other assets	1,597,762	(148,618)	(40,092)
Purchase of property and equipment	(2,518,317)	(742,871)	(3,260,638)
Net cash used in investing activities	(10,307,577)	(976,035)	(3,123,563)
Cash Flows From Financing Activities:			
Proceeds from long-term debt	6,400,000	-	-
Repurchase of common stock	-	(1,715,352)	-
Issuance of common stock	195,130	82,223	173,064
Tax benefit of stock option exercise	68,832	58,377	24,962
Dividends paid	(2,681,853)	(2,623,031)	(2,440,560)
Net cash provided by (used in) financing activities	3,982,109	(4,197,783)	(2,242,534)

Net Increase (Decrease) In Cash And Cash Equivalents	538,033	1,196,252	780,954
Cash And Cash Equivalents At Beginning Of Year	5,321,696	4,125,444	3,344,490
Cash And Cash Equivalents At End Of Year	$5,859,729	$5,321,696	$4,125,444

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

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ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Nature of Operations

The accompanying consolidated financial statements include the accounts of Rocky Mountain Chocolate Factory, Inc., its wholly-owned subsidiary, Aspen Leaf Yogurt, LLC and it's 42%-owned subsidiary, U-Swirl, Inc. of which, Rocky Mountain Chocolate Factory, Inc. has financial control (collectively, the "Company"). All intercompany balances and transactions have been eliminated in consolidation. As of February 28, 2014 Rocky Mountain Chocolate Factory, Inc. held 42% of U-Swirl, Inc. common stock issued and outstanding, or payable. Additionally, Rocky Mountain Chocolate Factory, Inc. had the right to acquire approximately 26,400,000 shares of common stock through the conversion of debt into common stock. If the Company exercised this conversion we believe RMCF would hold approximately 75% of U-Swirl, Inc. common stock. RMCF and U-Swirl also share representation on the board of directors with the U-Swirl Board of Directors primarily composed of Board members also serving the RMCF Board.

Rocky Mountain Chocolate Factory, Inc. ("RMCF") is an international franchisor, confectionery manufacturer and retail operator in the United States, Canada, Japan, South Korea, and the United Arab Emirates. RMCF manufactures an extensive line of premium chocolate candies and other confectionery products.

Aspen Leaf Yogurt, LLC ("ALY") was incorporated in the state of Colorado as Aspen Leaf Yogurt, Inc. on September 30, 2010 and organized through conversion as Aspen Leaf Yogurt, LLC on October 14, 2010. ALY was a franchisor and retail operator of self-serve frozen yogurt retail units until the sale of substantially all assets in January, 2013. As of February 28, 2013 the Company had ceased to operate any Company-owned Aspen Leaf Yogurt locations, or sell and support franchise locations.

On January 14, 2013, Ulysses Asset Acquisition, LLC ("Newco"), a wholly-owned subsidiary of the Company formed in the State of Colorado on January 2, 2013, entered into an agreement to acquire substantially all of the franchise rights of YHI, Inc. and Yogurtini International, LLC (collectively, "Yogurtini"), which are the franchisors of self-serve frozen yogurt retail units branded as "Yogurtini." In addition, on January 14, 2013, the Company entered into two agreements to sell all of its membership interests in Newco and substantially all of its assets in ALY to U-Swirl, Inc., a publicly traded company (OTCQB: SWRL), in exchange for a 60% controlling equity interest in U-Swirl, Inc. U-Swirl, Inc. is in the business of offering consumers frozen desserts such as yogurt and sorbet. U-Swirl launched a national chain of self-serve frozen yogurt cafés called U-Swirl Frozen Yogurt and are franchising this concept.

U-Swirl has built and operates cafés owned and operated by U-Swirl, Inc. (“Company-owned”) and franchises to others the right to own and operate U-Swirl cafés. It also franchises and operates self-serve frozen yogurt cafes under the names “Yogurtini,” “CherryBerry,” “Josie’s Frozen Yogurt,” “Yogli Mogli Frozen Yogurt,” “Fuzzy Peach Frozen Yogurt,” and “Aspen Leaf Yogurt” as a result of the transactions described above.

On January 17, 2014, U-Swirl entered into an Asset Purchase Agreement with CherryBerry, which was the franchisor of self-serve frozen yogurt cafés branded as “CherryBerry.” Pursuant to the CherryBerry Purchase Agreement, U-Swirl purchased certain assets of CherryBerry used in its business of franchising frozen yogurt cafés, including all of its franchise rights and one company-owned café. The assets were acquired for approximately $4.25 million in cash and 4 million shares of U-Swirl common stock. U-Swirl also entered into an Asset Purchase Agreement with Yogli Mogli LLC, which was the franchisor of self-serve frozen yogurt cafés branded as “Yogli Mogli”. Pursuant to the Yogli Mogli Purchase Agreement, U-Swirl purchased certain assets of Yogli Mogli used in its business of franchising frozen yogurt cafés, including all of its franchise rights and four company-owned cafés. The assets were acquired for approximately $2.15 million in cash and $200,000 in shares of U-Swirl common stock. The Yogli Mogli Purchase Agreement contains customary representations and warranties, covenants and indemnification obligations.

On February 20, 2014 U-Swirl entered into an Asset Purchase Agreement to acquire the business assets of Fuzzy Peach Franchising, LLC. The acquisition of all intellectual property and worldwide franchise and license rights includes the rights associated with 17 Fuzzy Peach Frozen Yogurt stores. U-Swirl purchased the Fuzzy Peach Franchising, LLC assets for $481,000 in cash paid at the time of closing, plus an earn-out that could increase the purchase price by up to another $349,000 based upon royalty income generated by Fuzzy Peach stores over the next twelve months.

The Company’s revenues are currently derived from three principal sources: sales to franchisees and others of chocolates and other confectionery products manufactured by the Company; the collection of initial franchise fees and royalties from franchisees’ sales; and sales at Company-owned stores of chocolates, frozen yogurt, and other confectionery products. The following table summarizes the number of stores operating under RMCF and its subsidiaries at February 28, 2014:

	Sold, Not Yet Open	Open	Total
Rocky Mountain Chocolate Factory			
Company-owned stores	-	7	7
Franchise stores – Domestic stores	5	207	212
Franchise stores – Domestic kiosks	-	6	6
International License Stores	1	69	70
Cold Stone Creamery – co-branded	3	65	68
U-Swirl, Inc. Stores (Including all associated brands)			
Company-owned stores	-	11	11
Company-owned stores – co-branded	-	2	2
Franchise stores – Domestic stores	-	259	259

Franchise stores – Domestic – co-branded	-	9	9
International License Stores	-	4	4
Total	9	639	648

Consolidation

The management of RMCF accounts for the activities of Rocky Mountain Chocolate Factory and its wholly-owned subsidiary, Aspen Leaf Yogurt, LLC. As described above, on January 14, 2013, the Company acquired a majority interest in U-Swirl, Inc. Prior to January 14, 2013, the Company's financial statements exclude the financial information of U-Swirl, Inc. The management of U Swirl, Inc. separately accounts for the activities of U-Swirl, Inc. utilizing critical accounting policies substantially the same as those of RMCF. Beginning on January 14, 2013 and continuing through February 28, 2014, the results of operations, assets and liabilities of U-Swirl, Inc. have been included in these Consolidated Financial Statements. The Company has consolidated $5,501,539 and $1,951,092 of assets, $3,758,634 and $945,569 of liabilities and an operating loss of $806,892 and $320,446 of U-Swirl, Inc. for the years ended February 28, 2014 and 2013, respectively.

Cash Equivalents

The Company considers all highly liquid instruments purchased with an original maturity of six months or less to be cash equivalents. The Company classifies certain instruments with a maturity of between three and six months to be cash equivalents because these instruments allow for early termination with minimal penalty and are readily convertible to known amounts of cash. As of February 28, 2014 and February 28, 2013, the Company held a Certificate of Deposit with an original maturity date of six-months totaling $108,000 and classified this amount as a cash equivalent. The Company continually monitors its positions with, and the credit quality of, the financial institutions with which it invests. As of the balance sheet date, and periodically throughout the year, the Company has maintained balances in various operating accounts in excess of federally insured limits. This amount was approximately $5.0 million at February 28, 2014.

Accounts and Notes Receivable

In the normal course of business, we extend credit to customers, primarily franchisees that satisfy pre-defined credit criteria. The Company believes that it has limited concentration of credit risk primarily because its receivables are secured by the assets of the franchisees to which the Company ordinarily extends credit, including, but not limited to, their franchise rights and inventories. An allowance for doubtful accounts is determined through analysis of the aging of accounts receivable, assessments of collectability based on historical trends, and an evaluation of the impact of current and projected economic conditions. The process by which the Company performs its analysis is conducted on a customer by customer, or franchisee by franchisee, basis and takes into account, among other relevant factors, sales history, outstanding receivables, customer financial strength, as well as customer specific and geographic market factors relevant to projected performance. The Company monitors the collectability of its accounts receivable on an ongoing basis by assessing the credit worthiness of its customers and evaluating the impact of reasonably likely changes in economic conditions that may impact credit risks. Estimates with regard to the collectability of accounts receivable are reasonably likely to change in the future. At February 28, 2014, the Company has $924,391 of notes receivable outstanding and an allowance for doubtful accounts of $57,247 associated with these notes. The notes require monthly payments and bear interest rates ranging from 4.5% to 8%. The notes mature through September, 2018 and approximately $777,000 of notes receivable are secured by the assets financed.

Inventories

Inventories are stated at the lower of cost or market. An inventory reserve is established to reduce the cost of obsolete, damaged and excess inventories to the lower of cost or market based on actual differences. This inventory reserve is determined through analysis of items held in inventory, and, if the value of those items at cost is higher than their market value, the Company records an expense to reduce inventory to its actual market value. The process by which the Company performs its analysis is conducted on an item by item basis and takes into account, among other relevant factors, market value, sales history and future sales potential. Cost is determined using the first-in, first-out method.

Property and Equipment and Other Assets

Property and equipment are recorded at cost. Depreciation and amortization are computed using the straight-line method based upon the estimated useful life of the asset, which range from five to thirty-nine years. Leasehold improvements are amortized on the straight-line method over the lives of the respective leases or the service lives of the improvements, whichever is shorter.

The Company reviews its long-lived assets through analysis of estimated fair value, including identifiable intangible assets, whenever events or changes indicate the carrying amount of such assets may not be recoverable. The Company’s policy is to review the recoverability of all assets, at a minimum, on an annual basis.

Income Taxes

The Company recognizes deferred tax liabilities and assets based on the differences between the tax basis of assets and liabilities and their reported amounts in the financial statements that will result in taxable or deductible amounts in future years. The Company's temporary differences are listed in Note 6.

Goodwill

Goodwill arose from three transaction types. The first type was the result of the incorporation of the Company after its inception as a partnership. The goodwill recorded was the excess of the purchase price of the Company over the fair value of its assets. The Company has allocated this goodwill equally between its Franchising and Manufacturing operations. The second type was the purchase of various retail stores, either individually or as a group, for which the purchase price was in excess of the fair value of the assets acquired. Finally, goodwill arose from business acquisitions, where the fair value of the consideration given for acquisition exceeded the fair value of the identified assets net of liabilities.

The Company performs a goodwill impairment test on an annual basis or more frequently when events or circumstances indicate that the carrying value of a reporting unit more likely than not exceeds its fair value. Recoverability of goodwill is evaluated through comparison of the fair value of each of our reporting units with its carrying value. To the extent that a reporting unit’s carrying value exceeds the implied fair value of its goodwill, an impairment loss is recognized. The Company performed impairment testing with no impact to its financial results for the years ended February 28, 2014 and 2013.

Franchise Rights

Franchise rights arose from the entry into agreements to acquire substantially all of the franchise rights of Yogurtini, CherryBerry and Yogli Mogli, as described above. Franchise rights are amortized over a period of 20 years.

Insurance and Self-Insurance Reserves

The Company uses a combination of insurance and self-insurance plans to provide for the potential liabilities for workers’ compensation, general liability, property insurance, director and officers’ liability insurance, vehicle liability and employee health care benefits. Liabilities associated with the risks that are retained by the Company are estimated, in part, by considering historical claims experience, demographic factors, severity factors and other assumptions. While the Company believes that its assumptions are appropriate, the estimated accruals for these liabilities could be significantly affected if future occurrences and claims differ from these assumptions and historical trends.

Sales

Sales of products to franchisees and other customers are recognized at the time of delivery. Sales of products to franchisees and other customers are made at standard prices, without any bargain sales of equipment or supplies. Sales of products at retail stores are recognized at the time of sale.

Rebates

Rebates received from purveyors that supply products to our franchisees are included in franchise royalties and fees. Product rebates are recognized in the period in which they are earned. Rebates related to company-owned locations are offset against operating costs.

Shipping Fees

Shipping fees charged to customers by the Company's trucking department are reported as sales. Shipping costs incurred by the Company for inventory are reported as cost of sales or inventory.

Franchise and Royalty Fees

Franchise fee revenue is recognized upon opening of the franchise store. In addition to the initial franchise fee, the Company also recognizes a marketing and promotion fee of one percent (1%) of franchised stores' gross retail sales and a royalty fee based on gross retail sales. Beginning with Rocky Mountain Chocolate Factory franchise store openings in the third quarter of FY 2004, the Company modified its royalty structure. Under the current structure, the Company recognizes no royalty on franchised stores' retail sales of products purchased from the Company and recognizes a ten percent (10%) royalty on all other sales of product sold at franchise locations. For franchise stores opened prior to the third quarter of FY 2004 the Company recognizes a royalty fee of five percent (5%) of franchised stores' gross retail sales. Royalty fees for U-Swirl cafés are based on the rate defined in the acquired contracts for the franchise rights and range from 2.5% to 6% of gross retail sales.

In certain instances we are required to pay a portion of franchise fee revenue, or royalty fees to parties we've contracted with to assist in developing and growing a brand. The agreements generally include Development Agents, or commissioned brokers who are paid a portion of the initial franchise fee, a portion of the ongoing royalty fees, or both. When such agreements exist, we report franchise fee and royalty fee revenues net of the amount paid, or due, to the agent/broker.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities, the disclosure of contingent assets and liabilities, at the date of the financial statements, and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Vulnerability Due to Certain Concentrations

Revenue from one customer of the Company’s Manufacturing segment represented approximately $5.2 million or 13% of the Company’s revenues during year ended February 28, 2014. The Company’s future results may be adversely impacted by a change in the purchases of this customer.

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Stock-Based Compensation

At February 28, 2014, the Company had stock-based compensation plans for employees and non-employee directors which authorized the granting of stock awards.

The Company recognized $601,968, $418,633, and $457,449 related equity-based compensation expense during the years ended February 28 or 29, 2014, 2013 and 2012, respectively. Compensation costs related to share-based compensation are generally amortized over the vesting period.

Tax benefits in excess of the compensation cost recognized for stock options are reported as financing cash flows in the accompanying Statements of Cash Flows. The excess tax benefit included in net cash provided by financing activities for the years ended February 28 or 29, 2014, 2013 and 2012 was $68,832, $58,377 and $24,962, respectively.

During FY 2014, the Company granted 280,900 restricted stock units with a grant date fair value of $3,437,950 compared with no restricted common stock units granted in the prior year. There were no stock options granted to employees during FY 2014 or FY 2013. The restricted stock unit grants generally vest 17-20% annually over a period of five to six years. The Company recognized $553,568 of equity-based compensation expense related to these grants during FY 2014 compared with $381,433 in FY 2013. Total unrecognized compensation expense of non-vested, non-forfeited shares granted, as of February 28, 2014 was $3,147,861, which is expected to be recognized over the weighted average period of 5 years.

During the FY 2014, the Company issued 4,000 fully-vested, unrestricted shares to non-employee directors compared with 4,000 fully-vested, unrestricted shares of stock to non-employee directors in FY 2013. In connection with these non-employee director stock issuances, the Company recognized $48,400 and $37,200 of stock-based compensation expense during FY 2014 and 2013, respectively.

Earnings Per Share

Basic earnings per share is computed as net earnings divided by the weighted average number of common shares outstanding during each year. Diluted earnings per share reflects the potential dilution that could occur from common shares issuable through stock options and restricted stock units. During 2014, 2013 and 2012, 12,936, 101,661, and 117,437, respectively, stock options were excluded from diluted shares as their effect was anti-dilutive.

Advertising and Promotional Expenses

The Company expenses advertising costs as incurred. Total advertising expense for Rocky Mountain Chocolate Factory amounted to $250,739, $233,731, and $235,282 for the fiscal years ended February 28 or 29, 2014, 2013 and 2012, respectively. Total advertising expense for U-Swirl and Aspen Leaf Yogurt amounted to $134,192, $192,088, and $85,147 for the fiscal years ended February 28 or 29, 2014, 2013 and 2012, respectively.

Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, trade receivables, payables, and notes receivable. The fair value of all instruments approximates the carrying value, because of the relatively short maturity of these instruments.

Recent Accounting Pronouncements

In February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income". The ASU requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety from accumulated other comprehensive income to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. The ASU is effective for annual and interim periods beginning after December 15, 2012. The Company adopted this guidance without material impact on its consolidated financial position or results of operations.

NOTE 2 - INVENTORIES

Inventories consist of the following at February 28:

	2014	2013
Ingredients and supplies	$2,531,413	$2,531,559
Finished candy	1,761,131	1,590,966
U-Swirl, Inc. food and packaging	118,219	98,511

Total inventories	$4,410,763	$4,221,036

NOTE 3 - PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following at February 28:

	2014	2013
Land	$513,618	$513,618
Building	4,775,466	4,764,005
Machinery and equipment	9,518,832	8,864,126
Furniture and fixtures	1,324,846	1,024,261
Leasehold improvements	2,489,782	1,930,991
Transportation equipment	394,508	392,755
Capital work in progress	967,937	-
	19,984,989	17,489,756
Less accumulated depreciation	11,496,791	10,712,613
Property and equipment, net	$8,488,198	$6,777,143

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NOTE 4 - LINE OF CREDIT AND LONG-TERM DEBT

Line of Credit

At February 28, 2014, the Company had a $5 million line of credit from a bank, collateralized by substantially all of the Company's assets with the exception of the Company's retail store assets. Draws may be made under the line at 75% of eligible accounts receivable plus 50% of eligible inventories. Interest on borrowings is at prime less 50 basis points or at 5.0%, whichever is greater (5.0% at February 28, 2014). At February 28, 2014, $5 million was available for borrowings under the line of credit, subject to borrowing base limitations. Terms of the line require that the line be rested (that is, that there be no outstanding balance) for a period of 30 consecutive days during the term of the loan. Additionally, the line of credit is subject to various financial ratio and leverage covenants. At February 28, 2014 the Company was in compliance with all such covenants. The credit line is subject to renewal in July 2014 and we believe it is likely to be renewed on terms similar to current terms.

Effective January 16, 2014, the Company entered into a business loan agreement with Wells Fargo Bank, N.A. (the "Wells Fargo Loan Agreement") for a $7.0 million line of credit to be used to loan money to U-Swirl to fund the purchase price of the Acquisitions by U-Swirl (the "Wells Fargo Loan"). The Company made its first draw of approximately $6.4 million on the Wells Fargo Loan on January 16, 2014 and the first draw was the amount outstanding at February 28, 2014. Interest on the Wells Fargo Loan is at a fixed rate of 3.75% and the maturity date is January 15, 2020. Interest on the Wells Fargo Loan accrues monthly commencing on February 15, 2014. The first principal and interest payment of approximately $128,000 is due on February 15, 2015, with amortized principal and interest payments continuing monthly thereafter. The Wells Fargo Loan may be prepaid without penalty at any time by the Company. The Wells Fargo Loan is collateralized by substantially all of the Company's assets, including the U-Swirl Loan Agreement. Additionally, the Wells Fargo Loan is subject to various financial ratio and leverage covenants. The Wells Fargo Loan Agreement also contains customary representations and warranties, covenants and acceleration provisions in the event of a default by the Company.

Long-term debt consists of the following at February 28:

	2014	2013
Note payable in monthly installments of principal and interest at 3.75% per annum through December 2019 collateralized by substantially all business assets.	$6,400,000	$ -
Less current maturities	108,023	-
	$6,291,977	$ -

The following is a schedule by year of maturities of long-term debt for the years ending February 28 or 29:

2015	$108,000
2016	1,208,800
2017	1,255,600
2018	1,304,200
2019	1,354,600
Thereafter	1,168,800
Total	$6,400,000

NOTE 5 – COMMITMENTS AND CONTINGENCIES

Operating leases

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

The following is a schedule by year of future minimum rental payments required under such leases for the years ending February 28 or 29:

2015	$851,000
2016	584,000
2017	359,000
2018	310,000
2019	242,000
Thereafter	52,000
Total	$2,398,000

In some instances the Company has leased space for its Company-owned locations that are now occupied by franchisees, or majority owned subsidiaries. When the Company-owned location was sold or transferred, the store was subleased to the franchisee who is responsible for the monthly rent and other obligations under the lease. The Company's liability as primary lessee on sublet franchise outlets, all of which is offset by sublease rentals, is as follows for the years ending February 28 or 29:

2015	$468,000
2016	373,000
2017	192,000
2018	79,000
Total	$1,112,000

The following is a schedule of lease expense for all retail operating leases for the three years ended February 28 or 29:

	2014	2013	2012
Minimum rentals	$1,658,710	$862,866	$834,087
Less sublease rentals	(686,000)	(157,000)	(125,300)
Contingent rentals	22,626	20,399	17,692
	$995,336	$726,265	$726,479

In FY 2013, the Company renewed an operating lease for warehouse space in the immediate vicinity of its manufacturing operation. The following is a schedule, by year, of future minimum rental payments required under such lease for the years ending February 28 or 29:

2015	$113,000
2016	116,000
2017	121,000
2018	30,000
Total	$380,000

The Company also leases trucking equipment under operating leases. The following is a schedule by year of future minimum rental payments required under such leases for the years ending February 28 or 29:

2015	$183,500
2016	$145,400
2017	$145,400
2018	$96,900

Total $571,200

The following is a schedule of lease expense for trucking equipment operating leases for the three years ended February 28 or 29:

2014	2013	2012
199,894	201,081	200,826

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. Currently the Company has contracted for approximately $567,000 of raw materials under such agreements.

Contingencies

The Company is party to various legal proceedings arising in the ordinary course of business. 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.

Resulting from the purchase of the franchise rights of Yogurtini, the Company may pay up to an additional aggregate amount of $928,000, which is contingent on financial performance of the franchise rights over a two-year period. Resulting from the purchase of the franchise rights of Fuzzy Peach, the Company may pay up to an additional aggregate amount of $349,000 which is contingent on financial performance of the franchise rights over 12 months.

Our Subsidiary, U-Swirl, as part of the business acquisition of CherryBerry agreed to issue 4,000,000 shares of U-Swirl common stock as a component of the consideration paid for the business assets. Associated with these shares, U-Swirl guaranteed a per share value of $0.50, subject to restrictions on the sale of the shares. This guaranteed value of the shares may result in the need for an additional payment of up to $2,000,000 based on the value of U-Swirl stock price.

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NOTE 6 - INCOME TAXES

Income tax expense is comprised of the following for the years ending February 28 or 29:

	2014	2013	2012
Current			
Federal	$1,668,259	$2,090,996	$1,128,049
State	227,904	287,026	173,822
Total Current	1,896,163	2,378,022	1,301,871
Deferred			
Federal	237,538	(1,107,287)	729,900
State	20,959	(37,275)	3,975
Total Deferred	258,497	(1,144,562)	733,875
Total	$2,154,660	$1,233,460	$2,035,746

A reconciliation of the statutory federal income tax rate and the effective rate as a percentage of pretax income is as follows for the years ending February 28 or 29:

	2014	2013	2012
Statutory rate	34.0%	34.0%	34.0%
State income taxes, net of federal benefit	3.1 %	4.8 %	2.0 %
Domestic production deduction	(2.4 %)	(3.2 %)	(1.8 %)
Other	0.1 %	1.5 %	0.2 %
Acquisition related expenses	-	6.4 %	-
Valuation allowance, U-Swirl, Inc. Consolidated loss	5.9 %	4.2 %	-
Effective Rate	40.7%	47.7%	34.4%

The decrease in the effective tax rate for the year ended February 28, 2014, compared to the prior year, is primarily due to the tax consequences of acquiring a majority interest in U-Swirl, Inc in the prior year, and the associated increase in the effective rate for that period. The acquisition of our interest in U-Swirl, Inc. resulted in non-deductible acquisition related expenses of approximately $268,000 for the fiscal year ended February 28, 2013. The Company also recognized a gain of $222,000 during the year ended February 28, 2013 for purposes of income tax reporting, the result of the transfer of Aspen Leaf Yogurt franchise rights to U-Swirl, Inc. U-Swirl, Inc. and RMCF will continue to file separate income tax returns for each entity. U-Swirl, Inc. has a history of net losses and does not expect to realize the tax benefit of those losses. The consolidation of U-Swirl net loss into the results of RMCF did not reduce the taxable income for RMCF in the current or prior years.

The components of deferred income taxes at February 28 are as follows:

	2014	2013
Deferred Tax Assets		
Allowance for doubtful accounts and notes	$219,108	$280,030
Inventories	75,505	93,726
Accrued compensation	210,290	136,406
Loss provisions and deferred income	143,877	166,650
Self insurance accrual	27,240	43,625
Amortization, design costs	54,312	71,868
Restructuring charges	1,850	115,963
U-Swirl, Inc. accumulated net loss	689,590	380,383
Valuation allowance, U-Swirl, Inc. accumulated net loss	(689,590)	(380,383)
Net deferred tax assets	732,182	908,268
Deferred Tax Liabilities		
Depreciation and amortization	(1,133,467)	(1,079,004)
Prepaid expenses	(110,333)	(82,325)
Net deferred tax liability	$(1,243,800)	$(1,161,329)
Current deferred tax assets	$538,871	$628,633
Non-current deferred tax liabilities	(1,050,489)	(881,694)
Net deferred tax liability	$(511,618)	$(253,061)

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The Company files income tax returns in the U.S. federal and various state taxing jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal and state tax examinations in its major tax jurisdictions for periods before FY 2009.

Realization of the Company's deferred tax assets is dependent upon the Company generating sufficient taxable income, in the appropriate tax jurisdictions, in future years to obtain benefit from the reversal of net deductible temporary differences. The amount of deferred tax assets considered realizable is subject to adjustment in future periods if estimates of future taxable income are changed. Management believes that it is more likely than not that RMCF will realize the benefits of its deferred tax assets as of February 28, 2014.

The Company accounts for uncertainty in income taxes by recognizing the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Company measures the tax benefits recognized in the financial statements from such a position based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. The application of income tax law is inherently complex. As such, the Company is required to make judgments regarding income tax exposures. Interpretations of and guidance surrounding income tax law and regulations change over time and may result in changes to the Company's judgments which can materially affect amounts recognized in the balance sheets and statements of operations. The result of the assessment of the Company's tax positions did not have an impact on the financial statements for the years ended February 28, 2014 or 2013. The Company's federal tax returns for all years after 2010 and the Company's state tax returns after 2009 are subject to future examination by tax authorities for all of the Company's tax jurisdictions. The Company does not have any significant unrecognized tax benefits and does not anticipate a significant increase or decrease in unrecognized tax benefits within the next twelve months. Amounts are recognized for income tax related interest and penalties as a component of general and administrative expense in the statement of income and are immaterial for years ended February 28, 2014 and 2013.

As of February 28, 2014, U-Swirl, Inc. was not consolidated with us for purposes of filing federal income tax. U-Swirl, Inc. files a separate federal tax return and has its own federal loss carry forward. As of February 28, 2014 U-Swirl, Inc. had recorded a full valuation allowance related to the realization of its deferred income tax assets.

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

We estimate that the potential future tax deductions of U-Swirl, Inc. accumulated net operating losses, limited by section 382, to be approximately $1.0 million with a resulting deferred tax asset of approximately $690,000. We have recorded a valuation allowance for this amount to reflect the likelihood of realization of this deferred tax asset.

NOTE 7 – STOCKHOLDERS’ EQUITY

Cash Dividend

The Company paid a quarterly cash dividend of $0.11 per common share on June 8, 2012, September 14, 2012, December 14, 2012 and March 15, 2013 to shareholders of record on May 24, 2012, September 4, 2012, November 30, 2012 and March 1, 2013 respectively. The Company paid a quarterly cash dividend of $0.11 per common share on June 14, 2013, September 13, 2013, December 13, 2013 and March 14, 2014 to shareholders of record on June 4, 2013, September 3, 2013, November 29, 2013 and February 28, 2014, respectively.

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

NOTE 8 - STOCK COMPENSATION PLANS

In FY 2014, shareholders approved the amendment of the 2007 Equity Incentive Plan (the “2007 Plan”). The 2007 Plan allows awards of stock options; stock appreciation rights; stock awards, restricted stock and stock units; performance shares and performance units; other stock or cash based awards. As of February 28, 2014, 500,140 restricted stock units, 12,936 stock options and 24,000 unrestricted shares have been awarded under the 2007 Plan and 323,770 shares of common stock are available for award under the plan consisting of 300,000 shares originally authorized, 85,340 previously reserved for issuance under earlier plans, 300,000 shares authorized upon amendment and 170,189 shares forfeited under the 2007 Plan and suspended plans, less shares awarded under the Plan.

Under the 2004 Stock Option Plan (the “2004 Plan”), options to purchase up to 970,200 of the Company’s common stock were previously authorized to be granted at prices not less than market value at the date of grant. Options granted may not have a term exceeding ten years under the 2004 plan and the 2007 plan. Options representing the right to purchase 142,944 and 12,936 shares of the Company’s common stock were outstanding under the 2004 Plan and the 2007 Plan, respectively, at February 28, 2014.

Information with respect to stock option awards outstanding under the plans at February 28, 2014, and changes for the three years then ended was as follows:

	Twelve Months Ended February 28 or 29:		
	2014	2013	2012
Outstanding stock options at beginning of year:	270,945	307,088	341,890
Granted	-	-	12,936
Exercised	(26,340)	(21,191)	(45,113)
Cancelled/forfeited	(88,725)	(14,952)	(2,625)
Outstanding stock options as of February 28 or 29:	155,880	270,945	307,088
Weighted average exercise price	$8.01	$11.17	$10.84
Weighted average remaining contractual term (in years)	0.45	1.94	2.76

Information with respect to restricted stock unit awards outstanding under the plans at February 28, 2014, and changes for the three years then ended was as follows:

	Twelve Months Ended February 28 or 29:		
	2014	2013	2012
Outstanding non-vested restricted stock units at beginning of year:	57,030	101,980	141,260
Granted	280,900	-	4,540
Vested	(41,390)	(44,190)	(43,300)
Cancelled/forfeited	(1,500)	(760)	(520)
Outstanding non-vested restricted stock units as of February 28 or 29:	295,040	57,030	101,980
Weighted average grant date fair value	$12.09	$9.22	$9.19
Weighted average remaining vesting period (in years)	4.99	1.14	2.00

Additional information about stock options outstanding at February 28, 2014 is summarized as follows:

	Options Outstanding		
Range of exercise prices	Number exercisable	Weighted average remaining contractual life in years	Weighted average exercise price

$7.408	to	7.415	142,942	0.30	$ 7.41
$14.695			12,936	2.04	$ 14.70

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Explanation of Responses:

NOTE 9 - OPERATING SEGMENTS

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

FY 2014	Franchising	Manufacturing	Retail	U-Swirl, Inc.	Other	Total
Total revenues	$6,045,675	$27,101,515	$2,391,627	$5,528,649	$-	$41,067,466
Intersegment revenues	-	(1,882,659)	-	-	-	(1,882,659)
Revenue from external customers	6,045,675	25,218,856	2,391,627	5,528,649	-	39,184,807
Segment profit (loss)	2,798,934	7,189,181	(192,966)	(806,891)	(3,699,094)	5,289,164
Total assets	1,223,605	11,966,991	1,278,862	15,557,675	7,438,406	37,465,539
Capital expenditures	49,040	931,102	98,115	1,295,105	144,955	2,518,317
Total depreciation & amortization	37,089	294,986	62,039	487,073	145,588	1,026,775

FY 2013	Franchising	Manufacturing	Retail	U-Swirl, Inc.	Other	Total
Total revenues	$6,047,039	$26,451,612	$5,395,805	$505,956	$-	$38,400,412
Intersegment revenues	-	(2,085,211)	-	-	-	(2,085,211)
Revenue from external customers	6,047,039	24,366,401	5,395,805	505,956	-	36,315,201
Segment profit (loss)	2,494,868	6,853,360	(2,251,581)	(320,446)	(4,192,707)	2,583,494
Total assets	1,302,094	10,510,745	1,305,006	3,446,319	7,269,781	23,833,945
Capital expenditures	25,985	277,675	290,330	2,719	146,162	742,871
Total depreciation & amortization	39,029	290,076	383,550	70,146	152,577	935,378

FY 2012	Franchising	Manufacturing	Retail	U-Swirl, Inc.	Other	Total
Total revenues	$5,751,263	$25,723,144	$5,438,911	$ -	$-	$36,913,318
Intersegment revenues	-	(2,286,426)	-	-	-	(2,286,426)
Revenue from external customers	5,751,263	23,436,718	5,438,911	-	-	34,626,892

Segment profit (loss)	2,572,926	6,704,333	(289,418)	-	(3,076,064)	5,911,777
Total assets	1,434,619	10,238,204	5,212,456	-	7,277,691	24,162,970
Capital expenditures	12,713	208,807	2,795,308	-	243,810	3,260,638
Total depreciation & amortization	59,947	293,804	255,575	-	141,535	750,861

During FY 2013 the information reported in our “U-Swirl, Inc.” segment includes data from January 14, 2013 through February 28, 2013, the period that was consolidated within our financial results.

Revenue from one customer of the Company’s Manufacturing segment represents approximately $5.2 million of the Company’s revenues from external customers during year ended February 28, 2014.

NOTE 10 - SUPPLEMENTAL CASH FLOW INFORMATION

For the three years ended February 28 or 29:

Cash paid (received) for:	2014	2013	2012
Income taxes paid	2,417,238	1,173,717	1,881,929
Interest	20,000	-	-
Accrued Inventory	246,647	260,441	209,028
Non-Cash Financing Activities:			
Dividend payable	675,422	667,532	616,239
Non-Cash Investing Activities:			
Acquired interest in U-Swirl, Inc.	-	800,000	-
Accrued capital expenditures	175,000	-	130,481

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NOTE 11 - EMPLOYEE BENEFIT PLAN

The Company has a 401(k) plan called the Rocky Mountain Chocolate Factory, Inc. 401(k) Plan. Eligible participants are permitted to make contributions up to statutory limits. The Company makes a matching contribution, which vests ratably over a 3-year period, and is 25% of the employee's contribution up to a maximum of 1.5% of the employee's compensation. During the years ended February 28 or 29, 2014, 2013 and 2012, the Company's contribution was approximately $60,000, $50,000, and $39,000, respectively, to the plan.

NOTE 12 – SUMMARIZED QUARTERLY DATA (UNAUDITED)

Following is a summary of the quarterly results of operations for the fiscal years ended February 28 or 29, 2014 and 2013:

	Fiscal Quarter				
	First	Second	Third	Fourth	Total
2014					
Total revenue	$10,177,862	$8,663,161	$9,279,994	$11,063,790	$39,184,807
Gross margin before depreciation	3,151,525	2,985,223	2,739,681	3,172,433	12,048,862
Net income	1,179,307	1,027,784	699,174	1,486,179	4,392,444
Basic earnings per share	.19	.17	.11	.24	.72
Dilute earnings per share	.19	.16	.11	.23	.68

	Fiscal Quarter				
	First	Second	Third	Fourth	Total
2013					
Total revenue	$9,658,193	$7,729,837	$8,635,804	$10,291,367	$36,315,201
Gross margin before depreciation	3,068,390	2,560,569	2,558,493	3,001,471	11,188,923
Net income (loss)	1,062,329	828,782	(509,484)	96,585	1,478,212
Basic earnings (loss) per share	.17	.14	(.08)	.02	.24
Diluted earnings (loss) per share	.17	.13	(.08)	.02	.24

NOTE 13 – GOODWILL AND INTANGIBLE ASSETS

Intangible assets consist of the following at February 28 or 29:

	Amortization Period (Years)	2014 Gross Carrying Value	Accumulated Amortization	2013 Gross Carrying Value	Accumulated Amortization
Intangible assets subject to amortization					
Store design	10	220,778	206,652	205,777	205,142
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 agreement	5-20	593,340	5,283	-	-
Total		1,365,921	763,738	757,580	756,945
Intangible assets not subject to amortization					
Franchising segment-					
Company stores goodwill		1,099,328	267,020	1,099,328	267,020
Franchising goodwill		3,464,500	197,682	295,000	197,682
Manufacturing segment-Goodwill		295,000	197,682	295,000	197,682
Trademark		20,000	-	20,000	-
Total Goodwill		4,878,828	662,384	1,709,328	662,384
Franchise Rights	20	6,580,034	90,786	800,000	-
Total intangible assets		$12,824,783	$ 1,516,908	$3,266,908	$ 1,419,329

Amortization expense related to intangible assets totaled $97,578, $8,316, and $43,744 during the fiscal year ended February 28 or 29, 2014, 2013 and 2012, respectively.

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At February 28, 2014, annual amortization of intangible assets, based upon our existing intangible assets and current useful lives, is estimated to be the following:

2015	$434,188
2016	417,807
2017	461,182
2018	483,501
2019	493,328
Thereafter	4,801,425
Total	$7,091,431

NOTE 14 – RESTRUCTURING AND ACQUISITION RELATED CHARGES

As discussed in Note 1, on January 14, 2013, "Newco" entered into an agreement to acquire substantially all of the franchise rights of Yogurtini. In addition, on January 14, 2013, the Company entered into two agreements to sell all of its membership interests in Newco and substantially all of its assets in ALY to U-Swirl, Inc., in exchange for a controlling equity interest in U-Swirl, Inc. Upon completion of these transactions, the management of U-Swirl, Inc. is responsible for operations at all company-owned Aspen Leaf Yogurt locations and the selling and support of franchise locations. Associated with this transaction, the Company recorded net restructuring charges of $635,168 during the year ended February 28, 2013.

On January 17, 2014, U-Swirl entered into an Asset Purchase Agreement with CherryBerry, which was the franchisor of self-serve frozen yogurt retail stores branded as "CherryBerry." Pursuant to the CherryBerry Purchase Agreement, U-Swirl purchased certain assets of CherryBerry used in its business of franchising frozen yogurt stores, including all of its franchise rights and one company-owned store. U-Swirl also entered into an Asset Purchase Agreement with Yogli Mogli, which was the franchisor of self-serve frozen yogurt retail stores branded as "Yogli Mogli". Pursuant to the Yogli Mogli Purchase Agreement, U-Swirl purchased certain assets of Yogli Mogli used in its business of franchising frozen yogurt stores, including all of its franchise rights and four company-owned stores. On February 20, 2014 U-Swirl entered into an Asset Purchase Agreement to acquire the business assets of Fuzzy Peach Franchising, LLC. The acquisition of all intellectual property and worldwide franchise and license rights includes the rights associated with 17 Fuzzy Peach Frozen Yogurt stores. Associated with these transactions, the Company recorded net restructuring charges of $786,013 during the year ended February 28, 2014.

Restructuring and acquisition charges incurred at February 28, 2014 and 2013 were comprised of the following:

	2014	2013
Professional fees	$763,168	$337,599

Severance compensation	-	28,155
Previously deferred revenue	-	(44,000)
Provision for termination of contractual obligations	22,845	185,414
Other	-	128,000
Total	$786,013	$635,168

NOTE 15 – RELATED PARTY TRANSACTIONS

The Company has entered into Franchise Agreements and a Development Agreement with a member of the Company's Board of Directors. The director operates two ALY locations under the Franchise Agreements and the Development Agreement.

As of February 28, 2014, the Company had receivables of approximately $550 due from such director associated with the director's ownership and operation of the two current ALY locations.

Our President and Chief Executive Officer has members of his immediate family with ownership interests in retail marketing businesses. These businesses have, on occasion, provided services to the Company and may provide services in the future. As of February 28, 2014, the Company had incurred expenses of $30,050 and $7,600 was recorded to accounts payable that related to these businesses. Transactions with these businesses have been immaterial to our results of operations.

U-Swirl, Inc. was owed $11,989 and $8,597 as of February 28, 2014 and 2013, respectively, from a U-Swirl franchisee that is owned and operated by the grandchildren of the Company's Chief Marketing Officer. The corporate secretary and treasurer of the franchisee is also the Company's corporate secretary.

As of February 28, 2014, U-Swirl, Inc. had deferred revenue of $30,000 from an area developer in which the Company's Chief Executive Officer and Chief Operating Officer have a minority interest.

NOTE 16 – SUBSEQUENT EVENTS

On May 30, 2014, U-Swirl entered into a tentative agreement to sell three Company owned stores. U-Swirl received a deposit of $600,000 from the buyer to secure the rights to acquire the assets through definitive agreement. These stores were acquired in January 2014 as part of their acquisition of business assets. U-Swirl believes that the sales of these assets will approximate the preliminary value assigned to the assets and that the sale of the assets will not have a material impact on results of operations.

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NOTE 17 – NET INCOME AND TRANSFERS (TO) FROM NON-CONTROLLING INTEREST

The effect of changes in Rocky Mountain Chocolate Factory's ownership interest in its subsidiary, U-Swirl, Inc. was comprised of the following at February 28, 2014:

Net Income (loss) attributable to RMCF shareholders	(868,543)
Transfers from non-controlling interest	
U-Swirl, Inc. expense recorded for equity based compensation	62,000
U-Swirl, Inc. common stock issued, at fair value, for business acquisitions	1,721,286
U-Swirl, Inc common stock issued upon the exercise of stock options and warrants	34,189
Change to ownership interest resulting from stock issuances	(347,723)
Net transfers from non-controlling interest	1,469,752
Changes from net loss and transfers from non-controlling interest	$601,209

NOTE 18 – ACQUISITION OF U-SWIRL, INC.

On January 14, 2013 the Company entered into an agreement to acquire a controlling equity interest in U-Swirl, Inc., a publicly traded company (OTCQB: SWRL). U-Swirl, Inc. is a franchisor and operator of self-serve frozen yogurt locations. In exchange for our interest we contributed our recently acquired franchise rights in YHI, Inc. and Yogurtini International, LLC (collectively, "Yogurtini") as well as the franchise rights for Aspen Leaf Yogurt, LLC. With the addition of Yogurtini and Aspen Leaf Yogurt the Company believes that U-Swirl, Inc. will have the "critical mass" necessary to achieve profitability.

The Company accounted for this business combination in accordance with ASC 805 – Business Combinations, which requires the acquiring entity in a business combination to recognize all the assets acquired and liabilities assumed in the transaction.

The purchase price was allocated as follows during the year ended February 28, 2013:

	2013
Assets acquired	$1,763,110
Liabilities assumed	(746,585)
Non-controlling interest	(664,612)
Total purchase price	$351,913

The consideration for the purchase price was made up of 40% of the following assets during the year ended February 28, 2013:

	2013
Yogurtini franchise rights	$320,000
Cash	31,913
Total consideration paid	$351,913

On the acquisition date, the fair value of the non-controlling interest was $664,612. The fair value of the non-controlling interest was based upon reference to quoted market valued of U-Swirl, Inc. stock plus bargain purchase adjustment of approximately $258,000 resulting from the allocation of the purchase price. Fair valuation methods used for the identifiable net assets acquired in the acquisition make use of quoted prices in active markets and discounted cash flows.

As a part of these transactions the Company recognized $635,168 as acquisition related costs in the line item “Restructuring charges” on the Income Statement. Included in our consolidated earnings are U-Swirl’s losses between January 14, 2013 and February 28, 2013 of $(320,446).

NOTE 19 – ACQUISITION OF CHERRYBERRY, YOGLI MOGLI AND FUZZY PEACH

On January 17, 2014, U-Swirl entered into an Asset Purchase Agreement with CherryBerry, which was the franchisor of self-serve frozen yogurt cafés branded as “CherryBerry.” Pursuant to the CherryBerry Purchase Agreement, U-Swirl purchased certain assets of CherryBerry used in its business of franchising frozen yogurt cafés, including all of its franchise rights and one company-owned café. The assets were acquired for approximately $4.25 million in cash and 4 million shares of U-Swirl common stock. U-Swirl also entered into an Asset Purchase Agreement with Yogli Mogli LLC, which was the franchisor of self-serve frozen yogurt cafés branded as “Yogli Mogli”. Pursuant to the Yogli Mogli Purchase Agreement, U-Swirl purchased certain assets of Yogli Mogli used in its business of franchising frozen yogurt cafés, including all of its franchise rights and four company-owned cafés. The assets were acquired for approximately $2.15 million in cash and $200,000 in shares of U-Swirl common stock. The Yogli Mogli Purchase Agreement contains customary representations and warranties, covenants and indemnification obligations.

On February 20, 2014 U-Swirl entered into an Asset Purchase Agreement to acquire the business assets of Fuzzy Peach Franchising, LLC. The acquisition of all intellectual property and worldwide franchise and license rights includes the rights associated with 17 Fuzzy Peach Frozen Yogurt stores. U-Swirl purchased the Fuzzy Peach Franchising, LLC assets for $481,000 in cash paid at the time of closing, plus an earn-out that could increase the purchase price by up to another $349,000 based upon royalty income generated by Fuzzy Peach stores over the next twelve months.

The Company completed these acquisitions because the self-serve frozen yogurt market is extremely fragmented, and the Company believes successful consolidators will dominate the industry within a few years. The Company believes the self-serve frozen yogurt industry offers the potential for above-average investment returns, and the Company's investment in U-Swirl is predicated upon working closely with management to identify attractive growth opportunities that are compatible with the geographical and operational requirements for long-term success.

The Company preliminarily estimated the fair value consideration paid, contingent consideration, the assets acquired and liabilities assumed and allocated a portion of the total purchase consideration to tangible and identifiable intangible assets acquired and liabilities assumed based on their respective estimated fair values at the acquisition date. The excess of the total purchase consideration over the aggregate estimated fair values was recorded as goodwill. Goodwill represents the synergies that the Company believes will arise from the acquisition transactions. All of the goodwill generated in this acquisition is deductible for tax purposes. The following table summarizes the preliminary allocation of the purchase price to the fair value of the assets acquired and liabilities assumed:

	CherryBerry	Yogli Mogli	Fuzzy Peach	Total
Assets acquired	$7,310,000	$2,420,500	$481,000	$10,211,000
Lease liabilities assumed	-	(58,000)	-	(58,000)
Total purchase price	$7,310,000	$2,362,500	$481,000	$10,153,500

Included in the preliminary purchase price allocation is a provisional amount related to the fair value of the U-Swirl common stock issued as consideration for the acquisitions and a preliminary valuation of the contingent consideration of the $0.50 guaranteed value of the U-Swirl common stock. The preliminary fair value of the securities was based on the trading market value of the stock; however, the trading market price may not be indicative of the fair value of our common stock because the stock has a low level of trading activity. As such, we will perform additional valuation procedures to determine if the trading market value of the U-Swirl common stock is representative of its fair value on the acquisition date. U-Swirl is in the process of completing procedures to determine the fair value of the common stock issued and the contingent consideration, which may result in adjustments to goodwill. The Company expects to finalize the purchase price allocation during fiscal 2015.

The assets acquired were made up of the following during the years ended February 28, 2014:

	CherryBerry	Yogli Mogli	Fuzzy Peach	Total
Café store assets	$ 261,000	$ 1,003,000	$ -	$ 1,264,000
Trademarks	405,000	156,000	-	561,000
Franchise rights	3,615,000	1,201,000	481,000	5,297,000
Non-competition agreements	23,000	6,000	-	29,000
Goodwill	3,006,000	54,500	-	3,060,500
Total assets acquired	$ 7,310,000	$ 2,420,500	$ 481,000	$ 10,211,000

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The consideration for the purchase price was made up the following assets during the year ended February 28, 2014:

	CherryBerry	Yogli Mogli	Fuzzy Peach	Total
Common stock – U-Swirl, Inc.	$3,060,000	$212,500	$-	$3,272,500
Cash	4,250,000	2,150,000	481,000	6,881,000
Total consideration paid	$7,310,000	$2,362,500	$481,000	$10,153,500

As a part of these transactions the Company recognized $786,475 as acquisition related costs in the line item "Restructuring and acquisition related charges" on the Income Statement. The value of U-Swirl, Inc. common stock was $0.765 and was determined by averaging the high and the low trading price on the date of the transactions.

Since the date of acquisition, revenue and net income included in our operating results from the acquired companies were as follows:

	CherryBerry	Yogli Mogli
Revenues	$ 130,505	$140,571
Net Income (loss)	54,321	(3,008)

Supplemental Pro Forma Data (Unaudited)

U-Swirl used the acquisition method of accounting to account for these acquisitions and, accordingly, the results of CherryBerry and Yogli Mogli are included in U-Swirl's consolidated financial statements for the period subsequent to the date of acquisition. The unaudited supplemental pro forma financial data presented below for the year ended February 28, 2014 and 2013 gives effect to these acquisitions as if they had occurred on March 1, 2012. The supplemental data includes amortization expense related to the acquired intangible assets and transaction costs, such as legal fees, directly associated with the acquisition.

This unaudited supplemental pro forma financial data is presented for informational purposes only and does not purport to be indicative of the results of future operations or the results that would have occurred had the Company completed the acquisition at the beginning of fiscal 2013.

	Year ended February 28, 2014	Year ended February 28, 2013
Pro forma net revenues	10,860,186	10,394,477
Pro forma loss from continuing operations	(747,711)	(1,715,486)
Pro forma loss from continuing operations per share (basic)	(0.12)	(0.28)

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

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

Limitations on Controls and Procedures - Because of their inherent limitations, disclosure controls and procedures and internal control over financial reporting (collectively, “Control Systems”) may not prevent or detect all failures or misstatements of the type sought to be avoided by Control Systems. Also, projections of any evaluation of the effectiveness of the Company’s Control Systems to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Management, including the Company’s Chief Executive Officer (the “CEO”) and Chief Financial Officer (the “CFO”), does not expect that the Company’s Control Systems will prevent all errors or all fraud. A Control System, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the Control System are met. Further, the design of a Control System must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all Control Systems, no evaluation can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These reports by management, including the CEO and CFO, on the effectiveness of the Company’s Control Systems express only reasonable assurance of the conclusions reached.

Disclosure Controls and Procedures — The Company maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), that are designed to ensure that material information relating to the Company is made known to the officers who certify the Company’s financial reports and to other members of senior management and the Board of Directors. These disclosure controls and procedures are designed to ensure that information required to be disclosed in the Company’s reports that are filed or submitted under the Exchange Act, are recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the 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 the CEO and CFO, has evaluated the effectiveness, as of February 28, 2014, of the Company’s disclosure controls and procedures. Based on that evaluation, the CEO and CFO have concluded that the Company’s disclosure controls and procedures were effective as of February 28, 2014.

Management’s Annual Report on Internal Control over Financial Reporting — Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act). The Company’s internal control over financial reporting is a process designed under supervision of the Company’s principal executive officer and principal financial officer to provide reasonable assurance regarding the reliability of financial reporting and preparation of the Company’s financial statements for external purposes in accordance with generally accepted accounting principles. Management, with the participation of the CEO and CFO, has evaluated the effectiveness, as of February 28, 2014, of the Company’s internal control over financial reporting. In making this evaluation, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in its publication Internal Control-Integrated Framework. Based on that evaluation, management has concluded that the Company’s internal control over financial reporting was effective as of February 28, 2014.

Changes in Internal Control over Financial Reporting —There were no changes in the Company’s internal control over financial reporting that occurred during the quarter ended February 28, 2014 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Certain information with respect to the executive officers of the Company is set forth in the section entitled "Executive Officers" in Part I of this report.

The information required by this item is incorporated herein by reference from our Definitive Proxy Statement for our Annual Meeting of Shareholders, to be filed no later than 120 days after February 28, 2014.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated herein by reference from our Definitive Proxy Statement for our Annual Meeting of Shareholders, to be filed no later than 120 days after February 28, 2014.

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

Except for the information below, the information required by this item is incorporated herein by reference from our Definitive Proxy Statement for our Annual Meeting of Shareholders, to be filed no later than 120 days after February 28, 2014.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information with respect to the Company’s equity compensation plans as of February 28, 2014.

Plan category	Number of securities to be issued upon exercise of	Weighted-average exercise price of outstanding	Number of securities remaining available for future issuance under

	outstanding options, warrants and rights	**options, warrants and rights**	**equity compensation plans (excluding securities reflected in first column) (1)**
Equity compensation plans approved by security holders	450,920	$8.01	318,453
Equity compensation plans not approved by security holders	-0-	-0-	-0-
Total	450,920	$ 8.01	318,453

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(1) Represents shares remaining available under the Company's 2007 Equity Incentive Plan. Shares available for future issuances under the 2007 Equity Incentive Plan may be issued in the form of stock options, stock appreciation rights, restricted stock and stock units, performance shares and performance units, and other stock- and cash-based awards.

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

The information required by this item is incorporated herein by reference from our Definitive Proxy Statement for our Annual Meeting of Shareholders, to be filed no later than 120 days after February 28, 2014.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is incorporated herein by reference from our Definitive Proxy Statement for our Annual Meeting of Shareholders, to be filed no later than 120 days after February 28, 2014.

PART IV.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

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

1. Financial Statements

	Page
Report of Independent Registered Public Accounting Firm	31
Consolidated Statements of Income	32
Consolidated Balance Sheets	33
Consolidated Statements of Changes in Stockholders' Equity	34
Consolidated Statements of Cash Flows	35
Notes to Consolidated Financial Statements	36

2. Financial Statement Schedule

SCHEDULE II - Valuation and Qualifying Accounts

	Balance at Beginning of Period	Additions Charged to Costs & Exp.	Deductions	Balance at End of Period
Year Ended February 28, 2014 Valuation Allowance for Accounts and Notes Receivable	595,588	216,000	210,658	600,930

Year Ended February 28, 2013				
Valuation Allowance for Accounts and Notes Receivable	584,151	330,000	318,563	595,588
Year Ended February 29, 2012				
Valuation Allowance for Accounts and Notes Receivable	390,319	352,000	158,168	584,151

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3. Exhibits

Exhibit Number	Description	Incorporated by Reference to
2.1#	Asset Purchase Agreement, dated January 14, 2013, among Ulysses Asset Acquisition, LLC, YHI Inc. and Yogurtini International, LLC	Exhibit 99.1 to the Current Report on Form 8-K of the Registrant filed January 14, 2013
2.2#	Asset Purchase Agreement, dated January 14, 2013, between U-Swirl, Inc. and Aspen Leaf Yogurt, LLC	Exhibit 99.2 to the Current Report on Form 8-K of the Registrant filed January 14, 2013
2.3#	Membership Interest Purchase Agreement, dated January 14, 2013, between U-Swirl, Inc. and the Registrant	Exhibit 99.3 to the Current Report on Form 8-K of the Registrant filed January 14, 2013
3.1	Articles of Incorporation of the Registrant	Exhibit 3.1 to the Annual Report on Form 10-K

		of the Registrant for the year ended February 28, 2009
3.2	Articles of Amendment to Articles of Incorporation of the Registrant	Exhibit 3.1 to the Current Report on Form 8-K of the Registrant filed May 22, 2009
3.3	Amended and Restated Bylaws of the Registrant	Exhibit 3.1 to the Current Report on Form 8-K of the Registrant filed December 14, 2007
4.1	Specimen Common Stock Certificate	Exhibit 4.1 to the Annual Report on Form 10-K of the Registrant for the fiscal year ended February 28, 2007
10.1**	Form of Employment Agreement between the Registrant and its officers	Exhibit 10.1 to the Annual Report on Form 10-K of the Registrant for the fiscal year ended

		February 28, 2007
10.2	Current form of Franchise Agreement used by the Registrant	Exhibit 10.1 to the Quarterly Report on Form 10-Q of the Registrant for the quarter ended May 31, 2010
10.3**	2007 Equity Incentive Plan of the Registrant (As Amended and Restated)	Exhibit 10.1 to the current report on Form 8-K of the Registrant filed on August 9, 2013
10.4**	Form of Indemnification Agreement between the Registrant and its directors	Exhibit 10.7 to the Annual Report on Form 10-K of the Registrant for the fiscal year ended February 28, 2007
10.5**	Form of Indemnification Agreement between the Registrant and its officers	Exhibit 10.8 to the Annual Report on Form 10-K of the Registrant for the fiscal year ended February 28, 2007

10.6**	1995 Stock Option Plan of the Registrant	Exhibit 10.9 to Registration Statement on Form S-1 (Registration No. 33-62149) filed August 25, 1995
10.7**	Forms of Incentive Stock Option Agreement for 1995 Stock Option Plan	Exhibit 10.10 to Registration Statement on Form S-1 (Registration No. 33-62149) filed on August 25, 1995
10.8**	Forms of Nonqualified Stock Option Agreement for 1995 Stock Option Plan	Exhibit 10.11 to Registration Statement on Form S-1 (Registration No. 33-62149) filed on August 25, 1995
10.9**	2000 Nonqualified Stock Option Plan for Nonemployee Directors	Exhibit 99.1 to Registration Statement on Form S-8 (Registration No. 333-109936 filed on October 23,

		2003
10.10**	2004 Stock Option Plan	Exhibit 99.1 to Registration Statement on Form S-8 (Registration No. 333-119107) filed September 17, 2004

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Exhibit Number	Description	Incorporated by Reference to
10.11*	Master License Agreement, dated August 17, 2009, between Kahala Franchise Corp. and the Registrant	Exhibit 10.3 to the Quarterly Report on Form 10-Q of the Registrant for the quarter ended August 31, 2009
10.13	Promissory Note, dated August 2, 2013 in the amount of $5,000,000, between Wells Fargo Bank and the Registrant	Exhibit 10.1 to the Quarterly Report on Form 10-Q of the Registrant for the quarter ended August 31, 2013
10.14	Business Loan Agreement, dated August 2, 2013, between Wells Fargo Bank and the Registrant	Exhibit 10.2 to the Quarterly Report on Form 10-Q of the Registrant for the quarter ended August 31, 2013
10.15	Business Loan Agreement, dated December 27, 2013, between Wells Fargo Bank and the Registrant	Exhibit 99.3 to the Current

		Report on Form 8-K of the Registrant filed on January 22, 2014
10.16*	Master License Agreement, dated April 27, 2012, between RMCF Asia, Ltd. and the Registrant	Exhibit 10.1 to the Quarterly Report on Form 10-Q of the Registrant for the quarter ended May 31, 2012
10.17	Voting Agreement, dated January 14, 2013, among U-Swirl, Inc., Henry Cartwright, Ulderico Conte, Terry Cartwright, the Registrant and Aspen Leaf Yogurt, LLC	Exhibit 99.4 to the Current Report on Form 8-K of the Registrant filed January 14, 2013
10.18	Investor Rights Agreement, dated January 14, 2013, between U-Swirl, Inc. and the Registrant	Exhibit 99.5 to the Current Report on Form 8-K of the Registrant filed January 14, 2013
10.19	Investor Rights Agreement, dated January 14, 2013 between U-Swirl, Inc. and Aspen Leaf Yogurt, LLC	Exhibit 99.6 to the Current Report on Form 8-K of the Registrant filed January 14,

		2013
10.20	Loan and Security Agreement, dated January 16, 2014, between U-Swirl, Inc. and the Registrant	Exhibit 99.4 to the Current Report on Form 8-K of the Registrant filed on January 22, 2014
21.1	Subsidiaries of the Registrant	Filed herewith
23.1	Consent of Independent Registered Public Accounting Firm	Filed herewith
31.1	Certification Pursuant To Section 302 of the Sarbanes-Oxley Act of 2002, Chief Executive Officer	Filed herewith
31.2	Certification Pursuant To Section 302 of the Sarbanes-Oxley Act of 2002, Chief Financial Officer	Filed herewith
32.1	Certification Pursuant To Section 906 Of The Sarbanes-Oxley Act of 2002, Chief Executive Officer	Furnished herewith
32.2	Certification Pursuant To Section 906 Of The Sarbanes-Oxley Act of 2002, Chief Financial Officer	Furnished herewith

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Exhibit Number	Description	Incorporated by Reference to
101.INS	XBRL Instance Document	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith

*	Contains material that has been omitted pursuant to a request for confidential treatment and such material has been filed separately with the Commission.
**	Management contract or compensatory plan
#	Schedules and similar attachments have been omitted pursuant to Item 601(b) (2) of Regulation S-K under the Securities Act of 1934, as amended. We hereby undertake to supplementally furnish copies of any omitted schedules to the SEC upon request

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC.

Date: June 11, 2014

/S/ Bryan J. Merryman

BRYAN J. MERRYMAN

Chief Operating Officer, Chief

Financial Officer, Treasurer and

Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: June 11, 2014

/S/ Franklin E. Crail

FRANKLIN E. CRAIL

Chairman of the Board of

Directors, President and Chief

Executive Officer

(Principal Executive Officer)

Date: June 11, 2014

/S/ Bryan J. Merryman

BRYAN J. MERRYMAN

	Chief Operating Officer, Chief Financial Officer, Treasurer and Director (Principal Financial and Accounting Officer)
Date: June 11, 2014	/S/ Gerald A. Kien GERALD A. KIEN, Director
Date: June 11, 2014	/S/ Lee N. Mortenson LEE N. MORTENSON, Director
Date: June 11, 2014	/S/ Clyde Wm. Engle CLYDE Wm. ENGLE, Director
Date: June 11, 2014	/S/ Scott G. Capdevielle SCOTT G. CAPDEVIELLE, Director

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