

ROCKY MOUNTAIN CHOCOLATE FACTORY INC

Form 10-Q

January 07, 2005

**Table of Contents**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended November 30, 2004

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-14749

**Rocky Mountain Chocolate Factory, Inc.**

(Exact name of registrant as specified in its charter)

Colorado  
(State of incorporation)

84-0910696

(I.R.S. Employer Identification No.)

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

(970) 259-0554

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange act). Yes  No .

On December 22, 2004 the registrant had outstanding 4,311,602 shares of its common stock, \$.03 par value.

The exhibit index is located on page 17.

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC.

FORM 10-Q

TABLE OF CONTENTS

|                         | Page<br>No.   |    |
|-------------------------|---|----|
| <b><u>PART I.</u></b>   | <b><u>FINANCIAL INFORMATION</u></b>   |    |
| <b><u>Item 1.</u></b>   | <b><u>Financial Statements</u></b>  | 3  |
|                         | <b><u>Statements of Operations</u></b>  | 3  |
|                         | <b><u>Balance Sheets</u></b>  | 4  |
|                         | <b><u>Statements of Cash Flows</u></b>  | 5  |
|                         | <b><u>Notes to Interim Financial Statements</u></b>   | 6  |
| <b><u>Item 2.</u></b>   | <b><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b> | 10 |
| <b><u>Item 3.</u></b>   | <b><u>Quantitative and Qualitative Disclosures About Market Risk</u></b>                            | 16 |
| <b><u>Item 4.</u></b>   | <b><u>Controls and Procedures</u></b>   | 16 |
| <b><u>PART II.</u></b>  | <b><u>OTHER INFORMATION</u></b>   |    |
| <b><u>Item 1.</u></b>   | <b><u>Legal Proceedings</u></b>   | 17 |
| <b><u>Item 2.</u></b>   | <b><u>Changes in Securities and Use of Proceeds</u></b>   | 17 |
| <b><u>Item 3.</u></b>   | <b><u>Defaults Upon Senior Securities</u></b>   | 17 |
| <b><u>Item 4.</u></b>   | <b><u>Submission of Matters to a Vote of Security Holders</u></b>                                   | 17 |
| <b><u>Item 5.</u></b>   | <b><u>Other Information</u></b>   | 17 |
| <b><u>Item 6.</u></b>   | <b><u>Exhibits</u></b>  | 17 |
| <b><u>SIGNATURE</u></b> |   | 19 |
|                         | <b><u>Certification Pursuant to Section 302 of CEO</u></b>  |    |
|                         | <b><u>Certification Pursuant to Section 302 of CFO</u></b>  |    |
|                         | <b><u>Certification Pursuant to Section 906 of CEO</u></b>  |    |
|                         | <b><u>Certification Pursuant to Section 906 of CFO</u></b>  |    |

**Table of Contents****PART I. FINANCIAL INFORMATION**

## Item 1. Financial Statements

## ROCKY MOUNTAIN CHOCOLATE FACTORY, INC.

STATEMENTS OF OPERATIONS  
(unaudited)

|  | Three Months Ended<br>November 30, |              | Nine Months Ended November<br>30, |               |
|--|------------------------------------|--------------|-----------------------------------|---------------|
|  | 2004                               | 2003         | 2004                              | 2003          |
| <b>Revenues</b>                          |                                    |              |                                   |               |
| Sales                                    | \$ 5,884,879                       | \$ 4,731,950 | \$ 14,007,903                     | \$ 12,009,955 |
| Franchise and royalty fees               | 1,212,999                          | 1,069,108    | 3,683,196                         | 3,189,155     |
| Total revenues                           | 7,097,878                          | 5,801,058    | 17,691,099                        | 15,199,110    |
| <b>Costs and Expenses</b>                |                                    |              |                                   |               |
| Cost of sales                            | 3,715,657                          | 2,940,246    | 8,419,345                         | 7,523,619     |
| Franchise costs                          | 391,949                            | 309,639      | 1,004,257                         | 808,184       |
| Sales and marketing                      | 337,459                            | 325,394      | 884,730                           | 831,363       |
| General and administrative               | 703,668                            | 685,875      | 1,737,461                         | 1,627,314     |
| Retail operating                         | 346,647                            | 337,179      | 1,072,850                         | 1,036,649     |
| Depreciation and amortization            | 199,654                            | 177,520      | 602,537                           | 605,561       |
| Total costs and expenses                 | 5,695,034                          | 4,775,853    | 13,721,180                        | 12,432,690    |
| <b>Income from Operations</b>            | 1,402,844                          | 1,025,205    | 3,969,919                         | 2,766,420     |
| <b>Other Income (Expense)</b>            |                                    |              |                                   |               |
| Interest expense                         | (25,147)                           | (34,067)     | (76,724)                          | (115,899)     |
| Interest income                          | 22,890                             | 22,374       | 72,275                            | 68,628        |
| Other, net                               | (2,257)                            | (11,693)     | (4,449)                           | (47,271)      |
| <b>Income Before Income Taxes</b>        | 1,400,587                          | 1,013,512    | 3,965,470                         | 2,719,149     |
| <b>Income Tax Provision</b>              | 529,425                            | 383,110      | 1,498,950                         | 1,027,840     |
| <b>Net Income</b>                        | \$ 871,162                         | \$ 630,402   | \$ 2,466,520                      | \$ 1,691,309  |
| <b>Basic Earnings per Common Share</b>   | \$ .20                             | \$ .15       | \$ .58                            | \$ .41        |
| <b>Diluted Earnings per Common Share</b> | \$ .19                             | \$ .14       | \$ .54                            | \$ .38        |
| <b>Weighted Average Common Shares</b>    |                                    |              |                                   |               |
| <b>Outstanding</b>                       | 4,287,692                          | 4,177,973    | 4,279,542                         | 4,166,458     |
| <b>Dilutive Effect of Stock Options</b>  | 341,027                            | 368,363      | 325,432                           | 307,966       |
| <b>Weighted Average Common Shares</b>    |                                    |              |                                   |               |
| <b>Outstanding, Assuming Dilution</b>    | 4,628,719                          | 4,546,336    | 4,604,974                         | 4,474,424     |

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

**Table of Contents**

## ROCKY MOUNTAIN CHOCOLATE FACTORY, INC.

## BALANCE SHEETS

|  | November 30,<br>2004<br>(unaudited) | February 29,<br>2004 |
|--|-------------------------------------|----------------------|
| <b>Assets</b>  |                                     |                      |
| <b>Current Assets</b>  |                                     |                      |
| Cash and cash equivalents  | \$ 3,001,149                        | \$ 4,552,283         |
| Accounts receivable, less allowance for doubtful accounts of \$62,821 and \$73,630, respectively                         | 3,973,594                           | 2,388,848            |
| Notes receivable   | 398,000                             | 313,200              |
| Inventories  | 2,458,646                           | 2,471,810            |
| Deferred income taxes  | 149,304                             | 149,304              |
| Other  | 342,176                             | 353,733              |
| Total current assets   | 10,322,869                          | 10,229,178           |
| <b>Property and Equipment, Net</b>   | 5,680,526                           | 5,456,695            |
| <b>Other Assets</b>  |                                     |                      |
| Notes receivable, less valuation allowance of \$47,005   | 526,387                             | 602,095              |
| Goodwill, net  | 1,133,751                           | 1,133,751            |
| Intangible assets, net   | 444,842                             | 498,885              |
| Other  | 95,635                              | 46,641               |
| Total other assets   | 2,200,615                           | 2,281,372            |
| Total assets   | \$ 18,204,010                       | \$ 17,967,245        |
| <b>Liabilities and Stockholders Equity</b>   |                                     |                      |
| <b>Current Liabilities</b>   |                                     |                      |
| Current maturities of long-term debt   | \$ 535,800                          | \$ 1,080,400         |
| Accounts payable   | 1,005,303                           | 952,542              |
| Accrued salaries and wages   | 841,840                             | 1,091,596            |
| Other accrued expenses   | 678,502                             | 474,906              |
| Dividend payable   | 346,335                             | 236,108              |
| Total current liabilities  | 3,407,780                           | 3,835,552            |
| <b>Long-Term Debt, Less Current Maturities</b>   | 1,561,086                           | 1,986,174            |
| <b>Deferred Income Taxes</b>   | 555,567                             | 555,567              |
| <b>Commitments and Contingencies</b>   |                                     |                      |
| <b>Stockholders Equity</b>   |                                     |                      |
| Common stock, \$.03 par value, 7,250,000 shares authorized, 4,289,602 and 4,272,820 issued and outstanding, respectively | 128,688                             | 128,185              |
| Additional paid-in capital   | 6,184,285                           | 2,682,631            |
| Retained earnings  | 6,366,604                           | 8,779,136            |

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|  |               |               |
|--|---------------|---------------|
| Total stockholders' equity                 | 12,679,577    | 11,589,952    |
| Total liabilities and stockholders' equity | \$ 18,204,010 | \$ 17,967,245 |

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

**Table of Contents**

## ROCKY MOUNTAIN CHOCOLATE FACTORY, INC.

## STATEMENTS OF CASH FLOWS

(unaudited)

|   | Nine Months Ended<br>November 30 |              |
|---|----------------------------------|--------------|
|   | 2004                             | 2003         |
| <b>Cash Flows From Operating activities</b>                                       |                                  |              |
| Net income  | \$ 2,466,520                     | \$ 1,691,309 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                  |              |
| Depreciation and amortization   | 602,537                          | 605,561      |
| Provision for doubtful accounts   |                                  | 50,000       |
| Provision for obsolete inventory  | 60,000                           |              |
| Loss on sale of property and equipment  | 39,933                           | 82,787       |
| Changes in operating assets and liabilities:                                      |                                  |              |
| Accounts receivable   | (1,584,746)                      | (1,124,432)  |
| Refundable income taxes   |                                  | 499,424      |
| Inventories   | (46,836)                         | 774,346      |
| Other current assets  | 2,703                            | (55,768)     |
| Accounts payable  | 52,761                           | 19,669       |
| Deferred income taxes   |                                  | 490,050      |
| Accrued liabilities   | (43,447)                         | (16,143)     |
| Net cash provided by operating activities   | 1,549,425                        | 3,016,803    |
| <b>Cash Flows From Investing Activities</b>                                       |                                  |              |
| Proceeds received on notes receivable   | 168,684                          | 155,368      |
| Addition to notes receivable  | (177,776)                        | (53,675)     |
| Proceeds from sale of assets  | 24,155                           | 79,876       |
| Purchases of property and equipment   | (807,797)                        | (258,806)    |
| Increase in other assets  | (66,512)                         | (616)        |
| Net cash used in investing activities   | (859,246)                        | (77,853)     |
| <b>Cash Flows From Financing Activities</b>                                       |                                  |              |
| Payments on long-term debt  | (969,688)                        | (913,332)    |
| Repurchase of stock   | (844,205)                        | (345,680)    |
| Proceeds from exercise of stock options   | 333,826                          | 245,215      |
| Costs of stock dividend   | (7,942)                          |              |
| Dividends paid  | (753,304)                        | (191,327)    |
| Net cash used in financing activities   | (2,241,313)                      | (1,205,124)  |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>                       | (1,551,134)                      | 1,733,826    |
| <b>Cash and Cash Equivalents, Beginning of Period</b>                             | 4,552,283                        | 1,282,972    |
| <b>Cash and Cash Equivalents, End of Period</b>                                   | \$ 3,001,149                     | \$ 3,016,798 |

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





**Table of Contents**

## ROCKY MOUNTAIN CHOCOLATE FACTORY, INC.

## NOTES TO INTERIM FINANCIAL STATEMENTS

## NOTE 1 NATURE OF OPERATIONS AND BASIS OF PRESENTATION

## Nature of Operations

Rocky Mountain Chocolate Factory, Inc. is an international franchiser, confectionery manufacturer and retail operator in the United States, Guam, Canada and the United Arab Emirates. The Company manufactures an extensive line of premium chocolate candies and other confectionery products. 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 and other confectionery products. The following table summarizes the number of Rocky Mountain Chocolate Factory stores at November 30, 2004:

|                                  | Sold, Not Yet |      | Total |
|----------------------------------|---------------|------|-------|
|                                  | Open          | Open |       |
| Company owned stores             |               | 8    | 8     |
| Franchise stores Domestic stores | 15            | 226  | 241   |
| Franchise Stores Domestic kiosks | 3             | 16   | 19    |
| Franchise units International    |               | 31   | 31    |
|                                  | 18            | 281  | 299   |

## Basis of Presentation

The accompanying financial statements have been prepared by the Company, without audit, and reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim periods. The statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial reporting and Securities and Exchange Commission regulations. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the financial statements reflect all adjustments (of a normal and recurring nature) which are necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods. The results of operations for the nine months ended November 30, 2004 are not necessarily indicative of the results to be expected for the entire fiscal year.

These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended February 29, 2004.

## Stock-Based Compensation

Statement of Financial Accounting Standards No. 123 (SFAS 123), *Accounting for Stock-Based Compensation* encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25 (APB 25), *Accounting for Stock Issued to Employees* and provides the required pro forma disclosures prescribed by SFAS 123 and SFAS 148.

The Company has adopted the disclosure-only provisions of SFAS 123. In accordance with those provisions, the Company applies APB 25 and related interpretations in accounting for its stock option plans and, accordingly, does not recognize compensation cost if the exercise price is not less than market at date of grant. No compensation expense was recognized during the quarters ended November 30, 2004 or 2003. If the Company had elected to recognize compensation cost based on the fair value of the options granted at grant dates as prescribed by SFAS 123, net income and earnings per share would have been reduced to the pro-forma amounts indicated in the table below for the three and nine months ending November 30, (in 000 \$ except per share amounts):

**Table of Contents**

## NOTE 1 NATURE OF OPERATIONS AND BASIS OF PRESENTATION CONTINUED

## Stock-Based Compensation Continued

|  | Three Months ended<br>November 30, |        | Nine Months Ended<br>November 30, |          |
|--|------------------------------------|--------|-----------------------------------|----------|
|  | 2004                               | 2003   | 2004                              | 2003     |
| Net Income as reported   | \$ 871                             | \$ 630 | \$ 2,467                          | \$ 1,691 |
| Stock-based compensation expense included in reported net income, net of tax                 |                                    |        |                                   |          |
| Deduct stock-based compensation expense determined under fair value based method, net of tax | 29                                 | 18     | 90                                | 54       |
| Net Income pro forma   | 842                                | 612    | 2,377                             | 1,637    |
| Basic Earnings per Share-as reported   | .20                                | .15    | .58                               | .41      |
| Diluted Earnings per Share-as reported   | .19                                | .14    | .54                               | .38      |
| Basic Earnings per Share-pro forma   | .20                                | .15    | .56                               | .39      |
| Diluted Earnings per Share-pro forma   | .18                                | .13    | .52                               | .37      |

## NOTE 2 EARNINGS PER SHARE

Basic earnings per share is calculated using the weighted average number of common shares outstanding. Diluted earnings per share reflects the potential dilution that could occur from common shares issuable through stock options. For the three months ended November 30, 2004 and 2003, zero and 22,000 stock options were excluded from the computation of earnings per share because their effect would have been anti-dilutive. For the nine months ended November 30, 2004 and 2003, zero and 133,685 stock options were excluded from the computation of earnings per share because their effect would have been anti-dilutive.

## NOTE 3 INVENTORIES

Inventories consist of the following:

|                          | November 30,<br>2004 | February 29,<br>2004 |
|--------------------------|----------------------|----------------------|
| Ingredients and supplies | \$ 1,272,763         | \$ 1,363,524         |
| Finished candy           | 1,185,883            | 1,108,286            |
|                          | \$ 2,458,646         | \$ 2,471,810         |

## NOTE 4 PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following:

|                         | November 30,<br>2004 | February 29,<br>2004 |
|-------------------------|----------------------|----------------------|
| Land                    | \$ 513,618           | \$ 513,618           |
| Building                | 4,104,801            | 3,864,582            |
| Machinery and equipment | 7,370,806            | 7,106,039            |

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|                               |              |              |
|-------------------------------|--------------|--------------|
| Furniture and fixtures        | 674,592      | 637,523      |
| Leasehold improvements        | 484,011      | 494,515      |
| Transportation equipment      | 180,723      | 180,723      |
|                               | 13,328,551   | 12,797,000   |
| Less accumulated depreciation | 7,648,025    | 7,340,305    |
| Property and equipment, net   | \$ 5,680,526 | \$ 5,456,695 |

**Table of Contents****NOTE 5 STOCKHOLDERS EQUITY****Stock Dividend**

On May 4, 2004 the Board of Directors declared a 10 percent stock dividend payable on May 27, 2004 to shareholders of record as of May 13, 2004. Shareholders received one additional share of Common Stock for every ten shares owned prior to the record date. Subsequent to the dividend there were 4,286,722 shares outstanding.

All share and per share data have been restated in all periods presented to give effect to the stock dividend.

**Stock Repurchases**

Between March 11, 2004 and June 14, 2004 the Company repurchased 89,440 Company shares at an average price of \$9.44 per share.

**Cash Dividend**

The Company paid a quarterly cash dividend of \$0.0545 per common share on March 16, 2004 to shareholders of record on March 3, 2004. The Company paid a quarterly cash dividend of \$0.06 per common share on June 16, 2004 to shareholders of record on June 3, 2004. The Company paid a quarterly cash dividend of \$0.06 per common share on September 16, 2004 to shareholders of record on September 2, 2004. On November 15, 2004 the Company declared a quarterly cash dividend of \$0.08 per common share payable on December 16, 2004 to shareholders of record on December 2, 2004.

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

**NOTE 6 SUPPLEMENTAL CASH FLOW INFORMATION**

|                               | Nine Months Ended<br>November 30, |            |
|-------------------------------|-----------------------------------|------------|
|                               | 2004                              | 2003       |
| Cash paid for:                |                                   |            |
| Interest                      | \$ 76,760                         | \$ 116,017 |
| Income taxes                  | 1,360,886                         | 5,484      |
| Non-Cash Financing Activities |                                   |            |
| Dividend payable              | \$ 346,335                        | \$ 208,386 |

**NOTE 7 OPERATING SEGMENTS**

The Company classifies its business interests into two reportable segments: Franchising and Manufacturing. The Company's retail stores provide an environment for testing consumer behavior, various pricing strategies, new products and promotions, operating and training methods and merchandising techniques. Three operational stores previously classified as held for sale were reclassified as assets held and used when management's intentions changed.

All Company-owned retail stores are evaluated by management in relation to their contribution to franchising efforts and are included in the Franchising segment. The accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 1 to the Company's financial statements included in the Company's annual report on Form 10-K for the year ended February 29, 2004. 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:

**Table of Contents**

## NOTE 7 OPERATING SEGMENTS CONTINUED

|                                      | Franchising  | Manufacturing | Other       | Total         |
|--------------------------------------|--------------|---------------|-------------|---------------|
| Three Months Ended November 30, 2004 |              |               |             |               |
| Total revenues                       | \$ 1,786,595 | \$ 5,674,406  | \$          | \$ 7,461,001  |
| Intersegment revenues                |              | (363,123)     |             | (363,123)     |
| Revenue from external customers      | 1,786,595    | 5,311,283     |             | 7,097,878     |
| Segment profit (loss)                | 514,480      | 1,636,153     | (750,046)   | 1,400,587     |
| Total assets                         | 2,759,384    | 9,520,094     | 5,924,532   | 18,204,010    |
| Capital expenditures                 | 64,408       | 238,666       | 24,414      | 327,488       |
| Total depreciation & amortization    | 55,432       | 96,375        | 47,847      | 199,654       |
| Three Months Ended November 30, 2003 |              |               |             |               |
| Total revenues                       | \$ 1,601,476 | \$ 4,521,550  | \$          | \$ 6,123,026  |
| Intersegment revenues                |              | (321,968)     |             | (321,968)     |
| Revenue from external customers      | 1,601,476    | 4,199,582     |             | 5,801,058     |
| Segment profit (loss)                | 391,702      | 1,283,376     | (661,566)   | 1,013,512     |
| Total assets                         | 2,549,349    | 8,670,236     | 5,842,222   | 17,061,807    |
| Capital expenditures                 | 103,976      | 52,801        | 11,791      | 168,568       |
| Total depreciation & amortization    | 29,965       | 99,819        | 47,736      | 177,520       |
|                                      | Franchising  | Manufacturing | Other       | Total         |
| Nine Months Ended November 30, 2004  |              |               |             |               |
| Total revenues                       | \$ 5,616,609 | \$ 13,088,938 | \$          | \$ 18,705,547 |
| Intersegment revenues                |              | (1,014,448)   |             | (1,014,448)   |
| Revenue from external customers      | 5,616,609    | 12,074,490    |             | 17,691,099    |
| Segment profit (loss)                | 1,915,109    | 3,897,421     | (1,847,060) | 3,965,470     |
| Total assets                         | 2,759,384    | 9,520,094     | 5,924,532   | 18,204,010    |
| Capital expenditures                 | 229,445      | 369,738       | 208,614     | 807,797       |
| Total depreciation & amortization    | 169,752      | 289,244       | 143,541     | 602,537       |
| Nine Months Ended November 30, 2003  |              |               |             |               |
| Total revenues                       | \$ 5,023,563 | \$ 10,971,134 | \$          | \$ 15,994,697 |
| Intersegment revenues                |              | (795,587)     |             | (795,587)     |
| Revenue from external customers      | 5,023,563    | 10,175,547    |             | 15,199,110    |
| Segment profit (loss)                | 1,624,835    | 2,832,920     | (1,738,606) | 2,719,149     |
| Total assets                         | 2,549,349    | 8,670,236     | 5,842,222   | 17,061,807    |
| Capital expenditures                 | 126,223      | 106,840       | 25,743      | 258,806       |
| Total depreciation & amortization    | 164,270      | 298,083       | 143,208     | 605,561       |

## NOTE 8 GOODWILL AND INTANGIBLE ASSETS

Effective March 1, 2002 the Company adopted Statement of Financial Accounting Standards No. 142 (SFAS 142), Goodwill and Intangible Assets. SFAS 142 revised the accounting for purchased goodwill and intangible assets.



Under SFAS 142, goodwill and intangible assets with indefinite lives will no longer be amortized, will be tested for impairment annually and also in the event of an impairment indicator, and must be assigned to reporting units for purposes of impairment testing and segment reporting. The Company has historically amortized goodwill on the straight-line method over ten to twenty-five years. Beginning March 1, 2002, quarterly and annual goodwill amortization is no longer recognized.

**Table of Contents**

## NOTE 8 GOODWILL AND INTANGIBLE ASSETS Continued

Intangible assets consist of the following:

|   | Amortization<br>Period | November 30, 2004          |                             | February 29, 2004          |                             |
|---|------------------------|----------------------------|-----------------------------|----------------------------|-----------------------------|
|   |                        | Gross<br>Carrying<br>Value | Accumulated<br>Amortization | Gross<br>Carrying<br>Value | Accumulated<br>Amortization |
| Intangible assets subject to amortization     |                        |                            |                             |                            |                             |
| Store design                                  | 10 Years               | \$ 205,777                 | \$ 58,864                   | \$ 205,777                 | \$ 43,508                   |
|   | 3-5                    |                            |                             |                            |                             |
| Packaging licenses                            | Years                  | 95,831                     | 82,102                      | 95,831                     | 73,865                      |
| Packaging design                              | 10 Years               | 403,238                    | 119,038                     | 403,238                    | 88,588                      |
| Total   |                        | 704,846                    | 260,004                     | 704,846                    | 205,961                     |
| Intangible assets not subject to amortization |                        |                            |                             |                            |                             |
| Franchising segment- Company stores           |                        |                            |                             |                            |                             |
| goodwill                                      |                        | 1,275,962                  | 336,847                     | 1,275,962                  | 336,847                     |
| Franchising goodwill                          |                        | 295,000                    | 197,682                     | 295,000                    | 197,682                     |
| Manufacturing segment-Goodwill                |                        | 295,000                    | 197,682                     | 295,000                    | 197,682                     |
| Total Goodwill                                |                        | 1,865,962                  | 732,211                     | 1,865,962                  | 732,211                     |
| Total intangible assets                       |                        | \$ 2,570,808               | \$ 992,215                  | \$ 2,570,808               | \$ 938,172                  |

Amortization expense related to intangible assets totaled \$54,043 and \$56,116 during the nine months ended November 30, 2004 and 2003, respectively. The aggregate estimated amortization expense for intangible assets remaining as of November 30, 2004 is as follows:

|                          |            |
|--------------------------|------------|
| Remainder of fiscal 2005 | \$ 18,000  |
| 2006                     | 77,800     |
| 2007                     | 61,100     |
| 2008                     | 61,100     |
| 2009                     | 61,100     |
| Thereafter               | 165,742    |
| Total                    | \$ 444,842 |

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

The following discussion and analysis of the financial condition and results of operations of the Company should be read in conjunction with the unaudited financial statements and related Notes of the Company included elsewhere in this report. The nature of the Company's operations and the environment in which it operates subject it to changing economic, competitive, regulatory and technological conditions, risks and uncertainties. The Company notes the following factors that, among others, could cause future results to differ materially from the forward-looking statements, expectations and assumptions expressed or implied in this Quarterly Report on Form 10-Q. Many of the forward-looking statements contained in this document may be identified by the use of forward-looking words such as will, intend, believe, expect, anticipate, should, plan, estimate and potential, or similar expressions. These factors could cause results to differ include, but are not limited to: changes in the confectionery business environment,

seasonality, consumer interest in the Company's products, general economic conditions, consumer trends, costs and availability of raw materials, competition and the effect of government regulation. Government regulation which the Company and its franchisees either are or may be subject to and which could cause results to differ from forward-looking statements include, but are not limited to: local, state and federal laws regarding health, sanitation, safety, building and fire codes, franchising, employment, manufacturing, packaging and distribution of food products and motor carriers.

The Company's ability to successfully achieve expansion of its Rocky Mountain Chocolate Factory franchise system depends on many factors not within the Company's control including the availability of suitable sites for new store establishment and the availability of qualified franchisees to support such expansion.

**Table of Contents**

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 and the receptivity of the Company's franchise system to its product introductions and promotional programs. Same store pounds purchased from the factory by franchised stores increased 6.6% in the first quarter and 15.5% in the second quarter, declined 1.1% in the third quarter and increased 7.0% in the first nine months of Fiscal 2005.

As a result, the actual results realized by the Company could differ materially from the results discussed in or contemplated by the forward-looking statements made herein. Words or phrases such as will, anticipate, expect, believe, intend, estimate, project, plan or similar expressions are intended to identify forward-looking statements. Readers are cautioned not to place undue reliance on the forward-looking statements in this Quarterly Report on Form 10-Q.

**Results of Operations****Three Months Ended November 30, 2004 Compared to the Three Months Ended November 30, 2003**

Basic earnings per share increased 33.3% from \$.15 for the three months ended November 30, 2003 to \$.20 for the three months ended November 30, 2004. Revenues increased 22.4% from fiscal 2004 to fiscal 2005. Operating income increased 36.8% from \$1.0 million in fiscal 2004 to \$1.4 million in fiscal 2005. Net income increased 38.2% from \$630,000 in fiscal 2004 to \$871,000 in fiscal 2005. The increase in earnings per share, operating income, and net income for the third quarter of fiscal 2005 versus the same period in fiscal 2004 was due primarily to growth in the average number of franchise stores in operation and the corresponding increase in revenue.

| Revenues<br>(\$ s in thousands) | Three Months Ended<br>November 30, |            |            | %      |  |
|---------------------------------|------------------------------------|------------|------------|--------|--|
|                                 | 2004                               | 2003       | Change     | Change |  |
| Factory sales                   | \$ 5,311.3                         | \$ 4,199.5 | \$ 1,111.8 | 26.5%  |  |
| Retail sales                    | 573.6                              | 532.4      | 41.2       | 7.7%   |  |
| Franchise fees                  | 187.5                              | 177.1      | 10.4       | 5.9%   |  |
| Royalty and Marketing fees      | 1,025.5                            | 892.0      | 133.5      | 15.0%  |  |
| Total                           | \$ 7,097.9                         | \$ 5,801.0 | \$ 1,296.9 | 22.4%  |  |

**Factory Sales**

Factory sales increased for the three months ended November 30, 2004 due to product shipments to the Company's single largest customer outside its system of franchised retail stores, an increase in the average number of franchised stores in operation and a 30.5% increase in pounds purchased by new franchised stores when compared to the three months ended November 30, 2003. The average number of franchised stores in operation increased to 264 in the third quarter of fiscal 2005 from 231 in fiscal 2004.

**Retail Sales**

Same store retail sales increased 3.8% in the third quarter of fiscal 2005 compared to the same period in the prior year.

**Royalties, Marketing Fees and Franchise Fees**

The increase in royalties and marketing fees resulted from growth in both the average number of domestic units in operation and same store sales. The average number of domestic units in operation grew 15.2% from 204 in the third quarter of fiscal 2004 to 235 in 2005 and same store sales grew 5.0% in the third quarter of fiscal 2005 compared to the same period last year. Franchise fee revenues in the third quarter of fiscal 2005 were approximately the same as the third quarter of fiscal 2004.

**Table of Contents**

| Costs and Expenses<br>(\$ s in thousands) | Three Months Ended<br>November 30, |            | Change   | %<br>Change |
|---|------------------------------------|------------|----------|-------------|
|   | 2004                               | 2003       |          |             |
| Cost of sales - factory                   | \$ 3,492.3                         | \$ 2,733.7 | \$ 758.6 | 27.7%       |
| Cost of sales - retail                    | 223.3                              | 206.5      | 16.8     | 8.1%        |
| Franchise costs                           | 392.0                              | 309.6      | 82.4     | 26.6%       |
| Sales and marketing                       | 337.4                              | 325.4      | 12.0     | 3.7%        |
| General and administrative                | 703.7                              | 685.9      | 17.8     | 2.6%        |
| Retail operating                          | 346.6                              | 337.2      | 9.4      | 2.8%        |
| Total                                     | \$ 5,495.3                         | \$ 4,598.3 | \$ 897.0 | 19.5%       |
| <br>                                      |                                    |            |          |             |
| Gross margin<br>(\$ s in thousands)       | Three Months Ended<br>November 30, |            | Change   | %<br>Change |
|   | 2004                               | 2003       |          |             |
| Factory                                   | \$ 1,819.0                         | \$ 1,465.8 | \$ 353.2 | 24.1%       |
| Retail                                    | 350.3                              | 325.9      | 24.4     | 7.5%        |
| Total                                     | \$ 2,169.3                         | \$ 1,791.7 | \$ 377.6 | 21.1%       |
| <br>                                      |                                    |            |          |             |
| (Percent)<br>Cost of Sales                | Three Months Ended<br>November 30, |            | Change   | %<br>Change |
|   | 2004                               | 2003       |          |             |
| Factory                                   | 34.2%                              | 34.9%      | (0.7%)   | (2.0%)      |
| Retail                                    | 61.1%                              | 61.2%      | (0.1%)   | (0.2%)      |
| Total                                     | 36.9%                              | 37.9%      | (1.0%)   | (2.6%)      |

The small decrease in factory margin is due primarily to timing of product shipments to the Company's single largest customer outside its system of franchised retail stores.

**Franchise Costs**

The increase in franchise costs is due to a planned increase in personnel costs and related support expenditures as well as costs incurred related to the Company's bi-annual franchisee convention. As a percentage of total royalty and marketing fees and franchise fee revenue, franchise costs increased to 32.3% in the third quarter of fiscal 2005 from 29.0% in the third quarter of fiscal 2004. This increase as a percentage of royalty, marketing and franchise fees is primarily a result of higher franchise costs relative to revenues.

**Sales and Marketing**

The increase in sales and marketing is due primarily to a planned increase in personnel costs.

**General and Administrative**

The increase in general and administrative costs is due primarily to increased compensation and public company costs. As a percentage of total revenues, general and administrative expenses decreased to 9.9% in fiscal 2005 compared to 11.8% in fiscal 2004.

**Retail Operating Expenses**

This increase was due primarily to increased compensation expense during the third quarter of fiscal 2005 versus the third quarter fiscal 2004. Retail operating expenses, as a percentage of retail sales, decreased from 63.3% in the third quarter of fiscal 2004 to 60.4% in the third quarter of fiscal 2005 due to a higher increase in revenue relative to the increase in costs.

#### Depreciation and Amortization

Depreciation and amortization of \$200,000 in the third quarter of fiscal 2005 increased 12.5% from \$178,000 incurred in the third quarter of fiscal 2004 due to increased purchases of equipment and related depreciation expense.

**Table of Contents**

## Other Expense, Net

Other expense, net of \$2,300 incurred in the third quarter of fiscal 2005 represents a decrease of 80.7% from the \$12,000 incurred in the third quarter of fiscal 2004, due primarily to lower interest expense on lower average outstanding balances of long-term debt plus increased interest income on notes receivable and invested cash.

## Income Tax Expense

The Company's effective income tax rate in the third quarter of fiscal 2005 was 37.8%, which is the same rate as the third quarter of fiscal 2004.

**Nine Months Ended November 30, 2004 Compared to the Nine Months Ended November 30, 2003**

Basic earnings per share increased 41.5% from \$.41 for the nine months ended November 30, 2003 to \$.58 for the nine months ended November 30, 2004. Revenues increased 16.4% from fiscal 2004 to fiscal 2005. Operating income increased 43.5% from \$2.8 million in fiscal 2004 to \$4.0 million in fiscal 2005. Net income increased 45.8% from \$1.7 million in fiscal 2004 to \$2.5 million in fiscal 2005. The increase in earnings per share, operating income, and net income for the first nine months of fiscal 2005 versus the same period in fiscal 2004 was due primarily to growth in the average number of franchise stores in operation and the corresponding increase in revenue.

## Revenues

| (\$ s in thousands)        | Nine Months Ended<br>November 30, |             | Change     | %      |
|----------------------------|-----------------------------------|-------------|------------|--------|
|                            | 2004                              | 2003        |            |        |
| Factory sales              | \$ 12,074.5                       | \$ 10,175.5 | \$ 1,899.0 | 18.7%  |
| Retail sales               | 1,933.4                           | 1,834.4     | 99.0       | 5.4%   |
| Franchise fees             | 482.4                             | 486.9       | (4.5)      | (0.9%) |
| Royalty and marketing fees | 3,200.8                           | 2,702.3     | 498.5      | 18.4%  |
| Total                      | \$ 17,691.1                       | \$ 15,199.1 | \$ 2,492.0 | 16.4%  |

## Factory Sales

Factory sales increased for the nine months ended November 30, 2004 due to a 7.0% increase in same store pounds purchased from the factory by franchised stores, an increase in the average number of franchised stores in operation and a 29.0% increase in pounds purchased by new franchised stores when compared to the nine months ended November 30, 2003. The average number of stores in operation increased to 259 in the first nine months of fiscal 2005 from 226 in fiscal 2004.

## Retail Sales

Same store retail sales increased 5.4% in the first nine months of fiscal 2005 compared to the same period in the prior year.

## Royalties, Marketing Fees and Franchise Fees

The increase in royalties and marketing fees resulted from growth in both the average number of domestic units in operation and same store sales. The average number of domestic units in operation grew 15.1% from 199 in the first



nine months of fiscal 2004 to 229 in 2005 and same store sales grew 5.6% in the first nine months of fiscal 2005 compared to the same period last year. Franchise fee revenues in the first nine months of fiscal 2005 were approximately the same as the first nine months of fiscal 2004.

**Table of Contents**

| Costs and Expenses<br>(\$ s in thousands) | Nine Months Ended<br>November 30, |             |            | %<br>Change |
|---|-----------------------------------|-------------|------------|-------------|
|   | 2004                              | 2003        | Change     |             |
| Cost of sales - factory                   | \$ 7,689.1                        | \$ 6,859.7  | \$ 829.4   | 12.1%       |
| Cost of sales - retail                    | 730.2                             | 663.9       | 66.3       | 10.0%       |
| Franchise costs                           | 1,004.3                           | 808.2       | 196.1      | 24.3%       |
| Sales and marketing                       | 884.7                             | 831.4       | 53.3       | 6.4%        |
| General and administrative                | 1,737.5                           | 1,627.3     | 110.2      | 6.8%        |
| Retail operating                          | 1,072.8                           | 1,036.6     | 36.2       | 3.5%        |
| Total                                     | \$ 13,118.6                       | \$ 11,827.1 | \$ 1,291.5 | 10.9%       |
| Gross margin<br>(\$ s in thousands)       | Nine Months Ended<br>November 30, |             |            | %<br>Change |
|   | 2004                              | 2003        | Change     |             |
| Factory                                   | \$ 4,385.4                        | \$ 3,315.8  | \$ 1,069.6 | 32.3%       |
| Retail                                    | 1,203.2                           | 1,170.5     | 32.7       | 2.8%        |
| Total                                     | \$ 5,588.6                        | \$ 4,486.3  | \$ 1,102.3 | 24.6%       |
| (Percent)                                 |                                   |             |            |             |
| Factory                                   | 36.3%                             | 32.6%       | 3.7%       | 11.3%       |
| Retail                                    | 62.2%                             | 63.8%       | (1.6%)     | (2.5%)      |
| Total                                     | 39.9%                             | 37.4%       | 2.5%       | 6.7%        |
| Cost of Sales                             |                                   |             |            |             |

Factory margins improved 370 basis points from fiscal 2004 to fiscal 2005 due primarily to a reduction in excess inventory in the first six months of fiscal 2004 and the resultant increases in utilization and efficiency of our manufacturing facilities during fiscal 2005. The Company manufactured 28.8% more product in the first nine months of fiscal 2005 compared to the first nine months of fiscal 2004. Reduction in Company-owned store margin is due to changes in mix of product sold, increased costs and static pricing.

**Franchise Costs**

The increase in franchise costs is due to a planned increase in personnel costs and related support expenditures as well as costs incurred related to the Company's bi-annual franchisee convention. As a percentage of total royalty and marketing fees and franchise fee revenue, franchise costs increased to 27.3% in the first nine months of fiscal 2005 from 25.3% in the first nine months of fiscal 2004. This increase as a percentage of royalty, marketing and franchise fees is primarily a result of higher franchise costs relative to revenues.

**Sales and Marketing**

The increase in sales and marketing is due primarily to a planned increase in personnel costs.

**General and Administrative**

The increase in general and administrative costs is due primarily to increased compensation costs, professional fees, and the disposal of assets associated with the remodel of the Company's Durango, Colorado store. A decrease in provision for bad debts partially offset these increases. As a percentage of total revenues, general and administrative

expenses decreased to 9.8% in fiscal 2005 compared to 10.7% in fiscal 2004. This decrease resulted from a higher increase in total revenues relative to the increase in general and administrative costs.

## **Table of Contents**

### **Retail Operating Expenses**

This increase was due primarily to increased compensation expense during the first nine months of fiscal 2005 versus the first nine months of fiscal 2004. Retail operating expenses, as a percentage of retail sales, decreased from 56.5% in the first nine months of fiscal 2004 to 55.5% in the first nine months of fiscal 2005 due to a higher increase in revenue relative to the increase in costs.

### **Depreciation and Amortization**

Depreciation and amortization of \$603,000 in the first nine months of fiscal 2005 approximated the \$606,000 incurred in the first nine months of fiscal 2004.

### **Other Expense, Net**

Other expense, net of \$4,400 incurred in the first nine months of fiscal 2005 represents a 90.6% decrease from the \$47,000 incurred in the first nine months of fiscal 2004, due primarily to lower interest expense on lower average outstanding balances of long-term debt partially offset by lower interest income on lower average outstanding amounts of notes receivable.

### **Income Tax Expense**

The Company's effective income tax rate in the first nine months of fiscal 2005 was 37.8% which is the same rate as the first nine months of fiscal 2004.

## **Liquidity and Capital Resources**

As of November 30, 2004, working capital was \$6.9 million, compared with \$6.4 million as of February 29, 2004, an increase of \$500,000. The increase in working capital was primarily due to operating results.

Cash and cash equivalent balances decreased from \$4.6 million as of February 29, 2004 to \$3.0 million as of November 30, 2004 as a result of cash flows provided by operating activities less than cash flows used by financing and investing activities. The Company's current ratio was 3.03 to 1 at November 30, 2004 in comparison with 2.67 to 1 at February 29, 2004. The Company monitors current and anticipated future levels of cash and cash equivalents in relation to anticipated operating, financing and investing requirements.

The Company's long-term debt is comprised primarily of a real estate mortgage facility used to finance the Company's factory expansion (unpaid balance as of November 30, 2004 of \$1.7 million), and chattel mortgage notes (unpaid balance as of November 30, 2004 of \$0.4 million) used to improve and automate the Company's factory infrastructure.

The Company has a \$2.5 million (\$2.5 million available as of November 30, 2004) working capital line of credit collateralized by substantially all of the Company's assets with the exception of the Company's retail store assets. The line is subject to renewal in July, 2005.

The Company believes cash flows generated by operating activities and available financing will be sufficient to fund the Company's operations at least through the end of fiscal 2005.

## **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 the Company to pay taxes, insurance and maintenance expenses, all of which are subject to inflation. Additionally the Company's future lease costs 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.

**Table of Contents**

**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 the Christmas holiday and summer vacation seasons. In addition, quarterly results have been, and in the future are likely to be, affected by the timing of new store openings and sales of franchises. Because of the seasonality of the Company's business and the impact of new store openings and sales of franchises, results for any quarter are not necessarily indicative of results that may be achieved in other quarters or for a full fiscal year.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

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 November 30, 2004, all of the Company's long-term debt was subject to a variable interest rate. The Company also has a \$2.5 million bank line of credit that bears interest at a variable rate. As of November 30, 2004, no amount was outstanding under the line of credit. The Company does not believe that it is exposed to any material interest rate risk related to its long-term debt or the line of credit.

The Chief Financial Officer and Chief Operating Officer of the Company has primary responsibility over the Company's long-term and short-term debt and for determining the timing and duration of commodity purchase contracts and negotiating the terms and conditions of those contracts.

**Item 4. Controls and Procedures**

Under the supervision and with the participation of management, including the principal executive officer and principal financial officer, the Company has evaluated the effectiveness of the design and operation of the disclosure controls and procedures within 90 days of the filing date of this quarterly report, and, based on their evaluation, the Company's principal executive officer and principal financial officer have concluded that these controls and procedures are effective. There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation. Disclosure controls and procedures are the Company's controls and other procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files under the Exchange Act is accumulated and communicated to management, including the principal executive officer the principal financial officer, as appropriate to allow timely decisions regarding required disclosure.



**Table of Contents****PART II. OTHER INFORMATION**

## Item 1. Legal Proceedings

The Company is not currently involved in any legal proceedings that are material to the Company's business or financial condition.

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

## Issuer Purchases of Equity Securities

| Period         | (a) Total<br>Number<br>of Shares<br>Purchased | (b)<br>Average<br>Price<br>Paid per<br>Share | (c) Total<br>Number of<br>Shares<br>Purchased as<br>Part of<br>Publicly<br>Announced<br>Plans or<br>Programs <sup>(1)</sup> | (d) Approximate<br>Dollar Value<br>of Shares that May<br>Yet Be<br>Purchased Under<br>the Plans or<br>Programs <sup>(2)</sup> |
|----------------|---|--|---|---|
| September 2004 | -0-   | -0-  | -0-   | \$246,200   |
| October 2004   | -0-   | -0-  | -0-   | 246,200   |
| November 2004  | -0-   | -0-  | -0-   | 246,200   |
| Total          | -0-   | -0-  | -0-   | \$246,200   |

<sup>(1)</sup> During the third quarter of Fiscal 2005 ending November 30, 2004, the Company purchased zero shares in the open market.

<sup>(2)</sup> On both September 26, 2003 and February 23, 2004, the Company announced plans to repurchase up to \$1,000,000 of the Company's common stock in the open market or in private transactions, whenever deemed appropriate by management. The plans were only to expire once the designated amounts were reached. The September 26, 2003 plan was completed in March 2004. The Company intends to continue the February 23, 2004 plan until it has been fulfilled.

## Item 3. Defaults Upon Senior Securities

None

## Item 4. Submission of Matters to a Vote of Security Holders

None

## Item 5. Other Information

None

## Item 6. Exhibits

- 3.1 Articles of Incorporation of the Registrant, as amended, incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K of the Registrant filed on August 1, 1988



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- 3.2 By-laws of the Registrant, as amended on November 25, 1997, incorporated by reference to Exhibit 3.2 to the Annual Report on Form 10-K of the Registrant for the fiscal year ended February 28, 1998
- 4.1 Specimen Common Stock Certificate, incorporated by reference to Exhibit 4.1 to Current Report on Form 8-K of the Registrant filed on August 1, 1988
- 4.2 Credit Agreement dated August 31, 2001 between Wells Fargo Bank and the Registrant, incorporated by reference to Exhibit 4.1 to the Quarterly Report on Form 10-Q of the Registrant for the quarter ended August 31, 2001
- 4.3 Change in Terms Agreement dated August 31, 2001 in the amount of \$2,800,000 between Wells Fargo Bank and the Registrant, incorporated by reference to Exhibit 4.2 to the Quarterly Report on Form 10-Q of the Registrant for the quarter ended August 31, 2001
- 4.4 Change in Terms Agreement dated August 31, 2001 in the amount of \$2,092,500 between Wells Fargo Bank and the Registrant, incorporated by reference to Exhibit 4.3 to the Quarterly Report on Form 10-Q of the Registrant for the quarter ended August 31, 2001

**Table of Contents**

- 4.5 Promissory Note dated August 31, 2001 in the amount of \$2,000,000 between Wells Fargo Bank and the Registrant, incorporated by reference to Exhibit 4.4 to the Quarterly Report on Form 10-Q of the Registrant for the quarter ended August 31, 2001
- 4.6 Fourth Amendment, dated October 31, 2003, to Credit Agreement dated August 31, 2001 between Wells Fargo Bank and the Registrant, incorporated by reference to Exhibit 4.1 to the Quarterly Report on form 10.Q of the Registrant for the quarter ended November 30, 2003
- 10.1 Form of Stock Option Agreement for the Registrant, incorporated by reference to Exhibit 10.3 to the Annual Report on Form 10-K of the Registrant for the fiscal year ended February 28, 1986
- 10.2 Incentive Stock Option Plan of the Registrant as amended July 27, 1990, incorporated by reference to Exhibit 10.2 to the Annual Report on Form 10-K of the Registrant for the fiscal year ended February 28, 1991
- 10.3 Form of Employment Agreement between the Registrant and its officers, incorporated by reference to Exhibit 99.2 to Schedule on Form 14D9 of the Registrant filed on May 21, 1999
- 10.4 Current form of franchise agreement used by the Registrant, incorporated by reference to Exhibit 10.1 to the Quarterly Report on form 10-Q of the Registrant for the quarter ended May 31, 2003
- 10.5 Form of Real Estate Lease between the Registrant as Lessee and franchisee as Sublessee, incorporated by reference to Exhibit 10.7 to Registration Statement on Form S-18 (Registration No. 33-2016-D)
- 10.6 Form of Nonqualified Stock Option Agreement for Nonemployee Directors for the Registrant, incorporated by reference to Exhibit 10.8 to the Annual Report on Form 10-K of the Registrant for the fiscal year ended February 28, 1991
- 10.7 Nonqualified Stock Option Plan for Nonemployee Directors dated March 20, 1990, incorporated by reference to Exhibit 10.9 to the Annual Report on Form 10-K of the Registrant for the fiscal year ended February 28, 1991
- 10.8 1995 Stock Option Plan of the Registrant, incorporated by reference to Exhibit 10.9 to Registration Statement on Form S-1 (Registration No. 33-62149) filed August 25, 1995
- 10.9 Forms of Incentive Stock Option Agreement for 1995 Stock Option Plan, incorporated by reference to Exhibit 10.10 to Registration Statement on Form S-1 (Registration No. 33-62149) filed on August 25, 1995
- 10.10 Forms of Nonqualified Stock Option Agreement for 1995 Stock Option Plan, incorporated by reference to Exhibit 10.11 to Registration Statement on Form S-1 (Registration No. 33-62149) filed on August 25, 1995
- 10.11 Form of Indemnification Agreement between the Registrant and its directors, incorporated by reference to Exhibit 10.12 to the Annual Report on Form 10-K of the Registrant for the fiscal year ended February 28, 1998
- 10.12 Form of Indemnification Agreement between the Registrant and its officers, incorporated by reference to Exhibit 10.13 to the Annual Report on Form 10-K of the Registrant for the fiscal year ended February 28,

1998

18

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**Table of Contents**

- 10.13 Form of Promissory Note and Stock Pledge Agreement between the Registrant and certain of its officers and directors, incorporated by reference to Exhibit 10.14 to the Annual Report on Form 10-K of the Registrant for the fiscal year ended February 28, 1998
- 10.14 Commodity Contract with Guittard Chocolate Company, incorporated by reference to Exhibit 10.14 to the Annual Report on Form 10-K of the Registrant for the fiscal year ended February 29, 2004
- 10.15 Rocky Mountain Chocolate Factory, Inc. 2004 Stock Option Plan, incorporated by reference to Exhibit 99.1 to Registration Statement on Form S-8 (Registration No. 333-119107) filed September 17, 2004
- 31.1 Certification Filed Pursuant To Section 302 Of The Sarbanes-Oxley Act of 2002, Chief Executive Officer
- 31.2 Certification Filed Pursuant To Section 302 Of The Sarbanes-Oxley Act of 2002, Chief Financial Officer
- 32.1 Certification Furnished Pursuant To Section 906 Of The Sarbanes-Oxley Act of 2002, Chief Executive Officer
- 32.2 Certification Furnished Pursuant To Section 906 Of The Sarbanes-Oxley Act of 2002, Chief Financial Officer

Signature

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

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC.  
(Registrant)

Date: January 7, 2005

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

**Table of Contents**

Exhibit Index

| Exhibit No. | Description   |
|-------------|---|
| 3.1         | Articles of Incorporation of the Registrant, as amended, incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K of the Registrant filed on August 1, 1988   |
| 3.2         | By-laws of the Registrant, as amended on November 25, 1997, incorporated by reference to Exhibit 3.2 to the Annual Report on Form 10-K of the Registrant for the fiscal year ended February 28, 1998  |
| 4.1         | Specimen Common Stock Certificate, incorporated by reference to Exhibit 4.1 to Current Report on Form 8-K of the Registrant filed on August 1, 1988   |
| 4.2         | Credit Agreement dated August 31, 2001 between Wells Fargo Bank and the Registrant, incorporated by reference to Exhibit 4.1 to the Quarterly Report on Form 10-Q of the Registrant for the quarter ended August 31, 2001                                       |
| 4.3         | Change in Terms Agreement dated August 31, 2001 in the amount of \$2,800,000 between Wells Fargo Bank and the Registrant, incorporated by reference to Exhibit 4.2 to the Quarterly Report on Form 10-Q of the Registrant for the quarter ended August 31, 2001 |
| 4.4         | Change in Terms Agreement dated August 31, 2001 in the amount of \$2,092,500 between Wells Fargo Bank and the Registrant, incorporated by reference to Exhibit 4.3 to the Quarterly Report on Form 10-Q of the Registrant for the quarter ended August 31, 2001 |

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**Table of Contents**

| Exhibit No. | Description  |
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| 4.5         | Promissory Note dated August 31, 2001 in the amount of \$2,000,000 between Wells Fargo Bank and the Registrant, incorporated by reference to Exhibit 4.4 to the Quarterly Report on Form 10-Q of the Registrant for the quarter ended August 31, 2001                    |
| 4.6         | Fourth Amendment, dated October 31, 2003, to Credit Agreement dated August 31, 2001 between Wells Fargo Bank and the Registrant, incorporated by reference to Exhibit 4.1 to the Quarterly Report on form 10.Q of the Registrant for the quarter ended November 30, 2003 |
| 10.1        | Form of Stock Option Agreement for the Registrant, incorporated by reference to Exhibit 10.3 to the Annual Report on Form 10-K of the Registrant for the fiscal year ended February 28, 1986   |
| 10.2        | Incentive Stock Option Plan of the Registrant as amended July 27, 1990, incorporated by reference to Exhibit 10.2 to the Annual Report on Form 10-K of the Registrant for the fiscal year ended February 28, 1991  |
| 10.3        | Form of Employment Agreement between the Registrant and its officers, incorporated by reference to Exhibit 99.2 to Schedule on Form 14D9 of the Registrant filed on May 21, 1999   |
| 10.4        | Current form of franchise agreement used by the Registrant, incorporated by reference to Exhibit 10.1 to the Quarterly Report on form 10-Q of the Registrant for the quarter ended May 31, 2003  |
| 10.5        | Form of Real Estate Lease between the Registrant as Lessee and franchisee as Sublessee, incorporated by reference to Exhibit 10.7 to Registration Statement on Form S-18 (Registration No. 33-2016-D)  |
| 10.6        | Form of Nonqualified Stock Option Agreement for Nonemployee Directors for the Registrant, incorporated by reference to Exhibit 10.8 to the Annual Report on Form 10-K of the Registrant for the fiscal year ended February 28, 1991                                      |
| 10.7        | Nonqualified Stock Option Plan for Nonemployee Directors dated March 20, 1990, incorporated by reference to Exhibit 10.9 to the Annual Report on Form 10-K of the Registrant for the fiscal year ended February 28, 1991   |
| 10.8        | 1995 Stock Option Plan of the Registrant, incorporated by reference to Exhibit 10.9 to Registration Statement on Form S-1 (Registration No. 33-62149) filed August 25, 1995  |
| 10.9        | Forms of Incentive Stock Option Agreement for 1995 Stock Option Plan, incorporated by reference to Exhibit 10.10 to Registration Statement on Form S-1 (Registration No. 33-62149) filed on August 25, 1995  |
| 10.10       | Forms of Nonqualified Stock Option Agreement for 1995 Stock Option Plan, incorporated by reference to Exhibit 10.11 to Registration Statement on Form S-1 (Registration No. 33-62149) filed on August 25, 1995   |
| 10.11       | Form of Indemnification Agreement between the Registrant and its directors, incorporated by reference to Exhibit 10.12 to the Annual Report on Form 10-K of the Registrant for the fiscal year ended February 28, 1998   |

- 10.12 Form of Indemnification Agreement between the Registrant and its officers, incorporated by reference to Exhibit 10.13 to the Annual Report on Form 10-K of the Registrant for the fiscal year ended February 28, 1998
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**Table of Contents**

| Exhibit No. | Description   |
|-------------|---|
| 10.13       | Form of Promissory Note and Stock Pledge Agreement between the Registrant and certain of its officers and directors, incorporated by reference to Exhibit 10.14 to the Annual Report on Form 10-K of the Registrant for the fiscal year ended February 28, 1998 |
| 10.14       | Commodity Contract with Guittard Chocolate Company, incorporated by reference to Exhibit 10.14 to the Annual Report on Form 10-K of the Registrant for the fiscal year ended February 29, 2004  |
| 10.15       | Rocky Mountain Chocolate Factory, Inc. 2004 Stock Option Plan, incorporated by reference to Exhibit 99.1 to Registration Statement on Form S-8 (Registration No. 333-119107) filed September 17, 2004   |
| 31.1        | Certification Filed Pursuant To Section 302 Of The Sarbanes-Oxley Act of 2002, Chief Executive Officer  |
| 31.2        | Certification Filed Pursuant To Section 302 Of The Sarbanes-Oxley Act of 2002, Chief Financial Officer  |
| 32.1        | Certification Furnished Pursuant To Section 906 Of The Sarbanes-Oxley Act of 2002, Chief Executive Officer  |
| 32.2        | Certification Furnished Pursuant To Section 906 Of The Sarbanes-Oxley Act of 2002, Chief Financial Officer  |