

ROCKY MOUNTAIN CHOCOLATE FACTORY INC  
Form 10-Q  
January 21, 2014  
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, 2013

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

84-0910696

(State of incorporation) (I.R.S. Employer Identification No.)

**265 Turner Drive, Durango, CO 81303**

(Address of principal executive offices, including zip code)

**(970) 259-0554**

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer  Accelerated filer

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

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

On January 1, 2014, the registrant had outstanding 6,115,860 shares of its common stock, \$.03 par value.



ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARY

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**PART I. FINANCIAL INFORMATION**

## Item 1. Financial Statements

## ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2013	2012	2013	2012
<b>Revenues</b>				
Sales	\$ 7,801,296	\$ 7,327,659	\$ 22,666,134	\$ 21,648,429
Franchise and royalty fees	1,478,698	1,308,145	5,454,883	4,375,405
Total revenues	9,279,994	8,635,804	28,121,017	26,023,834
<b>Costs and Expenses</b>				
Cost of sales, exclusive of depreciation and amortization expense of \$72,102, \$68,388, \$214,425 and \$206,953, respectively	5,061,615	4,769,166	13,789,705	13,460,977
Franchise costs	510,145	457,558	1,508,604	1,560,078
Sales and marketing	555,833	447,887	1,523,991	1,317,874
General and administrative	1,146,214	847,862	3,625,033	2,389,700
Retail operating	803,338	743,805	2,588,313	2,568,078
Depreciation and amortization	198,466	224,044	670,219	691,590
Impairment loss – Aspen Leaf Yogurt long-lived assets	-	1,978,216	-	1,978,216
Total costs and expenses	8,275,611	9,468,538	23,705,865	23,966,513
<b>Income (Loss) from Operations</b>	1,004,383	(832,734 )	4,415,152	2,057,321
<b>Interest Income</b>	16,702	10,368	43,690	33,149
<b>Income (Loss) Before Income Taxes</b>	1,021,085	(822,366 )	4,458,842	2,090,470
<b>Income Tax Provision (Benefit)</b>	406,886	(312,882 )	1,501,608	708,843
<b>Consolidated Net Income (Loss)</b>	\$ 614,199 (84,975 )	\$ (509,484 ) -	\$ 2,957,234 50,969	\$ 1,381,627 -

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Less: Net (loss) income attributable to  
non-controlling interest

Net income (loss) attributable to RMCF	\$ 699,174	\$ (509,484 )	\$ 2,906,265	\$ 1,381,627
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<b>Basic Earnings (Loss) per Common Share</b>	\$ .11	\$ (.08 )	\$ .48	\$ .23
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<b>Diluted Earnings (Loss) per Common Share</b>	\$ .11	\$ (.08 )	\$ .45	\$ .22
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<b>Weighted Average Common Shares Outstanding</b>	6,115,860	6,050,279	6,094,529	6,085,057
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<b>Dilutive Effect of Stock Options</b>	364,692	130,577	329,927	145,731
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<b>Weighted Average Common Shares Outstanding, Assuming Dilution</b>	6,480,552	6,180,856	6,424,456	6,230,788
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The accompanying notes are an integral part of these consolidated financial statements.

## ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARY

## CONSOLIDATED BALANCE SHEETS

	November 30, 2013 (unaudited)	February 28, 2013
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$3,407,316	\$5,321,696
Accounts receivable, less allowance for doubtful accounts of \$694,463 and \$507,806, respectively	4,447,414	3,916,320
Notes receivable, current portion, less current portion of the valuation allowance of \$32,882 and \$10,382, respectively	455,679	197,078
Refundable income taxes	240,620	-
Inventories, less reserve for slow moving inventory of \$209,196 and \$253,148, respectively	4,677,494	4,221,036
Deferred income taxes	677,209	628,633
Other	467,752	259,170
Total current assets	14,373,484	14,543,933
<b>Property and Equipment, Net</b>	7,251,058	6,777,143
<b>Other Assets</b>		
Notes receivable, less current portion and valuation allowance of \$37,400 and \$37,400, respectively	533,317	469,362
Goodwill, net	1,050,284	1,046,944
Franchise rights	800,000	800,000
Intangible assets, net	14,659	635
Other	219,398	195,928
Total other assets	2,617,658	2,512,869
Total assets	\$24,242,200	\$23,833,945
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities</b>		
Accounts payable	\$1,401,157	\$1,998,897
Accrued salaries and wages	618,077	1,184,739
Other accrued expenses	1,204,872	1,294,487
Dividend payable	672,745	667,532
Deferred income	442,986	417,484
Total current liabilities	4,339,837	5,563,139
<b>Deferred Income Taxes</b>	934,573	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, 6,115,860 and 6,068,470 issued and outstanding, respectively	183,476	182,054
Additional paid-in capital	8,076,794	7,559,442
Retained earnings	9,534,037	8,642,093
Non-controlling interest in equity of subsidiary	1,173,483	1,005,523
Total stockholders' equity	18,967,790	17,389,112
Total liabilities and stockholders' equity	\$24,242,200	\$23,833,945

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



## ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Nine Months Ended November 30,	
	2013	2012
<b>Cash Flows From Operating activities</b>		
Net income	\$2,906,265	\$1,381,627
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	670,219	691,590
Impairment loss – Aspen Leaf Yogurt long-lived assets	-	1,978,216
Provision for loss on accounts and notes receivable	212,400	245,000
Provision for obsolete inventory	32,936	45,000
Asset impairment and store closure losses	-	(17,000 )
Gain on sale or acquisition of property and equipment	(907 )	(24,957 )
Expense recorded for stock compensation	435,126	324,767
Deferred income taxes	4,303	(322,344 )
Changes in operating assets and liabilities:		
Accounts receivable	(613,566 )	(656,248 )
Inventories	(36,687 )	9,150
Other current assets	(211,981 )	(57,608 )
Accounts payable	(1,050,447)	(542,793 )
Accrued liabilities	(896,897 )	(134,605 )
Deferred income	25,502	(16,070 )
Net cash provided by operating activities	1,476,266	2,903,725
<b>Cash Flows From Investing Activities</b>		
Addition to notes receivable	(684,098 )	(36,215 )
Proceeds received on notes receivable	231,614	169,279
Proceeds from sale or distribution of assets	2,600	669,300
Purchases of property and equipment	(1,112,431)	(691,493 )
Increase in other assets	97,129	(5,672 )
Net cash provided by (used in) investing activities	(1,465,186)	105,199
<b>Cash Flows From Financing Activities</b>		
Repurchase of common stock	-	(1,715,352)
Issuance of common stock	14,816	22,224
Tax benefit of stock awards	68,832	52,042
Dividends paid	(2,009,108)	(1,957,500)
Net cash used in financing activities	(1,925,460)	(3,598,586)
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(1,914,380)</b>	<b>(589,662 )</b>

<b>Cash and Cash Equivalents, Beginning of Period</b>	5,321,696	4,125,444
<b>Cash and Cash Equivalents, End of Period</b>	\$3,407,316	\$3,535,782

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

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARY

NOTES TO INTERIM (UNAUDITED) CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Nature of Operations

The accompanying consolidated financial statements include the accounts of Rocky Mountain Chocolate Factory, Inc., its wholly-owned subsidiary, Aspen Leaf Yogurt, LLC and its majority-owned subsidiary, U-Swirl, Inc. (collectively, the “Company”). All intercompany balances and transactions have been eliminated in consolidation.

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 locations until the sale of substantially all of its assets in January 2013. ALY has 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, Inc. launched a national chain of self-serve frozen yogurt cafés called U-Swirl Frozen Yogurt and is franchising this concept. U-Swirl, Inc. 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, Inc. cafés. It also franchises and operates self-serve frozen yogurt cafes under the names “Yogurtini,” “Aspen Leaf Yogurt,” and “Josie’s Frozen Yogurt.”

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In October 2013, we acquired the franchise rights to nine self-serve frozen yogurt cafés, and license agreements to two self-serve frozen yogurt cafés from Josie’s Frozen Yogurt, LLC (“Josie’s”).

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 U-Swirl, Inc. at November 30, 2013:

	Sold, Not Yet Open	Open	Total
Rocky Mountain Chocolate Factory			
Company-owned stores	-	7	7
Franchise stores – Domestic stores	3	215	218
Franchise stores – Domestic kiosks	-	7	7
Franchise units – International	1	72	73
Cold Stone Creamery – co-branded	8	59	67
U-Swirl, Inc. Stores (Including Yogurtini, Josie’s and Aspen Leaf Yogurt)			
Company-owned stores	-	8	8
Franchise stores – Domestic stores	5	77	82
Total	17	445	462

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 presented. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial reporting and Securities and Exchange Commission regulations. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the financial statements reflect all adjustments (of a normal and recurring nature) which are necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. The results of operations for the three and nine months ended November 30, 2013 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 audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended February 28, 2013.

#### Subsequent Events

On January 17, 2014 U-Swirl, Inc., our majority-owned subsidiary, acquired the franchise rights and certain operating assets of CherryBerry Enterprises, LLC, including affiliates, and Yogli Mogli, LLC, including affiliates. CherryBerry Enterprises, LLC franchises and operates 156 self-serve frozen yogurt cafés in 25 states, Canada, Pakistan, and Turkey. CherryBerry Enterprises, LLC and certain affiliates, including one Company-owned café, were acquired for approximately \$4.25 million in cash and 4 million shares of U-Swirl common stock. Yogli Mogli, LLC, franchises 22 self-serve frozen yogurt cafés and operates four company-owned cafés. Yogli Mogli, LLC and certain affiliates, including four Company-owned cafés were acquired for \$2.15 million in cash and \$200,000 in U-Swirl common stock. The acquisitions by U-Swirl, Inc. were funded through a \$7.75 million convertible note with Rocky Mountain Chocolate Factory, Inc. As of January 21, 2014 U-Swirl, Inc. has 267 café locations, including 13 Company-owned cafés, 251 domestic franchise cafés and three international cafés.

#### Stock-Based Compensation

At November 30, 2013, the Company had stock-based compensation plans for employees and non-employee directors which authorized the granting of stock awards, including stock options and restricted stock units.

The Company recognized \$166,664 and \$435,126 of Rocky Mountain Chocolate Factory, Inc. stock-based compensation expense during the three and nine month periods ended November 30, 2013, respectively, compared to \$94,867 and \$324,767, during the three and nine month periods ended November 30, 2012, respectively. Compensation costs related to stock-based compensation are generally amortized over the vesting period.

The following table summarizes stock option transactions for common stock during the nine months ended November 30, 2013 and November 30, 2012:

	Nine Months Ended November 30,	
	2013	2012
Outstanding stock options as of February 28 or 29:	270,945	307,088
Granted	-	-

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Exercised	(2,000 )	(3,000 )
Cancelled/forfeited	(88,725 )	(14,952 )
Outstanding stock options as of November 30:	180,220	289,136
Weighted average exercise price	\$7.93	\$10.67
Weighted average remaining contractual term (in years)	0.67	2.07

There were no options granted during the nine months ended November 30, 2013 or November 30, 2012.

The following table summarizes non-vested restricted stock unit transactions for common stock during the nine months ended November 30, 2013 and November 30, 2012:

	Nine Months Ended November 30, 2013      2012	
Outstanding non-vested restricted stock units as of February 28 or 29:		