

UNITED STATES
 SECURITIES AND EXCHANGE COMMISSION
 WASHINGTON, D.C. 20549
 FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
 For the fiscal year ended February 28, 2025

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
 For the transition period from _____ to _____
 Commission file number: 001-36865



Rocky Mountain Chocolate Factory, Inc.
 (Exact name of registrant as specified in its charter)

Delaware
 (State or Other Jurisdiction of
 Incorporation or Organization)

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

265 Turner Drive
 Durango, CO 81303
 (Address of principal executive offices, including ZIP code)
 (970) 259-0554
 (Registrant's telephone number, including area code)
 Securities Registered Pursuant To Section 12(b) Of The Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.001 par value per share	RMCF	The Nasdaq Global Market

Securities Registered Pursuant To Section 12(g) Of The Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒
 Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒
 Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐
 Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐
 Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐
 Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐
 If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐
 Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐
 Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒
 The aggregate market value of the registrant's common stock (based on the closing price as quoted on the Nasdaq Global Market on August 30, 2024, the last business day of the registrant's most recently completed second fiscal quarter) held by non-affiliates was \$9,027,434. For purposes of this calculation, shares of common stock beneficially owned by each executive officer and director and by holders of more than 10% of the registrant's outstanding common stock have been excluded since those persons may under certain circumstances be deemed to be affiliates of the registrant. This determination of affiliate status is not necessarily a conclusive determination for other purposes.
 As of May 30, 2025, there were 7,765,486 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement in connection with the 2025 Annual Meeting of Stockholders (the "Proxy Statement") are incorporated by reference in Part III of this Annual Report on Form 10-K. The Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended February 28, 2025.

[Table of Contents](#)

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC.

FORM 10-K

TABLE OF CONTENTS

PART I.		3
ITEM 1.	BUSINESS	3
ITEM 1.A	RISK FACTORS	12
ITEM 1.B	UNRESOLVED STAFF COMMENTS	22
ITEM 1.C	CYBERSECURITY	22
ITEM 2.	PROPERTIES	23
ITEM 3.	LEGAL PROCEEDINGS	23
ITEM 4.	MINE SAFETY DISCLOSURES	23
PART II.		24
ITEM 5.	MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES	24
ITEM 6.	RESERVED	24
ITEM 7.	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	25
ITEM 7A.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	31
ITEM 8.	FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	32
ITEM 9.	CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	59
ITEM 9A.	CONTROLS AND PROCEDURES	59
ITEM 9B.	OTHER INFORMATION	59
ITEM 9C.	DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS	59
PART III.		60
ITEM 10.	DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE	60
ITEM 11.	EXECUTIVE COMPENSATION	60
ITEM 12.	SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS	60
ITEM 13.	CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE	60
ITEM 14.	PRINCIPAL ACCOUNTANT FEES AND SERVICES	61
PART IV.		62
ITEM 15.	EXHIBITS, FINANCIAL STATEMENT SCHEDULES	62
ITEM 16.	FORM 10-K SUMMARY	66

Cautionary Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K (this “Annual Report”) contains statements of our expectations, intentions, plans and beliefs that constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and are intended to come within the safe harbor protection provided by those sections. These forward-looking statements involve various risks and uncertainties. These statements, other than statements of historical fact, included in this Annual Report are forward-looking statements. Many of the forward-looking statements contained in this document may be identified by the use of forward-looking words such as “will,” “intend,” “believe,” “expect,” “anticipate,” “should,” “plan,” “estimate,” “potential,” “may,” “would,” “could,” “continue,” “likely,” “might,” “seek,” “outlook,” “explore,” or the negative of these terms or other similar expressions. However, the absence of these words or similar expressions does not mean that a statement is not forward-looking. All statements that address operating performance, events or developments that we expect or anticipate will occur in the future including statements expressing general views about future operating results are forward-looking statements. Management believes these forward-looking statements are reasonable as and when made. However, caution should be taken not to place undue reliance on any such forward-looking statements because such statements speak only as of the date of this Annual Report. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise, except as required by law. In addition, forward-looking statements are subject to certain risks and uncertainties that could cause our actual results to differ materially from historical experience and our present expectations or projections. These risks and uncertainties include, but are not limited to: inflationary impacts, the outcome of legal proceedings, changes in the confectionery business environment, seasonality, consumer interest in our products, consumer and retail trends, costs and availability of raw materials, competition, and the success of our co-branding strategy and the effect of government regulations. For a detailed discussion of the risks and uncertainties that may cause our actual results to differ from the forward-looking statements contained herein, please see the section entitled Item 1A. “Risk Factors” of Part I of this Annual Report and as described elsewhere in this Annual Report.

PART I.

ITEM 1. BUSINESS

Our Company

Rocky Mountain Chocolate Factory, Inc., a Delaware corporation, and its subsidiaries, including its operating subsidiary with the same name, Rocky Mountain Chocolate Factory, Inc., a Colorado corporation ("RMCF") (referred to as the "Company", "Rocky Mountain Chocolate Factory," "we," "us," or "our"), is an international franchisor, confectionery producer and retail operator. Founded in 1981, we are headquartered in Durango, Colorado and produce an extensive line of premium chocolate products and other confectionery products. Our revenues and profitability are derived principally from our franchised/licensed system of retail stores that feature chocolate and other confectionery products including gourmet caramel apples. We also sell our confectionery products in select locations outside of our system of retail stores and may license the use of our brand with certain consumer products. As of February 28, 2025, we operated 2 Company-owned and had 117 licensee-owned and 141 Rocky Mountain Chocolate Factory franchised stores spread across 27 states and the Philippines.

Our principal competitive advantage lies in our brand name recognition, and reputation for the quality, variety and taste of our products. Further, we believe the ambiance of our stores, our expertise in the production of chocolate and confectionery products, the merchandising and marketing of confectionery products, and the control and training infrastructures we have implemented to ensure consistent customer service and execution of successful practices and techniques at our stores provides Rocky Mountain Chocolate Factory with a differentiated franchise offering. In-store product preparation creates a special store ambiance, and the aroma and sight of products being made attracts foot traffic and assures customers that products are fresh.

We believe our production expertise and reputation for quality has facilitated the sale of select products through Specialty Markets. We are currently selling our products in a select number of Specialty Markets, including wholesale, fundraising, corporate sales, e-commerce, and private label (collectively "Specialty Markets").

Our consolidated revenues in FY 2025 were primarily derived from three principal sources: (i) sales to franchisees and other third parties of chocolates and other confectionery products produced by us (76%-74%-77% in 2025, 2024 and 2023 respectively); (ii) sales at Company-owned stores of chocolates and other confectionery products (including products produced by us) (5%-5%-3%), and (iii) the collection of initial franchise, royalties and marketing fees from franchisees (19%-21%-20%). For FY 2025, nearly all of our revenues were derived from domestic sources, with less than 1% derived from international sources. As described below, the Company sold its frozen yogurt business subsequent to the end of FY 2023.

Business Strategy

Our updated long term strategic objective is to build upon the solid market position of our brand and high-quality products to create a world-class experience for consumers of premium chocolate and confectionery products, whether in premium confection stores operated by our franchisees or by us, or purchased from us through a variety of other channels. We intend to lead this effort through the delivery of an exceptional store experience and development of category leadership through innovation. To accomplish this objective, we will employ a business strategy that includes the elements set forth below.

Product Quality and Variety

We maintain the gourmet taste and quality of our chocolate products by using the finest chocolate and other wholesome ingredients. We use our proprietary recipes, primarily developed by our master confectionery makers. A typical Rocky Mountain Chocolate Factory store offers up to 100 of our chocolate products throughout the year and as many as 200, including many packaged products, during holiday seasons. Individual stores also offer numerous varieties of gourmet caramel apples as well as other products prepared in the store from Company recipes. We continue to enhance our product development and innovation capabilities through the Company's in-house research and development department.

Store Atmosphere and Ambiance

We seek to establish a fun, enjoyable and inviting atmosphere in each of our store locations. Unlike most other confectionery stores, nearly all Rocky Mountain Chocolate Factory stores prepare numerous products, including caramel apples, in the store. In-store preparation is designed to be both fun and entertaining for customers. We believe the in-store preparation and aroma of our products enhances the ambiance at Rocky Mountain Chocolate Factory stores, and conveys an image of freshness and homemade quality. We have been, and are committed to, deploying increased resources to our retail store network to further improve the store experience and enhance profitability.

Site Selection

Careful selection of a new retail site is critical to the success of our stores. We consider many factors in identifying suitable sites, including tenant mix, visibility, attractiveness, accessibility, level of foot traffic and occupancy costs. Final site selection occurs only after our senior management has approved the site.

Increase Same Store Retail Sales at Existing Rocky Mountain Chocolate Factory Stores

We seek to increase profitability of our store system by increasing sales at existing store locations through a combination of offering the optimal product assortment to stores, improving order fulfillment, facilitating increased product availability to stores through streamlined logistics, and providing Company personnel to help franchised locations improve their sales and profitability.

Enhanced Operating Efficiencies

We continue investing in new and more efficient production equipment, as well as rationalizing our portfolio of products and streamlining production lines to reduce labor costs as well as improve product quality, consistency and margin.

Expansion Strategy

We are continually exploring opportunities to grow our brand and expand our business. Key elements of our expansion strategy are set forth below.

Unit Growth

We continue to pursue unit growth opportunities both in locations where we have traditionally been successful and new markets with favorable demographics by improving and expanding our retail store concepts and product portfolio, and targeting high pedestrian traffic environments.

High Traffic Environments

We currently establish franchised stores in the following environments: regional centers, outlet centers, tourist areas, street fronts, airports, and other entertainment-oriented environments. We have established business relationships with most of the major developers in the United States and believe that these relationships provide us with the opportunity to take advantage of attractive sites in new and existing real estate environments.

Multi-unit Operators

We have historically focused our franchise marketing efforts on single unit operators. By further enhancing our brand strength, product offering, and strong store experience, coupled with enhanced economics, we believe we will be able to appeal more, and market to, multi-unit operators looking to expand their portfolio of franchised opportunities into a premium chocolate franchise concept where we continue to identify substantial interest driven in large part by leased property owners.

Rocky Mountain Chocolate Factory Name Recognition and New Market Penetration

We believe our premium reputation, the visibility of our stores and the high foot traffic at many of our locations has generated strong name recognition of Rocky Mountain Chocolate Factory and demand for our franchises. The Rocky

[Table of Contents](#)

Mountain Chocolate Factory system currently is concentrated in the western and Rocky Mountain region of the United States, but growth has generated a gradual easterly momentum as new stores have been opened in the eastern half of the country. We believe this growth has further increased our name recognition and demand for our franchises. We believe that distribution of Rocky Mountain Chocolate Factory products through our Specialty Market business also increases our name recognition and brand awareness in areas of the country in which we have not previously had a significant presence and we believe it will also improve and benefit our entire store system.

We seek to establish a fun, enjoyable and inviting atmosphere in each of our store locations. Unlike many other confectionery stores, nearly all Rocky Mountain Chocolate Factory stores prepare a variety of products, including caramel apples and fudge, in the store. In-store preparation is designed to be both fun and entertaining for customers and we believe the in-store preparation and aroma of our products enhance the ambiance at Rocky Mountain Chocolate Factory stores, conveys an image of freshness and homemade quality.

In January 2007, we began testing co-branded locations, such as the co-branded stores with Cold Stone Creamery. Co-branding a location is a vehicle to develop retail environments that would not typically support a stand-alone Rocky Mountain Chocolate Factory store. Co-branding can also be used to more efficiently manage rent structure, payroll and other operating costs in environments that have not historically supported stand-alone Rocky Mountain Chocolate Factory stores. As of February 28, 2025, Cold Stone Creamery franchisees operated 107 co-branded locations, and U-Swirl, Inc. ("SWRL") franchisees operated 10 co-branded locations. As of February 28, 2025, the Company had 3 international units in operation, all within the Republic of the Philippines.

Products and Packaging

We produce approximately 300 chocolates and other confectionery products using proprietary recipes developed primarily by our master confectionery makers. These products include many varieties of clusters, caramels, creams, toffees, mints and truffles. These products are offered for sale and also configured into a wide variety of packaged assortments. During the holiday seasons, we make a variety of seasonal items, including many candies offered in packages, which are specifically designed for holidays. A typical Rocky Mountain Chocolate Factory store offers up to 100 of these approximately 300 chocolate candies and other confectionery products throughout the year. Individual stores also offer more than a dozen varieties of caramel apples and other products prepared in the store.

In FY 2025, approximately 16% of our Durango plant sales resulted from the sale of products outside of our system of franchised and licensed locations, which we refer to as Specialty Market customers, compared with 10% of our Durango plant sales resulting from Specialty Market customers in FY 2024. See Item 1A "Risk Factors—Risks Specific to Our Company and the Industry in Which We Operate—Our Sales to Specialty Market Customers, Customers Outside Our System of Franchised Stores, Are Concentrated Among a Small Number of Customers." These products are produced using the same quality ingredients and production processes as the products sold in our network of retail stores.

We use the finest chocolates, nutmeats and other wholesome ingredients in our confectionery products and continually strive to offer new items in order to maintain the excitement and appeal of our offerings. We develop special packaging for the holidays and seasonal offerings, and consumers can have their purchases packaged in decorative boxes and fancy tins throughout the year.

Operating Environment

Rocky Mountain Chocolate Factory

We currently establish Rocky Mountain Chocolate Factory stores in a variety of environments: indoor and outdoor malls, outlet centers, regional centers, tourist areas, street fronts, airports, casinos, resorts and other entertainment-oriented shopping centers. Each of these environments has a number of attractive features, including high levels of foot traffic.

Franchising Program

General

[Table of Contents](#)

We continue to attract qualified and experienced franchisees, whom we consider to be a vital part of our continued growth. We believe our relationship with our franchisees is fundamental to the performance of our brand and we strive to maintain a collaborative relationship with our franchisees. Our franchising philosophy is one of service and commitment to our franchise system and we continuously seek to improve our franchise support services. Our concept has been rated as an outstanding franchise opportunity by publications and organizations rating such opportunities.

Franchisee Sourcing and Selection

The majority of new franchises are awarded to persons referred to us by existing franchisees, to interested consumers who have visited one of our domestic franchise locations and to existing franchisees. We also advertise for new franchisees in national and regional newspapers and online as suitable potential store locations come to our attention. Franchisees are currently approved by a committee of the senior executive team based on a variety of qualifications, including the applicant's net worth and liquidity, financial sophistication, and prior relevant business experience, together with an assessment of work ethic and personality compatibility with our discipline and operating philosophy.

International Franchising and Licensing

International growth is generally achieved through entry into a Master License Agreement covering specific countries, with a licensee that meets minimum qualifications to develop Rocky Mountain Chocolate Factory in that country. License agreements allow the licensee exclusive development rights in a country. Generally, we require an initial license fee and commitment to a development schedule. The initial term of these license agreements are typically ten years. Active international license agreements in place include:

- A licensing agreement in the Republic of the Philippines, entered in October 2014, amended and extended through November 2027. As of February 28, 2025, 3 units were operating under this agreement.

Co-Branding

In August 2009, we entered into a Master License Agreement with Kahala Franchise Corp. Under the terms of the agreement, select current and future Cold Stone Creamery franchise stores are co-branded with both the Rocky Mountain Chocolate Factory and the Cold Stone Creamery brands. Locations developed or modified under the agreement are subject to the approval of both parties. Locations developed or modified under the agreement will remain franchisees of Cold Stone Creamery and will be licensed to offer the Rocky Mountain Chocolate Factory brand. As of February 28, 2025, Cold Stone Creamery franchisees operated 107 stores under this agreement.

Additionally, we allow SWRL brands to offer Rocky Mountain Chocolate Factory products under terms similar to other co-branding agreements. As of February 28, 2025, there were 10 SWRL cafés offering Rocky Mountain Chocolate Factory products.

Training and Support

Each domestic franchisee owner/operator and each store manager for a domestic franchisee is required to complete a comprehensive training program in store operations and management. We have established a training center at our Durango headquarters in the form of a full-sized replica of a properly configured and merchandised Rocky Mountain Chocolate Factory store. Topics covered in the training course include our philosophy of store operation and management, customer service, merchandising, pricing, cooking, inventory and cost control, quality standards, record keeping, labor scheduling and personnel management. Training is based on standard operating policies and procedures contained in an operations manual provided to all franchisees, which the franchisee is required to follow by terms of the franchise agreement. Additionally, and importantly, trainees are provided with a complete orientation to our operations by working in key factory operational areas and by meeting with members of our senior management.

Our operating objectives include providing knowledge and expertise in merchandising, marketing and customer service to all front-line store level employees to maximize their skills and ensure that they are fully versed in our operational techniques.

We provide ongoing support to franchisees through our Franchise Business Support Business Consultants ("Business Consultants"), who maintain regular and frequent communication with the stores by phone and semi-annual site visits.

[Table of Contents](#)

The Business Consultants also review and discuss store operating results with the franchisee and provide advice and guidance to increase year over years sales and improve store profitability while developing and executing store local-area marketing and merchandising programs.

Quality Standards and Control

The franchise agreements for Rocky Mountain Chocolate Factory brand franchisees require compliance with our procedures of operation and food quality specifications and permit audits and inspections by us.

Operating standards for Rocky Mountain Chocolate Factory brand stores are set forth in our operations manual. Our operations manual covers general operations, factory ordering, merchandising, advertising and accounting procedures. Through their regular visits to franchised stores, our Business Consultants perform routine performance audits and adherence to our brand standards. We have the right to terminate any franchise agreement for non-compliance with our operating standards. Products sold at the stores and ingredients used in the preparation of products approved for on-site preparation must be purchased from us or an approved supplier.

The Franchise Agreement: Terms and Conditions

The domestic offer and sales of our franchise concepts are made pursuant to the respective franchise disclosure document prepared in accordance with federal and state laws and regulations. States that regulate the sale and operation of franchises require a franchisor to register or file certain notices with the state authorities prior to offering and selling franchises in those states.

Under the current form of our domestic franchise agreements, franchisees pay us (i) an initial franchise fee for each store, (ii) royalties based on monthly gross sales, and (iii) a marketing fee based on monthly gross sales. Franchisees are generally granted exclusive territory with respect to the operation of their stores only in the immediate vicinity of their store(s). Chocolate products not made on premises by franchisees must be purchased from us or an approved supplier. The franchise agreements require franchisees to comply with our procedures of operation and food quality specifications, to permit inspections and audits by us and to remodel stores to conform with standards then in effect. We may terminate the franchise agreement upon the failure of the franchisee to comply with the conditions of the agreement and upon the occurrence of certain events, such as insolvency or bankruptcy of the franchisee or the commission by the franchisee of any unlawful or deceptive practice, which, in our judgment is likely to adversely affect the network system and our brand. Our ability to terminate franchise agreements pursuant to such provisions is subject to applicable bankruptcy and state laws and regulations. See "Regulation" below for additional information.

The agreements prohibit the transfer or assignment of any interest in a franchise without our prior written consent. The agreements also give us a right of first refusal to purchase any interest in a franchise if a proposed transfer would result in a change of control of that franchise. The refusal right, if exercised, would allow us to purchase the interest proposed to be transferred under the same terms and conditions and for the same price as offered by the proposed transferee.

The term of franchise agreements signed before July 1, 2023 is ten years, and franchisees have the right to renew for one additional ten-year term. The term of franchise agreements signed after July 1, 2023 is ten years, and franchisees have the right to renew for two additional five-year terms. Our revised franchise agreement offers a flat royalty payment on all retail stores sales ranging from 6% to as low as 4% based upon the retail sales mix of Durango produced product sold in comparison to all retail store sales. These terms are only effective with franchise agreements entered into after July 1, 2023 or when a current franchise operator agrees to enter into a new agreement with the Company.

Franchise Financing

We do not typically provide prospective franchisees with financing for their store for new or existing franchises, but we have developed relationships with several sources of franchisee financing to whom we may refer franchisees. Typically, franchisees have obtained their own sources of such financing and have not required our assistance. In the normal course of business, we extend credit to customers, primarily franchisees that satisfy pre-defined credit criteria, for inventory and other operational costs.

[Table of Contents](#)

In select instances, we have provided limited financing to franchisees. As a result, as of February 28, 2025, we have approximately \$0.1 million of notes receivable as a result of financing our franchisees. When we finance franchisees the notes are secured by the assets financed.

Company Store Operations

As of February 28, 2025, there were two Company-owned Rocky Mountain Chocolate Factory stores. Our flagship store, located in Durango, Colorado, ("Flagship Store") provides a training ground for Company personnel and a controllable testing ground for new products and promotions, operating and training methods and merchandising techniques, which may then be incorporated into the franchise store operations.

Production Operations

General

We manufacture our chocolate and confectionery products at our production facility in Durango, Colorado. All products are produced consistent with our philosophy of using the finest high-quality ingredients to achieve our marketing motto of "*The Peak of Perfection in Handmade Chocolates®*."

We have always believed that we should control the production of our own chocolate products. By controlling operations and production, we are able to better maintain our high quality standards, offer unique proprietary products, control production and shipment schedules and potentially pursue new or under-utilized distribution channels that reinforces our slogan "*America's Chocolatier® since 1981*."

Production Processes

The production process primarily involves cooking or preparing confectionery centers, including nuts, caramel, peanut butter, creams and jellies, and then coating them with chocolate or other toppings. All of these processes are conducted in carefully controlled temperature ranges, and we employ strict quality control procedures at every stage of the production process. We use a combination of manual and automated processes at our production facility. Although we believe that it is currently preferable to perform certain production processes, such as the dipping of some large pieces by hand, automation increases the speed and efficiency of the production process. We have, from time-to-time, automated certain processes formerly performed by hand where it has become cost-effective for us to do so without compromising safety, product quality or appearance.

We also seek to ensure the freshness of products sold in Rocky Mountain Chocolate Factory stores with frequent shipments. Most Rocky Mountain Chocolate Factory stores do not have significant space for the storage of inventory, and we encourage franchisees and store managers to order only the quantities that they can reasonably expect to sell within approximately two to four weeks. For these reasons, we generally do not have a significant backlog of orders.

The production and sale of consumer food products is highly regulated. In the U.S., our activities are subject to regulation by various government agencies, including the Food and Drug Administration ("FDA"), the Department of Agriculture, the Federal Trade Commission, the Department of Commerce and the Environmental Protection Agency, as well as various state and local agencies. Similar agencies also regulate our businesses outside of the U.S.

We have a product quality and safety program. This program is integral to our supply chain platform and is intended to ensure that all products we purchase, produce, and distribute are safe, are of high quality and comply with applicable laws and regulations. Through our product quality and safety program, we evaluate our supply chain including ingredients, packaging, processes, products, distribution and the environment to determine where product quality and safety controls are necessary. We follow the FDA mandated Hazard Analysis and Risk-based Preventive Controls which includes a 12-step process to determine risks based on individual processes. To support this hazard analysis model, and in accordance with private and federal mandated requirements, we also adhere to all good manufacturing practices including several supporting policies and procedures that ensure all risks identified are in control. Various government agencies and third-party firms, as well as our quality assurance staff, conduct audits of all facilities that produce our products to ensure effectiveness and compliance with our program and applicable laws and regulations.

Ingredients

[Table of Contents](#)

The principal ingredients used in our products are chocolate, nuts, sugar, corn syrup, cream and butter. Our production facility receives shipments of ingredients daily. To ensure the consistency of our products, we buy ingredients from a limited number of reliable suppliers. In order to ensure a continuous supply of chocolate and certain nuts, we frequently enter into purchase contracts of between six to eighteen months for these products. Major suppliers include Guittard Chocolate Company, Batory Sweetener Solutions, Chase Pecan LP, and Blue Diamond. Because prices for these products may fluctuate, we may benefit if prices rise during the terms of these contracts, but we may be required to pay above-market prices if prices fall. We have one or more alternative sources for most essential ingredients and therefore believe that the loss of any one supplier would not have a material adverse effect on our business or results of operations. We currently purchase small amounts of finished confectionery from third parties on a private label basis for sale in Rocky Mountain Chocolate Factory stores. As a result of recent macro-economic inflationary trends, tariffs, and disruptions to the global supply chain, we have experienced and may continue to experience higher raw material, labor, and freight costs.

Trucking Operations

We operate six trucks and ship a substantial portion of our products from the production facility on our own fleet. Our trucking operations enable us to deliver our products to the stores quickly and cost-effectively. In addition, we back-haul many of our own ingredients and supplies, as well as products from third parties, on return trips, which helps achieve even greater efficiencies and cost savings.

Marketing

General

We rely primarily on in-store promotion and point-of-purchase materials to promote the sale of our products. The monthly marketing fees collected from franchisees are used by us to develop new packaging and in-store promotion and point-of-purchase materials, and to create and update our local store marketing guides and materials.

We focus on local store marketing efforts by providing customizable marketing materials, including advertisements, coupons, flyers and brochures generated by our in-house Creative Services department. The department works directly with franchisees to implement local store marketing programs.

We have not historically, and do not intend to, engage in national traditional media advertising in the near future. Consistent with our commitment to community support, we seek opportunities to participate in local and regional events, sponsorships and charitable causes. This support leverages low-cost, high-return publicity opportunities for mutual gain partnerships.

Internet and Social Media

We've initiated a program to leverage the marketing benefits of various social media outlets. These lower-cost marketing opportunities leverage the positive feedback of our customers, expanding brand awareness through a customer's network of contacts. Complementary to local store marketing efforts, these networks also provide a medium for us to communicate regularly with customers. When possible, we work to facilitate direct relationships between our franchisees and their customers. We use social media as a tool to build brand recognition, increase repeat exposure, and enhance dialogue with consumers about their preferences and needs. The majority of stores have location-specific Facebook® and Instagram® accounts dedicated to helping customers interact directly with their local store. Proceeds from the monthly marketing fees collected from franchisees are used by us to facilitate and assist franchisees in managing their online presence consistent with our brand and marketing efforts.

Competition

The retailing of confectionery products is highly competitive. We and our franchisees compete with numerous businesses that offer products similar to those offered by our retail stores and Specialty Markets. Competitors may have greater name recognition and financial, marketing and other resources than us. In addition, there is intense competition among retailers for attractive commercial real estate sites suitable for Rocky Mountain Chocolate Factory franchise store locations, store personnel and qualified franchisees.

[Table of Contents](#)

We believe that our principal competitive strengths lie in our name recognition and our reputation for the quality, value, variety and taste of our products and the ambiance in our stores; our knowledge and experience in applying criteria for the selection of new store locations; our expertise in merchandising and marketing of chocolate and other confectionery products; and the control and training infrastructures we have implemented to ensure execution of successful practices and techniques at our retail store locations. In addition, by controlling the production of our own confectionery products, we can better maintain our high product quality standards for those products, offer proprietary products, manage costs, control production and shipment schedules and pursue new or under-utilized distribution channels.

Trade Name and Trademarks

The trade name "*Rocky Mountain Chocolate Factory*®," the phrases, "*The Peak of Perfection in Handmade Chocolates*®", "*America's Chocolatier*®" as well as all other trademarks, service marks, symbols, slogans, emblems, logos and designs used in the Rocky Mountain Chocolate Factory system, are our proprietary rights. We believe all of the foregoing are of material importance to our business. The trademark "Rocky Mountain Chocolate Factory" is registered in the United States and Canada. Applications to register the Rocky Mountain Chocolate Factory trademark have been filed and/or obtained in certain foreign countries.

We have not attempted to obtain patent protection for the proprietary recipes developed by our master confectionery makers and instead rely upon our ability to maintain the confidentiality of those recipes.

Environmental Matters

We are not aware of any federal, state, local or international environmental laws or regulations that we expect to materially affect our earnings or competitive position or result in material capital expenditures. However, we cannot predict the effect of possible future environmental legislation or regulations on our operations. During FY 2025, we had no material environmental compliance-related capital expenditures, and no such material expenditures are anticipated in FY 2026.

Seasonal Factors

Our sales and earnings are somewhat seasonal, with higher sales and earnings occurring during key holidays, such as Christmas, Easter and Valentine's Day, and the U.S. summer vacation season than at other times of the year, which may cause fluctuations in our quarterly results of operations. In addition, quarterly results have been, and in the future are likely to be, affected by the timing of new store openings, the sale of franchises and the timing of purchases by customers outside our network of franchised locations. Because of the seasonality of our business, results for any quarter are not necessarily indicative of the results that may be achieved in other quarters or for a full fiscal year.

Regulation

Our two current Company-owned and other franchised Rocky Mountain Chocolate Factory stores are subject to licensing and regulation by the health, sanitation, safety, building and fire agencies in the state or municipality where located. Difficulties or failures in obtaining the required licensing or approvals could delay or prevent the opening of new stores. New stores must also comply with landlord and developer criteria.

Many states have laws regulating franchise operations, including registration and disclosure requirements in the offer and sale of franchises. We are also subject to the Federal Trade Commission regulations relating to disclosure requirements in the sale of franchises and ongoing disclosure obligations.

Additionally, certain states have enacted and others may enact laws and regulations governing the termination or non-renewal of franchises and other aspects of the franchise relationship that are intended to protect franchisees, including among other things, limitations on the duration and scope of non-competition provisions applicable to franchisees. Although these laws and regulations, and related court decisions, may limit our ability to terminate franchises and alter franchise agreements, we do not believe that such laws or decisions will have a material adverse effect on our franchise operations. However, the laws applicable to franchise operations and relationships continue to develop, and we are unable to predict the effect on our intended operations of additional requirements or restrictions that may be enacted or of court decisions that may be adverse to franchisors.

[Table of Contents](#)

Federal and state environmental regulations have not had a material impact on our operations but more stringent and varied requirements of local governmental bodies with respect to zoning, land use and environmental factors could delay the construction of new stores, increase our capital expenditures and thereby decrease our earnings and negatively impact our competitive position.

Companies engaged in the production, packaging and distribution of food products are subject to extensive regulation by various governmental agencies. A finding of failure to comply with one or more regulations could result in the imposition of sanctions, including the closing of all or a portion of our facilities for an indeterminate period of time. Our product labeling is subject to and complies with the Nutrition Labeling and Education Act of 1990 and the Food Allergen Labeling and Consumer Protection Act of 2004.

We provide a limited amount of trucking services to third parties, to fill available space on our trucks. Our trucking operations are subject to various federal and state regulations, including regulations of the Federal Highway Administration and other federal and state agencies applicable to motor carriers, safety requirements of the Department of Transportation relating to interstate transportation and federal and state regulations governing matters such as vehicle weight and dimensions.

We believe that we are operating in substantial compliance with all applicable laws and regulations.

Human Capital Resources

As of February 28, 2025, we employed approximately 160 people, including 140 full-time employees. Most employees, with the exception of store management, production management and corporate management, are paid on an hourly basis. We also employ some individuals on a temporary basis during peak periods of store and factory operations. We seek to ensure that participatory management processes, mutual respect and professionalism and high-performance expectations for the employees exist throughout the organization. We believe that we provide working conditions, wages and benefits that compare favorably with those of our competitors. Our employees are not covered by a collective bargaining agreement. We consider our employee relations to be good.

Our franchisees are independent business owners, their employees are not our employees and therefore are not included in our employee count.

Labor and Supply Chain

As a result of recent macroeconomic inflationary trends, including tariffs, and disruptions to the global supply chain, we have experienced and expect to continue experiencing higher raw material, labor, and freight costs. We have experienced labor and logistics challenges, which we believe have contributed to lower production facility, retail, and e-commerce sales of our products due to the availability of material, labor, and freight. In addition, we could experience additional lost sales opportunities if our products are not available for purchase as a result of disruptions in our supply chain relating to an inability to obtain ingredients or packaging, labor challenges at our logistics providers or our production facility, or if we or our franchisees experience delays in stocking our products. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of recent business developments.

Our principal executive offices are located at 265 Turner Drive, Durango, Colorado 81303, and our telephone number is (970) 259-0554. We have retail store locations throughout the United States and the Philippines. Our website address is www.rmcf.com. Information contained on or accessible through our websites is neither a part of this Annual Report nor incorporated by reference herein.

Ethics and Governance

We have adopted the Rocky Mountain Chocolate Factory Code of Conduct, which qualifies as a code of ethics under Item 406 of Regulation S-K. The code applies to all of our employees, officers, including our principal executive officer, principal financial officer, principal accounting officer or controller, and persons performing similar functions, and directors. Our Code of Conduct is available free of charge on our website at <https://ir.rmcf.com/corporate-governance/governance-documents>. We will disclose any waiver we grant to an executive officer or director under our code of ethics, or certain amendments to the Code of Conduct, on our website.

[Table of Contents](#)

In addition, we have adopted Code of Ethics for Senior Financial Officers, charters for each of the Board's three standing committees and the Whistleblower/Complaint Procedures for Accounting and Auditing Matters. All of these materials are available on our web site at <https://ir.rmcf.com/corporate-governance/governance-documents>.

Available Information

The Internet address of our website is www.rmcf.com. Additional websites specific to our franchise opportunities and investor relations are www.sweetfranchise.com and <https://ir.rmcf.com>, respectively.

We file or furnish annual, quarterly and current reports, proxy statements and other information with the United States Securities and Exchange Commission ("SEC"). We make available free of charge, through our Internet website, our Annual Report, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The SEC also maintains a website that contains these reports, proxy and information statements and other information that can be accessed, free of charge, at www.sec.gov. The contents of our websites are not incorporated into, and should not be considered a part of, this Annual Report.

We announce material information to the public about us and our business through a variety of means, including filings with the SEC, press releases, public conference calls, webcasts, the investor relations section of our website (<https://ir.rmcf.com>) in order to achieve broad, non-exclusionary distribution of information to the public and for complying with our disclosure obligations under Regulation FD. The contents of our websites and corporate reports mentioned herein are not incorporated by reference into this Annual Report on Form 10-K or in any other report or document we file with the SEC, and any references to our websites or the contents of our websites are intended to be inactive textual references only.

ITEM 1A. RISK FACTORS

Our business, results of operations and financial position are subject to various risks, including those discussed below, which may affect the value of our common stock. The following risk factors, which we believe represent the most significant factors that may make an investment in our common stock risky, may cause our actual results to differ materially from those projected in any forward-looking statement. You should carefully consider these factors, as well as the other information contained in this Annual Report, including the information set forth in "Cautionary Note Regarding Forward-Looking Statements" and "Management's Discussion and Analysis of Results of Operations and Financial Position," when evaluating an investment in our common stock.

Risks Specific to Our Company and the Industry in Which We Operate

Our Sales To Specialty Market Customers, Customers Outside Our System Of Franchised Stores, Are Concentrated Among A Small Number Of Customers.

The Company has historically sold its product to relatively few customers outside its network of franchised and licensed locations (Specialty Market customers).

During FY 2025 our sales to Specialty Market customers were approximately \$3.7 million or 12% of our total revenue.

The Divestiture Of Our U-Swirl Business May Have Material Adverse Effects On Our Financial Condition, Results Of Operations Or Cash Flows.

In May 2023, subsequent to our fiscal year-end, we announced that we had completed the sale of substantially all of the assets of U-Swirl, our wholly-owned subsidiary and frozen yogurt business. The consummation of the sale of the U-Swirl business involves risks, including retention of uncertain contingent liabilities related to the divested business which could result in a material adverse effect to our financial condition, results of operations or cash flows. We cannot be certain that we will be successful in managing these or any other significant risks that we encounter as a result of divesting the U-Swirl business.

Our Growth Is Dependent Upon Attracting And Retaining Qualified Franchisees And Their Ability To Operate Their Franchised Stores Successfully.

Our continued growth and success are dependent in part upon our ability to attract, retain and contract with qualified franchisees. Our growth is dependent upon the ability of franchisees to operate their stores successfully, promote and develop our store concepts, and maintain our reputation for an enjoyable in-store experience and high-quality products. Although we have established criteria to evaluate prospective franchisees and have been successful in attracting franchisees, there can be no assurance that franchisees will be able to operate successfully in their franchise areas in a manner consistent with our concepts and standards. As a result, we may realize a reduction in number of units in operation or fail to achieve our opening targets.

Increases In Costs Could Adversely Affect Our Operations.

Inflationary factors such as increases in the costs of raw materials and labor directly affect our operations. Most of our leases provide for cost-of-living adjustments and require us to pay taxes, insurance and maintenance expenses, all of which are subject to inflation. Additionally, our future lease costs for new facilities may reflect potentially escalating costs of real estate and construction. There is no assurance that we will be able to pass on our increased costs to our customers or that our customers will continue to purchase at historical levels in the event that we pass along cost increases in the form of higher prices. If we are unable to pass along cost increases, we may realize a decrease in gross margin on products we sell and produce.

Price Increases May Not Be Sufficient To Offset Cost Increases And Maintain Profitability Or May Result In Sales Volume Declines Associated With Pricing Elasticity.

We may be able to pass some or all raw material and other input cost increases to customers by increasing the selling prices of our products, however, higher product prices may also result in a reduction in sales volume and/or consumption. If we are not able to increase our selling prices sufficiently, or in a timely manner, to offset increased raw material or other input costs, including packaging, direct labor, overhead and employee benefits, or if our sales volume decreases significantly, there could be a negative impact on our financial condition and results of operations.

Our Expansion Plans Are Dependent On The Availability Of Suitable Sites For Franchised Stores At Reasonable Occupancy Costs.

Our expansion plans are dependent on our ability to obtain suitable sites for franchised stores at reasonable occupancy costs for our franchised stores in high foot traffic retail environments. There is no assurance that we will be able to obtain suitable locations for our franchised stores at a cost that will allow such stores to be economically viable.

Same Store Sales Have Fluctuated and Will Continue to Fluctuate.

Our same store sales, defined as year-over-year sales for a store that has been open for at least one year, have fluctuated in the past on an annual and quarterly basis and are expected to continue to fluctuate in the future. Sustained declines in same store sales or significant same store sales declines in any single period could have a material adverse effect on our results of operations. For example, same store sales declined during FY 2021, primarily as a result of nearly all of the franchise stores being directly and negatively impacted by public health measures taken in response to COVID-19, with nearly all locations experiencing reduced operations as a result of, among other things, modified business hours and store and mall closures. Same store sales increased during FY 2022, primarily as a result of nearly all of the franchise stores being directly and positively impacted by a resurgence in consumer demand following the relaxing of many public health measures taken in response to COVID-19. If same-store sales decline in the future, we may experience a decrease in demand for products we sell and a decrease in revenue from royalty and marketing fees.

Higher Labor Costs, Increased Competition For Qualified Team Members And Ensuring Adequate Staffing Increases The Cost Of Doing Business. Additionally, Changes In Employment And Labor Laws, Including Health Care Legislation And Minimum Wage Increases, Could Increase Costs For Our System-Wide Operations.

Our success depends in part on our and our franchisees' ability to recruit, motivate, train and retain a qualified workforce to work in stores in a competitive environment. We and our franchisees have experienced, and could continue to experience, a shortage of labor for stores positions due to job market trends and conditions, which could decrease the pool of available qualified talent for key functions. Our ability to attract and retain hourly employees in our stores and factory has been impacted by these trends and conditions, and we expect staffing and labor challenges

to continue into FY 2026. Increased costs associated with recruiting, motivating and retaining qualified employees to work in the Company-owned stores, franchised stores and our production facility have had, and may in the future have, a negative impact on our Company-owned store and production margins and the margins of franchised stores. Competition for qualified drivers for both our stores and supply-chain function also continues to increase as more companies compete for drivers or enter the delivery space, including third party aggregators. Additionally, economic actions, such as boycotts, protests, work stoppages or campaigns by labor organizations, could adversely affect us (including our ability to recruit and retain talent) or our franchisees and suppliers. Social media may be used to foster negative perceptions of employment with our Company in particular or in our industry generally, and to promote strikes or boycotts.

We are also subject to federal, state and foreign laws governing such matters as minimum wage requirements, overtime compensation, benefits, working conditions, citizenship requirements and discrimination and family and medical leave and employee related litigation. Labor costs and labor-related benefits are primary components in the cost of operation. Labor shortages, increased employee turnover and health care mandates could increase our system-wide labor costs.

A significant number of hourly personnel are paid at rates at or above the federal and state minimum wage requirements. Accordingly, the enactment of additional state or local minimum wage increases above federal wage rates or regulations related to exempt employees has increased and could continue to increase labor costs for our domestic system-wide operations. A significant increase in the federal minimum wage requirement could adversely impact our financial condition and results of operations.

The Seasonality Of Our Sales And New Store Openings Can Have A Significant Impact On Our Financial Results From Quarter To Quarter.

Our sales and earnings are seasonal, with higher sales and earnings occurring during holidays and summer vacation season than at other times of the year, which causes fluctuations in our quarterly results of operations. In addition, quarterly results have been, and in the future are likely to be, affected by the timing of new store openings and the sale 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 the results that may be achieved in other quarters or for a full fiscal year.

The Retailing Of Confectionery Products Is Highly Competitive And Many Of Our Competitors Have Competitive Advantages Over Us.

The retailing of confectionery products is highly competitive. We and our franchisees compete with numerous businesses that offer similar products. Many of these competitors may have greater name recognition and financial, marketing and other resources than we do. In addition, there is intense competition among retailers for real estate sites, store personnel and qualified franchisees. Competitive market conditions could have a material adverse effect on us and our results of operations and our ability to expand successfully.

Changes In Consumer Tastes And Trends Could Have A Material Adverse Effect On Our Operations.

The sale of our products is affected by changes in consumer tastes and health concerns, including views regarding the consumption of chocolate. Numerous other factors that we cannot control, such as economic conditions, demographic trends, traffic patterns and weather conditions, influence the sale of our products. Changes in any of these factors could have a material adverse effect on us and our results of operations.

We Are Subject To Federal, State And Local Regulations.

We are subject to regulation by the Federal Trade Commission and must comply with certain state laws governing the offer, sale and termination of franchises and the refusal to renew franchises. Many state laws also regulate substantive aspects of the franchisor-franchisee relationship by, for example, requiring the franchisor to deal with its franchisees in good faith, prohibiting interference with the right of free association among franchisees and regulating discrimination among franchisees in charges, royalties or fees. Franchise laws continue to develop and change, and changes in such laws could impose additional costs and burdens on franchisors. Our failure to obtain approvals to sell franchises and the adoption of new franchise laws, or changes in existing laws, could have a material adverse effect on us and our results of operations.

Each of our Company-owned and franchised stores is subject to licensing and regulation by the health, sanitation, safety, building and fire agencies in the state or municipality where located. Difficulties or failures in obtaining required licenses or approvals from such agencies could delay or prevent the opening of a new store. We and our franchisees are also subject to laws governing our relationships with employees, including minimum wage requirements, overtime, working and safety conditions and citizenship requirements. Because a significant number of our employees are paid at rates related to the state minimum wage, increases in the minimum wage would increase our labor costs. The failure to obtain required licenses or approvals, or an increase in the minimum wage rate, employee benefits costs (including costs associated with mandated health insurance coverage) or other costs associated with employees, could have a material adverse effect on us and our results of operations.

Companies engaged in the production, packaging and distribution of food products are subject to extensive regulation by various governmental agencies. A finding of failure to comply with one or more regulations could result in the imposition of sanctions, including the closing of all or a portion of our facilities for an indeterminate period of time, and could have a material adverse effect on us and our results of operations.

Information Technology System Failures, Breaches Of Our Network Security Or Inability To Upgrade Or Expand Our Technological Capabilities Could Interrupt Our Operations And Adversely Affect Our Business.

We and our franchisees rely on our computer systems and network infrastructure across our operations, including point-of-sale (POS) processing at our stores. Our and our franchisees' operations depend upon our and our franchisees' ability to protect our computer equipment and systems against damage from physical theft, fire, power loss, telecommunications failure or other catastrophic events, as well as from internal and external cybersecurity breaches, viruses and other disruptive problems. Any damage or failure of our computer systems or network infrastructure that causes an interruption in our operations could have a material adverse effect on our business and subject us or our franchisees to litigation or to actions by regulatory authorities. Furthermore, the importance of such information technology systems and networks increased in FY 2021 and continued into FY 2022, FY 2023, FY 2024 and FY 2025 due to many of our employees working remotely.

A party who is able to compromise the security measures on our networks or the security of our infrastructure could, among other things, misappropriate our proprietary information and the personal information of our customers and employees, cause interruptions or malfunctions in our or our franchisee's operations, cause delays or interruptions to our ability to operate, cause us to breach our legal, regulatory or contractual obligations, create an inability to access or rely upon critical business records or cause other disruptions in our operations. These breaches may result from human errors, equipment failure, fraud, or malice on the part of employees or third parties.

We expend financial resources to protect against such threats and may be required to further expend financial resources to alleviate problems caused by physical, electronic, and cyber security breaches. As techniques used to breach security are growing in frequency and sophistication and are generally not recognized until launched against a target, regardless of our expenditures and protection efforts, we may not be able to implement security measures in a timely manner or, if and when implemented, these measures could be circumvented. Any breaches that may occur could expose us to an increased risk of lawsuits, loss of existing or potential future customers, harm to our reputation and increases in our security costs, which could have a material adverse effect on our financial performance and operating results.

In the event of a breach resulting in loss of data, such as personally identifiable information or other such data protected by data privacy or other laws, we may be liable for damages, fines and penalties for such losses under applicable regulatory frameworks despite not handling the data. Further, the regulatory framework around data custody, data privacy and breaches varies by jurisdiction and is an evolving area of law. We may not be able to limit our liability or damages in the event of such a loss.

We are continuing to invest in and expand, upgrade and develop our information technology capabilities, including enterprise resource planning (ERP) software and point-of-sale (POS) systems, as well as the adoption of cloud services for e-mail, intranet, and file storage. If we are unable to successfully upgrade or expand our technological capabilities, we may not be able to take advantage of market opportunities, manage our costs and transactional data effectively, satisfy customer requirements, execute our business plan or respond to competitive pressures. Additionally, unforeseen problems with our ERP or POS system may affect our operational abilities and internal controls and we may incur additional costs in connection with such upgrades and expansion.

If We, Our Business Partners, Or Our Franchisees Are Unable To Protect Our Customers' Data, We Could Be Exposed To Data Loss, Litigation, Liability And Reputational Damage.

In connection with credit and debit card sales, we and our franchisees transmit confidential credit and debit card information by way of secure private retail networks. A number of retailers have experienced actual or potential security breaches in which credit and debit card information may have been stolen. Although we and our franchisees use private networks, third parties may have the technology or know-how to breach the security of the customer information transmitted in connection with credit and debit card sales, and our and our franchisees' security measures and those of our and our franchisees' technology vendors may not effectively prohibit others from obtaining improper access to this information. If a person were able to circumvent these security measures, he or she could destroy or steal valuable information or disrupt our and our franchisees' operations. Any security breach could expose us and our franchisees to risks of data loss and liability and could seriously disrupt our and our franchisees' operations and any resulting negative publicity could significantly harm our reputation. We may also be subject to lawsuits or other proceedings in the future relating to these types of incidents. Proceedings related to the theft of credit and debit card information may be brought by payment card providers, banks, and credit unions that issue cards, cardholders (either individually or as part of a class action lawsuit), and federal and state regulators. Any such proceedings could harm our reputation, distract our management team members from running our business and cause us to incur significant unplanned liabilities, losses and expenses.

We also sell and accept for payment gift cards, and our customer loyalty program provides rewards that can be redeemed for purchases. Like credit and debit cards, gift cards and rewards earned by our customers are vulnerable to theft, whether physical or electronic. We believe that, due to their electronic nature, rewards earned through our customer loyalty program are primarily vulnerable to hacking. Customers affected by any loss of data or funds could litigate against us, and security breaches or even unsuccessful attempts at hacking could harm our reputation, and guarding against or responding to hacks could require significant time and resources.

We also receive and maintain certain personal information about our customers, including information received through our marketing programs, franchisees and business partners. Our collection, storage, handling, use, disclosure and security of this information is regulated by U.S. federal, state and local and foreign laws and regulations. If our security and information systems are compromised or our employees fail to comply with these laws and regulations and this information is obtained by unauthorized persons or used inappropriately, it could adversely affect our reputation, as well as the results of operations, and could result in litigation against us or the imposition of penalties. In addition, our ability to accept credit and debit cards as payment in our stores and online depends on us maintaining our compliance status with standards set by the PCI Security Standards Council. These standards, set by a consortium of the major credit card companies, require certain levels of system security and procedures to protect our customers' credit and debit card information as well as other personal information. Privacy and information security laws and regulations change over time, and compliance with those changes may result in cost increases due to necessary system and process changes.

We Are Subject To Periodic Litigation, Which Could Result In Unexpected Expenses Of Time And Resources.

From time to time, we are called upon to defend ourselves against lawsuits relating to our business. Due to the inherent uncertainties of litigation, we cannot accurately predict the ultimate outcome of any such proceedings. An unfavorable outcome in any current or future legal proceedings could have an adverse impact on our business, and financial results. In addition, any significant litigation in the future, regardless of its merits, could divert management's attention from our operations and result in substantial legal fees. Any litigation could result in substantial costs and a diversion of management's attention and resources that are needed to successfully run our business.

Changes In Health Benefit Claims And Healthcare Reform Legislation Could Have A Material Adverse Effect On Our Operations.

We accrue for costs to provide self-insured benefits for our employee health benefits program. We accrue for self-insured health benefits based on historical claims experience and we maintain insurance coverage to prevent financial losses from catastrophic health benefit claims. We monitor pending and enacted legislation in an effort to evaluate the effects of such legislation upon our business. Our financial position or results of operations could be materially adversely impacted should we experience a material increase in claims costs or a change in healthcare legislation that impacts our business.

Our Expansion Into New Markets May Present Increased Risks Due To Our Unfamiliarity With Those Areas And Our Target Customers' Unfamiliarity With Our Brands.

Consumers in any new markets we enter will not be familiar with our brands, and we will need to build brand awareness in those markets through significant investments in advertising and promotional activity. We may find it more difficult in new markets to secure desirable locations and to hire, motivate and keep qualified employees.

Issues Or Concerns Related To The Quality And Safety Of Our Products, Ingredients Or Packaging Could Cause A Product Recall And/Or Result In Harm To The Company's Reputation, Negatively Impacting Our Results Of Operations.

In order to sell our products, we need to maintain a good reputation with our customers and consumers. Issues related to the quality and safety of our products, ingredients or packaging could jeopardize our Company's image and reputation. Negative publicity related to these types of concerns, or related to product contamination or product tampering, whether valid or not, could decrease demand for our products or cause production and delivery disruptions. We may need to recall products if any of our products become unfit for consumption. In addition, we could potentially be subject to litigation or government actions, which could result in payments of fines or damages. Costs associated with these potential actions could negatively affect our results of operations.

Our Financial Results May Be Adversely Impacted By The Failure To Successfully Execute Or Integrate Acquisitions, Divestitures And Joint Ventures.

From time to time, we may evaluate potential acquisitions, divestitures or joint ventures that align with our strategic objectives. The success of such activity depends, in part, upon our ability to identify suitable buyers, sellers or business partners; perform effective assessments prior to contract execution; negotiate contract terms; and, if applicable, obtain government approval. These activities may present certain financial, managerial, staffing and talent, and operational risks, including diversion of management's attention from existing core businesses; difficulties integrating or separating businesses from existing operations; and challenges presented by acquisitions or joint ventures which may not achieve sales levels and profitability that justify the investments made. If the acquisitions, divestitures or joint ventures are not successfully implemented or completed, there could be a negative impact on our results of operations.

Provisions In Our Organizational Documents, As Well As Provisions Of Delaware Law, Could Make It More Difficult Or Costly For A Third Party To Acquire Us, Even If Doing So Would Benefit Our Stockholders, And Could Limit Attempts To Make Changes In Our Management.

Our amended and restated certificate of incorporation and bylaws, as well as Delaware law, contain provisions that could make it more difficult for a third party to acquire us without the consent of our Board of Directors. These provisions include the following:

- Authorize the issuance of "blank check" preferred stock, which is preferred stock with voting or other rights or preferences that could impede a takeover attempt and that the Board of Directors can create and issue without prior stockholder approval;
- Establish advance notice requirements for submitting nominations for election to the Board of Directors and for proposing matters that can be acted upon by stockholders at a meeting;
- Prohibit stockholder actions by written consent, which means all stockholder actions must be taken at a meeting of our stockholders; and
- Require super-majority voting to amend some provisions in our certificate of incorporation and to amend our bylaws.

Although we believe all of these provisions will make a higher third-party bid more likely by requiring potential acquirers to negotiate with the Board of Directors, these provisions will apply even if an initial offer may be considered beneficial by some stockholders and therefore could delay and/or prevent a deemed beneficial offer from being considered. These provisions could also discourage proxy contests and make it more difficult for our stockholders to elect directors and take other corporate actions, which may prevent a change of control or changes in our management

that a stockholder might consider favorable. In addition, Section 203 of the Delaware General Corporation Law may discourage, delay, or prevent a change in control of us. Any delay or prevention of a change of control or change in management that stockholders might otherwise consider to be favorable could cause the market price of our common stock to decline.

Our Common Stock Price May Be Volatile Or May Decline Regardless Of Our Operating Performance.

Volatility in the market price of our common stock may prevent you from being able to sell your shares at or above the price you paid for such shares. Many factors, which are outside our control, may cause the market price of our common stock to fluctuate, including those described elsewhere in this "Risk Factors" section and this Annual Report, as well as the following:

- Our operating and financial performance and prospects;
- Our quarterly or annual earnings or those of other companies in our industry compared to market expectations;
- Conditions that impact demand at our stores and for our products;
- Future announcements concerning our business or our competitors' businesses;
- The public's reaction to our press releases, other public announcements and filings with the SEC;
- The size of our public float, and the trading volume of our common stock;
- Coverage by or changes in financial estimates by securities analysts or failure to meet their expectations;
- Market and industry perception of our success, or lack thereof, in pursuing our growth strategy;
- Strategic actions by us or our competitors, such as acquisitions or restructurings;
- Changes in laws or regulations which adversely affect our industry or us;
- Changes in accounting standards, policies, guidance, interpretations or principles;
- Changes in senior management or key personnel;
- Issuances, exchanges or sales, or expected issuances, exchanges or sales of our capital stock;
- Changes in our dividend policy;
- Adverse resolution of new or pending litigation against us; and
- Changes in general market, economic and political conditions in the United States and global economies or financial markets, including those resulting from tariffs, inflation, natural disasters, terrorist attacks, public health outbreaks, acts of war and responses to such events.

As a result, volatility in the market price of our common stock may prevent investors from being able to sell their common stock at or above the price they paid for such shares. These broad market and industry factors may materially reduce the market price of our common stock, regardless of our operating performance. In addition, price volatility may be greater if the public float and trading volume of our common stock is low. As a result, you may suffer a loss on your investment.

Our Auditor's Opinion on Our Audited Consolidated Financial Statements for the Year Ended February 28, 2025, included in this Annual Report, Contains an Explanatory Paragraph Relating to our Ability to Continue as a Going Concern.

During the year ended February 28, 2025, we incurred a net loss of \$6.1 million and used cash in operating activities of \$6.6 million. In addition, at February 28, 2025, we were in violation of a debt covenant for our \$6.0 million Credit

Agreement where the lender can demand repayment. These factors raise substantial doubts about our ability to continue as a going concern within one year of the date that the consolidated financial statements included in this Annual Report are issued. Our auditor's opinion on our audited consolidated financial statements for the year ended February 28, 2025 includes an explanatory paragraph stating that our losses and negative cash flows from operations and uncertainty in generating sufficient cash to meet our operating obligations raise substantial doubt about our ability to continue as a going concern. While we are considering a variety of funding sources and transactions that could raise capital, there can be no assurances that we will be successful in these efforts or will be able to resolve our liquidity issues or eliminate our operating losses. If we are unable to obtain sufficient funding, we would need to significantly reduce our operating plans and curtail some or all of our strategic plans. Accordingly, our business, prospects, financial condition, and results of operations will be materially and adversely affected, and we may be unable to continue as a going concern. If we are unable to continue as a going concern, we may have to liquidate our assets and may receive less than the value at which those assets are carried on our audited consolidated financial statements, and it is likely that investors will lose all or a part of their investment. If we seek additional financing to fund our business activities in the future and there remains substantial doubt about our ability to continue as a going concern, investors or other financing sources may be unwilling to provide additional funding on commercially reasonable terms or at all.

Our Inability to Meet a Financial Covenant Contained in our Credit Facility May Adversely Affect our Liquidity, Financial Condition and Results of Operations.

Pursuant to a credit agreement (the "Credit Agreement"), with RMC Credit Facility LLC, a Colorado limited liability company (the "Lender"), dated September 30, 2024, we have a \$6.0 million promissory note, made by the Company to the Lender, for general corporate and working capital purposes (the "Note"). The Credit Agreement is secured by substantially all of our assets, except retail store assets. Interest on borrowings is set at 12.0% for a 3-year term beginning September 30, 2024. Additionally, the Credit Agreement is subject to various financial ratios and leverage covenants.

As of February 28, 2025, we were not in compliance with the requirement under the Credit Agreement to maintain a ratio of total liabilities to tangible net worth of no more than 2.0 to 1. Our ratio as of February 28, 2025 was 2.21 to 1.

In addition, the Credit Agreement permits the Company to invest no more than \$3.5 million per year in capital equipment. The Company invested \$3.7 million during the year ended February 28, 2025.

The Company has received a waiver from the Lender as of the date of issuance of the consolidated financial statements and is in compliance with all other aspects of the Credit Agreement. There can be no assurance that the Lender will grant us a waiver for future noncompliance.

If we are not in compliance with the requirements under the Credit Agreement, under the terms of the Credit Agreement, the Lender has the option, but not the obligation, to immediately demand repayment of the full amount of the Note. As of the date of this Annual Report, we do not have enough cash on hand to satisfy our obligations under the Note if the Lender exercised its option to demand repayment. If the Lender exercises its option and demands repayment at some time in the future, however, we may not have sufficient funds available to make the payments required. If we are unable to repay amounts owed, the Lender may be entitled to foreclose on and sell substantially all of our assets, which secure our borrowings under the Credit Agreement, which would have an adverse effect on our liquidity, financial condition and results of operations.

In addition, the Lender retains the right to act on covenant violations that occur after the date of delivery of any waiver. In the future, if the Lender were to decline to grant us a waiver and instead demand repayment, we may need to seek alternative financing to pay these obligations as we may not have sufficient facilities or sufficient cash on hand at that time to satisfy these obligations.

Risks Related to the Economy

Global Or Regional Public Health Outbreaks Could Negatively Impact Our Business Operations, Financial Performance And Results Of Operations.

Our business and financial results could be negatively impacted by public health outbreaks. The severity, magnitude and duration of global or regional public health outbreaks are uncertain and hard to predict. For example, COVID-19

significantly impacted economic activity and markets around the world, and resulted in broader supply, transportation and labor disruptions resulting in inflation and generally higher operating costs in our business. Relatedly, commodity and transportation costs have become more volatile and generally increased since the COVID-19 pandemic, as have supply chain disruptions, and transportation and labor shortages. Additionally, government or regulatory responses to public health outbreaks could negatively impact our business. Mandatory lockdowns or other restrictions on operations in some countries temporarily disrupted our ability to distribute our products in some markets. Resumption, continuation or expansion of these disruptions could materially adversely impact our operations and results.

These and other impacts of global or regional public health outbreaks could have the effect of heightening many of the other risks described in the risk factors presented in this filing, including but not limited to those relating to our reputation, brands, consumer preferences, supply chain, product sales, pricing actions, results of operations or financial condition. We might not be able to predict or respond to all impacts on a timely basis to prevent near- or long-term adverse impacts to our results. The ultimate impact of these disruptions also depends on events beyond our knowledge or control, including the duration and severity of other public health outbreaks and actions taken by parties other than us to respond to them. Any of these disruptions could have a negative impact on our business operations, financial performance, results of operations and stock price, and this impact could be material.

General Economic Conditions Could Have A Material Adverse Effect On Our Business, Results Of Operations And Liquidity Or Our Franchisees, With Adverse Consequences To Us.

Consumer purchases of discretionary items, including our products, often decline during weak economic periods where disposable income is adversely affected. Our performance is subject to factors that affect worldwide economic conditions, including employment, consumer debt, reductions in net worth based on severe market declines, residential real estate and mortgage markets, taxation, fuel and energy prices, interest rates, tariffs, consumer confidence, public health, the value of the U.S. dollar versus foreign currencies and other macroeconomic factors. These factors may cause consumers to purchase products from lower priced competitors or to defer purchases of discretionary products altogether.

Economic weakness could have a material effect on our results of operations, liquidity and capital resources. It could also impact our ability to fund growth and/or result in us becoming more reliant on external financing, the availability and terms of which may be uncertain. In addition, a weak economic environment may exacerbate the other risks noted below.

We rely in large part on our franchisees and the manner in which they operate their stores to develop and promote our business. It is possible that additional franchisees could file for bankruptcy, become delinquent in their payments to us, or simply shut down which could have a significant adverse impact on our business due to loss of factory sales and loss or delay in payments of royalties, contributions to our marketing fund and other fees. Additionally, the availability of credit to our small business franchisees may be curtailed due to tighter credit conditions in the marketplace, and as a result, could delay or preclude franchisees from making required store upgrades.

Although we have developed, and continue to develop, evolving criteria to evaluate and screen prospective developers and franchisees, we cannot be certain that the developers and franchisees we select will have the business acumen or financial resources necessary to open and operate successful franchises in their franchise areas, and state franchise laws may limit our ability to terminate or modify these franchise arrangements. Moreover, franchisees may not successfully operate stores in a manner consistent with our standards and requirements, or may not hire and train qualified managers and other store personnel. The failure of developers and franchisees to open and operate franchises successfully could have a material adverse effect on us, our reputation, our brand, our ability to attract prospective franchisees, our business, financial condition, results of operations and cash flows.

We are subject to risks from changes to the trade policies, including tariff and import/export regulations by the U.S. and/or other foreign governments.

Changes in trade policy, including trade restrictions, new or increased tariffs or quotas, embargoes, sanctions and countersanctions, safeguards or customs restrictions by the U.S. and/or other foreign governments could have a material adverse impact on our business. The imposition of new tariffs or increases in existing tariffs on products imported from countries could result in increased costs for our goods. These cost increases may reduce our margins, require us to raise prices, or make our products less competitive in the marketplace. In addition, other countries may change their business and trade policies in anticipation of or in response to increased import tariffs and other changes in trade policy and regulations already enacted or that may be enacted in the future. If we are unable to mitigate these

risks through supply chain adjustments, pricing strategies, or other measures, our financial performance and growth prospects could be negatively affected.

We Currently, And May In The Future, Have Assets Held At Financial Institutions That May Exceed The Insurance Coverage Offered By The Federal Deposit Insurance Corporation ("FDIC"), The Loss Of Which Would Have A Severe Negative Affect On Our Operations And Liquidity.

We may maintain our cash assets at financial institutions in the U.S. in amounts that may be in excess of the FDIC insurance limit of \$250,000. In the event of a failure or liquidity issues at any of the financial institutions where we maintain our deposits or other assets, we may incur a loss to the extent such loss exceeds the FDIC insurance limitation, which could have a material adverse effect upon our liquidity, financial condition and our results of operations. Similarly, if our customers or partners experience liquidity issues as a result of financial institution defaults or non-performance where they hold cash assets, their ability to pay us may become impaired and could have a material adverse effect on our results of operations, including the collection of accounts receivable and cash flows.

Risks Related to Our Franchisees

The Financial Performance Of Our Franchisees Can Negatively Impact Our Business.

Our financial results are dependent in part upon the operational and financial success of our franchisees. Franchisees purchase product from us and we receive royalties, franchise fees, contributions to our marketing fund, and other fees from our franchisees. We have established operational standards and guidelines for our franchisees; however, we have limited control over how our franchisees' businesses are run. While we are responsible for ensuring the success of our entire system of stores and for taking a longer-term view with respect to system improvements, our franchisees have individual business strategies and objectives, which might conflict with our interests. Our franchisees may not be able to secure adequate financing to open or continue operating their Rocky Mountain Chocolate Factory stores. If they incur too much debt or if economic or sales trends deteriorate such that they are unable to repay existing debt, our franchisees could experience financial distress or even bankruptcy. If a significant number of franchisees become financially distressed, it could harm our operating results through reduced royalty revenues and the impact on our profitability could be greater than the percentage decrease in the royalty revenues. This would reduce our royalty revenues and could negatively impact margins, since we may not be able to reduce fixed costs which we continue to incur.

We Have Limited Control With Respect To The Operations Of Our Franchisees, Which Could Have A Negative Impact On Our Business.

Franchisees are independent business operators and are not our employees, and we do not exercise control over the day-to-day operations of their stores. We provide training and support to franchisees, and set and monitor operational standards, but the quality of franchised stores may be diminished by any number of factors beyond our control, despite our enforcing the terms and conditions of the Company's franchise agreement and operations manual. Consequently, franchisees may not successfully operate stores in a manner consistent with our standards and requirements, or may not hire and train qualified managers and other store personnel. If franchisees do not operate to our expectations, our image and reputation, and the image and reputation of other franchisees, may suffer materially and system-wide sales could decline significantly, which would reduce our royalty revenues, and the impact on profitability could be greater than the percentage decrease in royalties and fees.

A Significant Shift By Franchisees From Company-Manufactured Products To Products Produced By Third Parties Could Adversely Affect Our Operations.

Franchisees' sales of products produced by us generate higher revenues to us than sales of store-made or other products. We have seen a significant increase in system-wide sales of store-made and other products, which has led to a decrease in purchases from us and has had an adverse effect on our revenues. If this trend continues, it could further adversely affect our total revenues and results of operations. Such a decrease could result from franchisees' decisions to sell more store-made products or products purchased from approved third party suppliers.

Risks Related to Our Supply Chain

Increase In Ingredient And Other Operating Costs, Including Those Caused By Weather And Food Safety, Could Adversely Affect Our Results Of Operations.

[Table of Contents](#)

Our Company-owned and franchised stores could also be harmed by supply chain interruptions including those caused by factors beyond our control or the control of our suppliers. However, prolonged disruption in the supply of products from or to our manufacturing facility due to weather, natural disasters, food safety incidents, regulatory compliance, labor dispute or interruption of service by carriers could increase costs, limit the availability of raw materials critical to our store operations and have a significant impact on results. Increasing weather variability or other long-term changes in weather patterns could have a significant impact on the price or availability of some of our raw materials and other materials throughout our supply chain. In particular, adverse weather or cocoa beans or nuts shortages could disrupt the supply of key ingredients to our and our franchisees' stores. Insolvency of key suppliers could also cause similar business interruptions and negatively impact our business.

Disruption To Our Manufacturing Facility Or Supply Chain Could Impair Our Ability To Produce Or Deliver Finished Products, Resulting In A Negative Impact On Our Results Of Operations.

All of our manufacturing operations are located in Durango, Colorado. Disruption to our manufacturing facility or to our supply chain could result from a number of factors, including natural disasters, outbreak of disease, weather, fire or explosion, extreme forest fires, terrorism or other acts of violence, labor strikes or other labor activities, unavailability of raw or packaging materials, and operational and/or financial instability of key suppliers and other vendors or service providers. We believe that we take adequate precautions to mitigate the impact of possible disruptions. We have strategies and plans in place to manage disruptive events if they were to occur. However, if we are unable, or find that it is not financially feasible, to effectively plan for or mitigate the potential impacts of such disruptive events on our manufacturing facility or supply chain, our financial condition and results of operations could be negatively impacted.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 1C. CYBERSECURITY

Risk Management and Strategy

We have established processes, that seek to assess, identify, and manage material risks from cybersecurity threats to the IT systems and information that we use or will use, transmit, receive, and maintain. The processes for assessing, identifying, and managing material risks from cybersecurity threats have been integrated into the overall risk management system through the use of firewalls, antivirus and malware detection, and other security software. The processes include efforts to identify the relevant assets that could be affected, determine possible threat sources and threat events, assess threats based on their potential likelihood and impact, and identify controls that are in place or necessary to manage and/or mitigate such risks. We have engaged consultants to assist us with risk mitigation and monitoring threats from both inside and outside our network, including risks of cybersecurity threats associated with the use of third-party service providers. We maintain full backups on a regular basis to protect against the loss of critical data.

We have not experienced any material cybersecurity incidents to date that have materially affected, or that are reasonably likely to materially affect our business, strategy, results of operations or financial condition, and the expenses incurred from any security incidents have been immaterial. However, as discussed under "Risk Factors" in Part I, Item 1A of this Annual Report, cybersecurity threats pose multiple and potentially material risks to us, including to our results of operations and financial condition. We rely extensively on information technology systems and could face cybersecurity risk. As cybersecurity threats become more frequent, sophisticated, and coordinated, it is reasonably likely that we may expend greater resources to continue to modify and enhance protective measures against such security risks.

Governance

Our Board of Directors is responsible for exercising oversight of management's identification and management of, and planning for, risks from cybersecurity threats. The Board's Audit Committee routinely evaluates the Company's cybersecurity through communications with management and the Company's information technology

department. Systems are in place to perform ongoing testing to defend and mitigate against unwelcome intrusions and attacks.

The interim CEO and CFO communicate with the head of the information technology department daily to monitor any potential or perceived threats to our technology infrastructure. A comprehensive and regularly tested Incident Response Plan (IRP) has been established that outlines specific steps for various types of cyber incidents. There are key performance indicators (KPIs) and metrics used to measure the effectiveness of the cybersecurity program, including processes to keep senior management and the Board's Audit Committee informed. The Company also maintains a cybersecurity insurance policy to provide financial protection in the event of a critical breach.

We employ information technology specialists and use external consulting firms to supplement our cybersecurity practices. Both the interim CEO and CFO have experience in managing teams of information technology specialists and assessing cybersecurity threats.

ITEM 2. PROPERTIES

Our production operations and corporate headquarters are located at 265 Turner Drive, Durango, Colorado 81303, which is a 53,000 square foot manufacturing facility that we own. During FY 2025, our manufacturing operations produced approximately 2.05 million pounds of chocolate products, which was an increase of approximately 27% from the approximately 1.61 million pounds produced in FY 2024. In July 2024, we sold an unused parcel of land in Durango, Colorado for a purchase price of approximately \$0.9 million.

As of February 28, 2025, the Company had obligations for one non-cancelable lease for our Flagship Store having an expiration date of January 31, 2026, which contains an optional ten-year renewal right and a five-year lease for our Company owned store in Corpus Christi, TX having an expiration date of January 1, 2029. We expect to exercise our renewal right for the Flagship Store. We do not deem these to be material in relation to our overall operations.

For information as to the amount of our rental obligations under leases on both Company-owned and franchised stores, see Note 10 "Leasing Arrangements" to our consolidated financial statements included in Item 8 of this Annual Report.

ITEM 3. LEGAL PROCEEDINGS

Item 1. Legal Proceedings

We are not aware of any pending legal actions that would, if determined adversely to us, have a material adverse effect on our business and operations.

We may, from time to time, become involved in disputes and proceedings arising in the ordinary course of business. In addition, as a public company, we are also potentially susceptible to litigation, such as asserting violations of securities laws. Any such claims, with or without merit, if not resolved, could be time-consuming and result in costly litigation. There can be no assurance that an adverse result in any future proceeding would not have a potentially material adverse effect on our business, results of operations, and financial condition.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

PART II.

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is listed on the Nasdaq Global Market tier of the Nasdaq Stock Market LLC under the symbol “RMCF.”

Holders

On May 30, 2025, there were approximately 441 record holders of our common stock. This figure does not include an estimate of the number of beneficial holders whose shares are held of record by banks, broker or other nominees.

Dividends

Although we have previously paid cash dividends on our common stock, we have no present intention of paying a cash dividend on our common stock. Any determination to pay dividends to holders of our common stock will be at the discretion of our board of directors and will depend upon many factors, including our financial condition, results of operations, projections, liquidity, earnings, legal requirements, restrictions in our existing and any future debt and other factors that our board of directors deems relevant.

Unregistered sales of equity securities

None.

ITEM 6. RESERVED

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations (this "MD&A") is intended to assist in an understanding of our financial condition and should be read in conjunction with our Consolidated Financial Statements and accompanying Notes included in Item 8 of this Annual Report. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs, and involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed elsewhere in this Annual Report, particularly in Item 1A. "Risk Factors."

Overview

Rocky Mountain Chocolate Factory, Inc., a Delaware corporation, and its subsidiaries (including its operating subsidiary with the same name, Rocky Mountain Chocolate Factory, Inc., a Colorado corporation) ("RMCF") (referred to as the "Company," "we," "us," or "our") is an international franchisor, confectionery producer and retail operator. Founded in 1981, we are headquartered in Durango, Colorado and produce an extensive line of premium chocolate products and other confectionery products. Our revenues and profitability are derived principally from our franchised/licensed system of retail stores that feature chocolate and other confectionery products including gourmet caramel apples. We may also sell our confectionery products in select locations outside of our system of retail stores and license the use of our brand with certain consumer products. As of February 28, 2025, there were 2 Company-owned, 117 licensee-owned and 141 franchised Rocky Mountain Chocolate Factory stores operating in 27 states and the Philippines.

Recent Developments

On May 1, 2023, subsequent to the end of FY 2023, the Company completed the sale of substantially all of the assets of its wholly-owned subsidiary and frozen yogurt business, U-Swirl International, Inc. The aggregate sale price of U-Swirl was \$2.75 million, consisting of (i) \$1.75 million in cash and (ii) \$1.0 million evidenced by a three-year secured promissory note. The business divestiture of the U-Swirl segment was preceded by a separate sale of the Company's three owned U-Swirl locations on February 24, 2023. The consolidated financial statements present the historical financial results of the former U-Swirl segment as discontinued operations for all periods presented. See Note 15 of the Notes to Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data", of this Annual Report for information on this divestiture.

With the sale of U-Swirl, we continue to focus on our confectionery business to further enhance our competitive position and operating margin, simplify our business model, and deliver sustainable value to our stockholders.

On August 5, 2024, the Company entered into securities purchase agreements with Steven L. Craig, an existing director of the Company and American Heritage Railways, Inc. a company affiliated with Allen C. Harper who joined the board of directors in December 2024 (the "Investors"), pursuant to which, among other things, the Investors agreed to subscribe for and purchase, and the Company agreed to issue and sell to the Investors in a private placement, an aggregate of 1,250,000 of shares of the Company's common stock at a price per share equal to \$1.75, for total proceeds of approximately \$2.2 million. On September 5, 2024, the Company filed a Form S-1 registering the shares sold in the private placement. The Form S-1 was declared effective by the SEC on October 9, 2024.

On September 30, 2024, the Company repaid the amount owed under its credit agreement with Wells Fargo Bank N.A. (the "Wells Fargo Credit Agreement") and entered into a new credit agreement (the "Credit Agreement") with RMC Credit Facility, LLC ("RMC"). Pursuant to the Credit Agreement, the Company received an advance in the principal amount of \$6.0 million, which advance is evidenced by a promissory note (the "Note"). The Note will mature on September 30, 2027 (the "Maturity Date"), and interest will accrue at a rate of 12% per annum and is payable monthly in arrears. All outstanding principal and interest will be due on the Maturity Date. RMC is a special purpose investment entity affiliated with Steven L. Craig, one of the members of the Company's board of directors.

Current Trends Affecting Our Business and Outlook

As a result of recent macroeconomic inflationary trends and disruptions to the global supply chain, we have experienced and expect to continue experiencing higher raw material, labor, and freight costs. We have experienced labor and logistics challenges, which we believe have contributed to lower factory, retail and e-commerce sales. In addition, we could experience additional lost sale opportunities if our products are not available for purchase as a result of continued disruptions in our supply chain relating to an inability to obtain raw materials or packaging, or if we or our franchisees experience delays in stocking our products.

During FY 2023, the Company incurred substantial costs associated with a stockholder's contested solicitation of proxies in connection with our 2022 annual meeting of stockholders. During FY 2023, the Company incurred approximately \$4.1 million of costs associated with the contested solicitation of proxies, however, there were no such comparable costs in FY 2024 or FY 2025.

We are subject to seasonal fluctuations in sales because of key holidays and the location of our franchisees, which have traditionally been located in high traffic areas such as resorts or tourist locations, and the nature of the products we sell, which are seasonal. 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 the sales of new franchise locations. Because of the seasonality of our business and the impact of new store openings and sales of new 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 for continued growth in our earnings are our ability to increase the sales of premium chocolate products produced in our Durango production facility, and the support of our franchisees in increasing the frequency of customer visits and the average value of each customer transaction, along with ongoing e-commerce revenue growth, and new franchised store growth.

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 locations and the availability of qualified franchisees to support our expansion plans.

Efforts to increase same store pounds purchased from our production facility by franchised stores and to increase total Durango production depend on many factors, including new store openings, effective e-commerce initiatives, industry competition, the receptivity of our franchise system to our product introductions and promotional programs.

Results of Continuing Operations

Fiscal 2025 Compared To Fiscal 2024

Results Summary

Basic loss per share increased from a loss from continuing operations of \$(0.77) per share in FY 2024 to a loss from continuing operations of \$(0.86) per share in FY 2025. Revenues increased by 5.8% from \$28.0 million for FY 2024 to \$29.6 million for FY 2025. Operating loss and loss from continuing operations was \$4.9 million in FY 2024 compared to an operating loss of \$5.9 million in FY 2025.

REVENUES

(\$'s in thousands)	For the Year Ended February 28 or 29,		\$ Change	% Change
	2025	2024		
Durango product and retail sales	\$ 24,015	\$ 22,022	1,993	9.1%
Franchise fees	188	168	20	11.9%
Royalty and marketing fees	5,376	5,761	(385)	(6.7)%
Total	<u>\$ 29,579</u>	<u>\$ 27,951</u>	<u>\$ 1,628</u>	<u>5.8%</u>

[Table of Contents](#)

Durango Product and Retail Sales

The increase in total sales for FY 2025 compared to FY 2024 was primarily due to a 9%, or \$2.0 million, increase in sales of products to our network of franchised and licensed retail stores, Specialty Markets customers, and e-commerce customers, and also reflective of price increases.

We continue to rationalize product offerings to improve production efficiencies, while adding new products we believe can generate high sales volumes and gross profit margins at or above our average level for bulk and packaged items. We continue to focus our marketing efforts to increase total pounds purchased by franchise locations.

Royalties, Marketing Fees and Franchise Fees

Royalty and marketing fees decreased during FY 2025 compared to FY 2024 was primarily due to the Company offering more favorable royalty agreements within our updated franchise agreement designed to increase the amount of Durango product items sold in franchised stores. The change in franchise fee revenue during FY 2025 compared to FY 2024 was not material.

COSTS AND EXPENSES

Cost of Sales and Expenses

	For the Year Ended February 28 or 29,		\$	%
(\$'s in thousands)	2025	2024	Change	Change
Total cost of sales	\$ 23,916	\$ 20,656	\$ 3,260	15.8%
Franchise costs	2,414	2,582	(168)	(6.5)%
Sales and marketing	1,995	2,132	(137)	(6.4)%
General and administrative	6,305	6,674	(369)	(5.5)%
Retail operating	716	671	45	6.7%
Depreciation and amortization, exclusive of depreciation and amortization expense of \$775 and \$750, respectively, included in cost of sales	175	138	37	26.8%
Total	\$ 35,521	\$ 32,853	\$ 2,668	8.1%

	For the Year Ended February 28 or 29,		\$	%
(\$'s in thousands)	2025	2024	Change	Change
Total gross margin	\$ 99	\$ 1,366	\$ (1,267)	(92.8)%
Gross margin percentage	0.4%	6.2%	(5.8)%	(93.4)%

	For the Year Ended February 28 or 29,		\$	%
Adjusted Gross Margin (a non-GAAP measure) (\$'s in thousands)	2025	2024	Change	Change
Total gross margin	\$ 99	\$ 1,366	\$ (1,267)	(92.8)%
Plus: depreciation and amortization	775	750	25	3.3%
Total Adjusted Gross Margin (non-GAAP measure)	\$ 874	\$ 2,116	\$ (1,242)	(58.7)%
Total Adjusted Gross Margin (non-GAAP measure)	3.6%	10.0%	(6.4)%	(63.6)%

Non-GAAP Measures

In addition to the results provided in accordance with GAAP, we provide certain non-GAAP measures, which present results on an adjusted basis. These are supplemental measures of performance that are not required by or presented in accordance with GAAP. Adjusted gross margin is a non-GAAP measure. Adjusted gross margin is equal to the sum of our total gross margin plus depreciation and amortization calculated in accordance with GAAP. We believe adjusted

[Table of Contents](#)

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

Cost of Sales and Gross Margin

Total gross margin decreased to 0.4% in FY 2025 compared to a gross margin of 6.2% during FY 2024, due primarily to an increase in overhead costs, a sharp increase in the cost of cocoa as a raw material as well as other inflationary pressures we were unable to capture through appropriate and timely price increases, in addition to a reduction in production volume. Additionally, costs incurred increased as a result of the Company undertaking actions to relocate its consumer packaging operations to Salt Lake City, Utah, in response to limited labor availability in the Durango labor pool, which led to elevated production costs, decreased operating efficiencies, and a large write-off of inventory value recognized in cost of sales. This business arrangement was wound down between January 1, 2025 and February 28, 2025 after our peak holiday selling season. The Company estimates the impact of this contributed a negative \$1.5 million. We now have all of our consumer packaging assets returned to our Durango production facility, which will have an immediate and positive impact on gross margin and profitability through efficiencies at that location.

Franchise Costs

The decrease in franchise costs in FY 2025 compared to FY 2024 was due primarily to prior year investments in human capital and the ongoing brand update and store redesign expense, an initiative that is now complete and spanned nearly two years. As a percentage of total royalty and marketing fees and franchise fee revenue, franchise costs decreased to 43.4% in FY 2025 from 43.5% in FY 2024. This decrease as a percentage of royalty, marketing and franchise fees is primarily a result of higher royalty fees partially offset by higher costs associated with providing a high level of customer service to our entire franchise network which had been lacking in prior years. As a percentage of total revenue, franchise costs decreased to 8.2% during FY 2025, compared to 9.2% during FY 2024.

Sales and Marketing

The decrease in sales and marketing costs during FY 2025, compared to FY 2024, was due primarily to changes with the organization of the department under which fewer marketing executives were hired to address gaps in our historic marketing plan, and a more focused ad spend was undertaken to direct resources to achieve a higher return on investment. As a percentage of total revenues, sales and marketing expenses decreased to 6.7% during FY 2025, compared to 7.6% during FY 2024.

General and Administrative

The decrease in general and administrative costs during FY 2025, compared to FY 2024, was due in part to headcount rationalization designed to improve efficiency and collaboration across departments. The Company continued to incur an elevated level of professional fees related to support our Board of Directors and costs associated with compensation obligations for our former Chief Executive Officer. The Company had additional legal and professional costs associated with an equity raise and the refinancing of our credit facility. We also had a variety of technology and corporate matters requiring outside consulting services. As a percentage of total revenues, general and administrative expenses decreased to 21.3% during FY 2025, compared to 23.9% during FY 2024.

Retail Operating Expenses

Retail operating expenses increased 6.7% during FY 2025 compared to FY 2024. This increase is primarily the result of the mid-year FY 2024 addition of the Company's Corpus Christi, TX location. As a percentage of total revenues, retail operating expenses remained relatively unchanged at 2.4% during FY 2025 compared to 2.4% during FY 2024.

Depreciation and Amortization

Depreciation and amortization, exclusive of depreciation and amortization included in cost of sales, was \$0.2 million during FY 2025, an increase from \$0.1 million during FY 2024. Depreciation and amortization included in cost of sales increased 3.3% during FY 2024 to FY 2025. This increase was the result of ongoing investment in production equipment.

Other Income (Expense)

Other expense was \$0.2 million during FY 2025, compared to other income of \$26 thousand during FY 2024. This represents interest expense of \$0.5 million during FY 2025 compared to \$0.1 million during FY 2024, a gain on disposal of assets of \$0.2 million during FY 2025 with no such costs in FY 2024, and interest income of \$27 thousand during FY 2025 compared to \$0.1 million during FY 2024.

Income Tax Provision (Benefit)

We had no income tax expense during the years ended February 28, 2025 and or February 29, 2024 due to our loss from operations. See Note 12 to the financial statements for a description of income taxes, deferred tax assets, and associated reserves.

Liquidity and Capital Resources

As of February 28, 2025, working capital was \$2.4 million compared with \$1.5 million as of February 29, 2024. The increase in working capital was due primarily to an equity capital raise of \$2.2 million, a refinancing of the Company's previous revolving credit facility into a 3-year note payable that generated an additional \$2.5 million of balance sheet liquidity, and the sale of assets that generated \$2.3 million, offset by \$3.8 million of capital investment in the Durango production facility, plus net change in accounts receivable and accounts payable. Expected future cash requirements include supporting current operations and building inventory including capital expenditures to support our business.

Cash and cash equivalent balances decreased from \$2.1 million as of February 29, 2024 to \$0.7 million as of February 28, 2025 primarily as a result of cash used by operating and investing activities. Our current ratio was 1.34 to 1.0 on February 28, 2025 compared to 1.19 to 1.0 on February 29, 2024. We monitor current and anticipated future levels of cash and cash equivalents in relation to anticipated operating, financing and investing requirements.

During FY 2025, we had a consolidated net loss of \$6.1 million. Operating activities used cash of \$6.6 million, with the principal adjustments to reconcile net income to net cash used in operating activities being depreciation and amortization of \$1.0 million, provision for obsolete inventory of \$0.3 million, stock compensation expense of \$0.3 million, and gain on the sale of assets of \$0.2 million. During FY 2024, we had a consolidated net loss of \$4.2 million, less net loss from discontinued operations of \$0.7 million. Operating activities used cash of \$2.4 million, with the principal adjustments to reconcile net income to net cash used in operating activities being depreciation and amortization of \$0.9 million, provision for obsolete inventory of \$0.2 million and stock compensation expense of \$0.4 million.

During FY 2025, investing activities used cash of \$1.7 million, primarily due to the purchases of property and equipment of \$3.8 million, partially offset by the proceeds from the sale of assets of \$2.3 million. In comparison, investing activities used cash of \$1.5 million during FY 2024 primarily due to the purchases of property and equipment of \$3.0 million, partially offset by investing cash flow from discontinued operations of \$1.4 million.

During FY 2025, financing activities provided cash of \$6.9 million, primarily due to proceeds from notes payable of \$6.0 million, proceeds from the line of credit of \$2.2 million, and issuance of common stock through the securities purchase agreement of \$2.2 million, partially offset by the payment on the line of credit of \$3.5 million and payment of debt issuance costs of \$0.1 million. In comparison, financing activities provided cash of \$1.3 million during FY 2024 resulting from the Company drawing down \$1.3 million on its revolving line of credit.

[Table of Contents](#)

The conditions above raise substantial doubt regarding our ability to continue as a going concern for a period of at least one year from the date of issuance of these financial statements. In addition, our independent registered public accounting firm, in their report on the Company's February 28, 2025, audited financial statements, raised substantial doubt about the Company's ability to continue as a going concern.

Credit Agreement and Payment of Wells Fargo Credit Agreement

On September 30, 2024, the Company entered into a new credit agreement (the "Credit Agreement") with RMC Credit Facility, LLC ("RMC"). Pursuant to the Credit Agreement, the Company received an advance in the principal amount of \$6.0 million, which advance is evidenced by a promissory note (the "Note"). The Note will mature on September 30, 2027 (the "Maturity Date"), and interest will accrue at a rate of 12% per annum and is payable monthly in arrears. All outstanding principal and interest will be due on the Maturity Date. The Credit Agreement is collateralized by the Company's Durango real estate property and the related inventory and property, plant and equipment located on that property, as well as the Company's accounts receivable and cash accounts.

In connection with the Credit Agreement and the Note, the Company entered into a Deed of Trust with RMC and the Public Trustee of La Plata County, Colorado with respect to the Company's property in Durango, Colorado. RMC is a special purpose investment entity affiliated with Steven L. Craig, one of the members of the Company's board of directors.

The proceeds of the Credit Agreement were used as follows: (i) \$3.5 million was used to repay the Wells Fargo Credit Agreement and (ii) the remaining balance was used for continued capital investment and working capital needs. The Credit Agreement contains customary events of default, including nonpayment of principal and interest when due, failure to comply with covenants, and a change of control of the Company, as well as customary affirmative and negative covenants, including, without limitation, certain reporting obligations and certain limitations on liens, encumbrances, and indebtedness. The Credit Agreement also limits our capital expenditures to \$3.5 million per year and contains two financial covenants measured quarterly: a maximum ratio of total liabilities to total net worth and a minimum current ratio.

The Company paid off the outstanding balance of \$3.5 million of the Wells Fargo Credit Agreement upon maturity on September 30, 2024.

The Company was not in compliance with the requirement under the Credit Agreement to limit annual capital expenditures to \$3.5 million as of February 28, 2025, nor was the Company in compliance with the liabilities to tangible net worth of 2.0:1.0 as of February 28, 2025. The Company has received a waiver from the Lender as of the date of issuance of these financial statements and is in compliance with all other aspects of the Credit Agreement.

The Company will continue to explore additional means of strengthening its liquidity position and ensuring compliance with its debt financing covenants, which may include the obtaining of waivers from our lenders.

On August 5, 2024, the Company entered into securities purchase agreements with Steven L. Craig, an existing director of the Company and American Heritage Railways, Inc. a company affiliated with Allen C. Harper who joined the board of directors in December 2024 (the "Investors"), pursuant to which, among other things, the Investors agreed to subscribe for and purchase, and the Company agreed to issue and sell to the Investors in a private placement, an aggregate of 1,250,000 of shares of the Company's common stock at a price per share equal to \$1.75, for total proceeds of approximately \$2.2 million. On September 5, 2024, the Company filed a Form S-1 registering the shares sold in the private placement. The Form S-1 was declared effective by the SEC on October 9, 2024.

Contractual Obligations

The table below presents significant contractual obligations of the Company at February 28, 2025.

(Amounts in thousands)

[Table of Contents](#)

Contractual Obligations	Total	Less than 1 year	2-3 Years	4-5 years	More Than 5 years
Operating leases	\$ 1,383	\$ 498	\$ 424	\$ 156	\$ 305
Purchase contracts	2,346	2,346	-	-	-
Total	\$ 3,729	\$ 2,844	\$ 424	\$ 156	\$ 305

The Company made an average of \$3.4 million per year in capital expenditures during FY 2024 to FY 2025. For FY 2026 the Company anticipates incurring substantially lower levels of capital expenditures.

Impact of Inflation

Inflationary factors such as increases in the costs of raw materials 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 the 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.

Critical Accounting Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of our consolidated 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, 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. The Company did not identify any critical estimates used in the preparation of our consolidated financial statements for the year ended February 28, 2025.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO FINANCIAL STATEMENTS

	Page
Report of Independent Registered Public Accounting Firm (CohnReznick, LLP, New York, NY, PCAOB ID No. 596)	33
Consolidated Statements of Operations	34
Consolidated Balance Sheets	35
Consolidated Statements of Changes in Stockholders' Equity	36
Consolidated Statements of Cash Flows	37
Notes to Consolidated Financial Statements	38

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Rocky Mountain Chocolate Factory, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Rocky Mountain Chocolate Factory, Inc. (the "Company") as of February 28, 2025 and February 29, 2024, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the fiscal years then ended, and the related notes and financial statement schedule listed in the Index at Item 15(a) (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of February 28, 2025 and February 29, 2024, and the results of its operations and its cash flows for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

Substantial Doubt about the Company's ability to continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As disclosed in Note 1 to the financial statements, the Company has incurred recurring losses and negative cash flows from operations in recent years and is dependent on debt financing to fund its operations, all of which raise substantial doubt about the Company's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

Critical audit matters are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. We determined that there are no critical audit matters.

/s/ CohnReznick LLP

We have served as the Company's auditor since 2023.

Los Angeles, California
June 20, 2025

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share amounts)

	FOR THE YEARS ENDED FEBRUARY 28 or 29,	
	2025	2024
Revenues		
Sales	\$ 24,015	\$ 22,022
Franchise and royalty fees	5,564	5,929
Total Revenue	29,579	27,951
Costs and Expenses		
Cost of sales	23,916	20,656
Franchise costs	2,414	2,582
Sales and marketing	1,995	2,132
General and administrative	6,305	6,674
Retail operating	716	671
Depreciation and amortization, exclusive of depreciation and amortization expense of \$775 and \$750, respectively, included in cost of sales	175	138
Total costs and expenses	35,521	32,853
Loss from Operations	(5,942)	(4,902)
Other Income (Expense)		
Interest expense	(454)	(53)
Interest income	27	79
Gain on disposal of assets	247	-
Other (expense) income, net	(180)	26
Loss Before Income Taxes	(6,122)	(4,876)
Income Tax Provision	-	-
Loss from Continuing Operations	(6,122)	(4,876)
Earnings (loss) from discontinued operations, net of tax	-	704
Net Loss	<u>\$ (6,122)</u>	<u>\$ (4,172)</u>
Basic Loss per Common Share		
Loss from continuing operations	\$ (0.86)	\$ (0.77)
Earnings (loss) from discontinued operations	-	0.11
Net loss	<u>\$ (0.86)</u>	<u>\$ (0.66)</u>
Diluted Loss per Common Share		
Loss from continuing operations	\$ (0.86)	\$ (0.77)
Earnings (loss) from discontinued operations	-	0.11
Net loss	<u>\$ (0.86)</u>	<u>\$ (0.66)</u>
Weighted Average Common Shares Outstanding - Basic	7,079,171	6,294,411
Dilutive Effect of Employee Stock Awards	-	-
Weighted Average Common Shares Outstanding - Diluted	7,079,171	6,294,411

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

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	AS OF FEBRUARY 28 or 29,	
	2025	2024
Assets		
Current Assets		
Cash and cash equivalents	\$ 720	\$ 2,082
Accounts receivable, less allowance for credit losses of \$307 and \$332, respectively	3,405	2,184
Notes receivable, current portion, less current portion of the allowance for credit losses of \$28 and \$30, respectively	11	489
Refundable income taxes	64	46
Inventories	4,630	4,358
Other	393	443
Total current assets	9,223	9,602
Property and Equipment, Net	9,409	7,758
Other Assets		
Notes receivable, less current portion and allowance for credit losses of \$0	69	695
Goodwill	576	576
Intangible assets, net	210	238
Lease right of use asset	1,241	1,694
Other	447	14
Total other assets	2,543	3,217
Total Assets	<u>\$ 21,175</u>	<u>\$ 20,577</u>
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	\$ 4,816	\$ 3,411
Line of credit	-	1,250
Accrued salaries and wages	697	1,833
Gift card liabilities	649	624
Other accrued expenses	80	300
Contract liabilities	139	151
Lease liability	488	503
Total current liabilities	6,869	8,072
Note payable	5,957	-
Lease Liability, Less Current Portion	770	1,191
Contract Liabilities, Less Current Portion	604	678
Total Liabilities	14,200	9,941
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock, \$.001 par value per share; 250,000 authorized; 0 shares issued and outstanding	-	-
Common stock, \$.001 par value, 46,000,000 shares authorized, 7,722,124 shares and 6,310,543 shares issued and outstanding, respectively	8	6
Additional paid-in capital	12,355	9,896
(Accumulated Deficit) Retained earnings	(5,388)	734
Total stockholders' equity	6,975	10,636
Total Liabilities and Stockholders' Equity	<u>\$ 21,175</u>	<u>\$ 20,577</u>

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

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(in thousands, except share amounts)

	Convertible Preferred Stock		Common Stock		Additional Paid-In	Retained Earnings (Accumulated Deficit)	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital		Equity
Balances as of February 28, 2023	—	\$ -	6,257,137	\$ 6	\$ 9,458	\$ 4,906	\$ 14,370
Equity compensation, restricted stock units, net of shares withheld	—	—	48,890	—	438	—	438
Net loss	—	—	—	—	—	(4,172)	(4,172)
Balances as of February 29, 2024	—	\$ -	6,306,027	\$ 6	\$ 9,896	\$ 734	\$ 10,636
Equity compensation, restricted stock units, net of shares withheld	—	—	166,147	—	273	—	273
Issuance of common stock through securities purchase agreement	—	—	1,250,000	2	2,186	—	2,188
Net loss	—	—	—	—	—	(6,122)	(6,122)
Balances as of February 28, 2025	—	\$ -	7,722,174	\$ 8	\$ 12,355	\$ (5,388)	\$ 6,975

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

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	FOR THE YEARS ENDED FEBRUARY 28 or 29,	
	2025	2024
Cash Flows From Operating Activities		
Net Loss	\$ (6,122)	\$ (4,172)
Less: Earnings from discontinued operations, net of tax	—	704
Loss from continuing operations	(6,122)	(4,876)
Adjustments to reconcile loss from continuing operations to net cash used in operating activities:		
Depreciation and amortization	950	887
Debt issuance costs	7	—
Provision for obsolete inventory	322	189
Provision for recovery on accounts and notes receivable	(27)	(402)
Gain on sale or disposal of property and equipment	(247)	(37)
Expense recorded for stock compensation	273	438
Changes in operating assets and liabilities:		
Accounts receivable	(1,194)	227
Refundable income taxes	(18)	299
Inventories	(297)	(879)
Other current assets	50	(101)
Accounts payable	1,109	975
Accrued liabilities	(1,316)	999
Contract liabilities	(85)	(115)
Net cash used in operating activities of continuing operations	(6,595)	(2,396)
Net cash used in operating activities of discontinued operations	—	(39)
Net cash used in operating activities	(6,595)	(2,435)
Cash Flows from Investing Activities		
Addition to notes receivable	-	(136)
Proceeds received on notes receivable	201	164
Proceeds from the sale or distribution of assets	2,265	112
Purchases of property and equipment	(3,762)	(3,017)
Increase in other assets	(359)	-
Other	-	9
Net cash used in investing activities of continuing operations	(1,655)	(2,868)
Net cash provided by investing activities of discontinued operations	-	1,418
Net cash used in investing activities	(1,655)	(1,450)
Cash Flows from Financing Activities		
Proceeds from line of credit	2,200	1,250
Payment on line of credit	(3,450)	-
Proceeds from notes payable	6,000	-
Payment of debt issuance costs	(50)	-
Issuance of common stock through securities purchase agreement	2,188	-
Net cash provided by financing activities	6,888	1,250
Net Decrease in Cash and Cash Equivalents	(1,362)	(2,635)
Cash and Cash Equivalents, Beginning of Year	2,082	4,717
Cash and Cash Equivalents, End of Year	\$ 720	\$ 2,082

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

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., a Delaware corporation, its wholly-owned subsidiaries, Rocky Mountain Chocolate Factory, Inc. (a Colorado corporation) and U-Swirl, Inc. ("SWRL"), and its previous wholly-owned subsidiaries, Aspen Leaf Yogurt, LLC (dissolved in November 2023) and U-Swirl International, Inc. (dissolved in October 2023) ("U-Swirl"), (collectively, the "Company", "we", "RMCF").

The Company is an international franchisor, confectionery producer and retail operator. Founded in 1981, we are headquartered in Durango, Colorado and produce an extensive line of premium chocolate and other confectionery products. Our revenues and profitability are derived principally from our franchised/licensed system of retail stores that feature chocolate and other confectionery products including gourmet caramel apples.

On February 24, 2023 the Company entered into an agreement to sell its three Company-owned U-Swirl locations. Separately, on May 1, 2023, subsequent to the 2023 fiscal year end, the Company entered into an agreement to sell its franchise rights and intangible assets related to U-Swirl and associated brands. As a result, the activities of the Company's U-Swirl subsidiary that have historically been reported in the U-Swirl segment have been reported as discontinued operations. See Note 15 – Discontinued Operations in the Notes to Consolidated Financial Statements for additional information regarding the Company's discontinued operations, including net sales, operating earnings and total assets by segment. The Company's financial statements reflect continuing operations only, unless otherwise noted.

The Company's revenues are currently derived from four 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; sales at Company-owned stores of chocolates and other confectionery products including gourmet caramel apples; and marketing fees.

The Company does not have a material amount of financial assets or liabilities that are required under United States Generally Accepted Accounting Principles ("GAAP") to be measured on a recurring basis at fair value. The Company is not a party to any material derivative financial instruments. The Company does not have a material amount of non-financial assets or non-financial liabilities that are required under GAAP to be measured at fair value on a recurring basis. The Company has not elected to use the fair value measurement option, as permitted under GAAP, for any assets or liabilities for which fair value measurement is not presently required. The Company believes the fair values of cash equivalents, accounts and notes receivable, accounts payable and line of credit approximate their carrying amounts due to their short duration. The note payable approximates fair value due to the interest rates being consistent with market rates

The following table summarizes the number of stores operating under the Rocky Mountain Chocolate Factory brand at February 28, 2025:

	Stores Open at 2/29/2024	Opened	Closed	Sold	Stores Open at 2/28/2025
Rocky Mountain Chocolate Factory					
Company-owned stores	2	-	-	-	2
Franchise stores - Domestic stores and kiosks	149	2	(13)	-	138
International license stores	3	-	-	-	3
Cold Stone Creamery - co-branded	104	4	(1)	-	107
SWRL - co-branded	11	-	(1)	-	10
Total	269				260

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

Liquidity and Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. In accordance with ASC 205-40, Going Concern, the Company's management has evaluated whether there are conditions and events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date the accompanying financial statements were issued. During the year ended February 28, 2025, the Company incurred a net loss of \$6.1 million and used cash in operating activities of \$6.6 million. Although the Company paid off the outstanding debt with Wells Fargo (the "Wells Fargo Credit Agreement") at maturity through the issuance of a \$6.0 million note payable, the Company still has incurred losses and used cash from operating activities. The Company was also in default of its covenants on its note payable, however, has received a waiver as of the date of issuance of these financial statements. These factors raise substantial doubts about the Company's ability to continue as a going concern within one year of the date that these consolidated financial statements are issued. The accompanying consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

The Company's ability to continue as a going concern is dependent on its ability to continue to implement its business plan. The Company continues to explore supplemental liquidity sources. During the next twelve months, the Company intends to further reduce overhead costs, improve manufacturing efficiencies, and increase profits and gross margins by better aligning its costs with the delivery and sale to its franchising system and focus customers. In addition, the Company intends to benefit from its historically busy season of holiday product sales while also increasing sales through its e-commerce distribution channel on a year-round basis. There are no assurances that the Company will be successful in implementing its business plan.

Basis of Presentation and Consolidation

The accompanying consolidated financial statements, which include the accounts of the Company and its subsidiaries, have been prepared in conformity with GAAP. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the estimate of the reserve for uncollectible accounts, revenue recognition, reserve for inventory obsolescence, and inputs for assessing goodwill impairment. The Company bases its estimates on historical experience and also on assumptions that the Company believes are reasonable. The Company assesses these estimates on a regular basis; however, actual results could materially differ from these estimates.

Assets Held for Sale

The Company classifies an asset as held for sale when management, having the authority to approve the action, commits to a plan to sell the asset, the sale is probable within one year and the asset is available for immediate sale in its present condition. The Company also considers whether an active program to locate a buyer has been initiated, whether the asset is marketed actively for sale at a price that is reasonable in relation to its current fair value and whether actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. The Company initially measures an asset that is classified as held for sale at the lower of its carrying amount or fair value less costs to sell. Any loss resulting from this measurement is recognized in the period in which the held for sale criteria are met. Conversely, gains are not recognized until the date of sale. The Company assesses the fair value of an asset less costs to sell each reporting period it remains classified as held for sale and reports any subsequent changes as an adjustment to the carrying amount of the asset, as long as the new carrying amount does not exceed the carrying amount of the asset at the time it was initially classified as held for sale. Assets are not depreciated or amortized while they are classified as held for sale.

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

In the first quarter of fiscal 2025, the Company commenced its plan to sell an unused parcel land in Durango, Colorado where the Company is headquartered. On July 10, 2024, the Company sold its parcel of land in Durango, Colorado for a purchase price of approximately \$0.9 million, and recorded a gain of approximately \$0.5 million in connection with the sale.

In the first quarter of fiscal 2025, the Company commenced its plan to sell a piece of factory machinery. During the third quarter of fiscal 2025, the Company sold the piece of machinery for \$0.7 million. In connection with the sale the Company recorded a loss of \$46 thousand. The Company did not have any other assets held for sale as of February 28, 2025.

Cash Equivalents

The Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. 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.

Accounts and Notes Receivable

Accounts receivable represent amounts due from customers in the ordinary course of business and are recorded at the invoiced amount and do not bear interest. Notes receivable generally reflect the sale of assets. Accounts and notes receivable are stated at the net amount expected to be collected, using an estimate of current expected credit losses to determine the allowance for expected credit losses. The Company evaluates the collectability of its accounts and notes receivable and determines the appropriate allowance for expected credit losses based on a combination of factors, including the aging of the receivables and historical collection trends. When the Company is aware of a customer's inability to meet its financial obligation, the Company may individually evaluate the related receivable to determine the allowance for expected credit losses. The Company uses specific criteria to determine uncollectible receivables to be written off, including bankruptcy filings, the referral of customer accounts to outside parties for collection, and the length that accounts remain past due. As of February 28, 2025, the Company had \$3.4 million of accounts receivable outstanding, inclusive of an allowance for credit losses of \$0.3 million. As of February 29, 2024, the Company had \$2.2 million of accounts receivable outstanding, inclusive of an allowance for credit losses of 0.3 million.

On February 28, 2025, the Company had total notes receivable of \$0.1 million and an allowance for credit losses of \$28 thousand associated with these notes, compared to \$1.2 million of notes receivable outstanding and an allowance for credit losses of \$30 thousand on February 29, 2024. The notes require monthly payments and bear interest rates at 7.0%. The notes mature through December 2027 and all of the notes receivable are secured by the assets of the location. The Company may experience the failure of its wholesale customers, including its franchisees, to whom it extends credit to pay amounts owed to the Company on time, or at all.

In July 2024, the Company and Isaac Lee Collins, LLC entered into a Promissory Note and Security Assignment and Assumption Agreement (the "Agreement") related to the outstanding U-Swirl promissory note which had an outstanding principal and accrued interest balance of \$1.0 million. Pursuant to the terms of the Agreement, the Company irrevocably assigned and transferred to the purchaser all of its right, title, and interest in and to the U-Swirl promissory note and the purchaser agreed to assume the same in consideration of \$0.7 million. The Company recorded a loss of \$0.2 million in connection with the sale and is included within gain (loss) on disposal of assets on the statements of operations.

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

Inventories

Inventories are stated at the lower of cost or net realizable value, which is adjusted for obsolete, damaged and excess inventories to the lower of cost or net realizable value based on actual differences. The inventory value is determined through analysis of items held in inventory, and, if the recorded value is higher than the net realizable value, the Company records an expense to reduce inventory to its actual net realizable 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, net realizable 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 ranges 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.

Income Taxes

The Company provides for income taxes pursuant to the asset and liability method. The asset and liability method requires recognition of deferred income taxes based on temporary differences between financial reporting and income tax basis of assets and liabilities, using current enacted income tax rates and regulations. These differences will result in taxable income or deductions in future years when the reported amount of the asset or liability is recovered or settled, respectively. Considerable judgment is required in determining when these events may occur and whether recovery of an asset, including the utilization of a net operating loss or other carryforward prior to its expiration, is more likely than not. The Company has recorded a deferred tax asset related to historical U-Swirl losses and has determined that these losses are restricted due to a limitation on the deductibility of future losses in accordance with Section 382 of the Internal Revenue Code as a result of the foreclosure transaction. The Company's temporary differences are listed in Note 12.

Gift Card Breakage

The Company and its franchisees sell gift cards that are redeemable for product in stores. The Company manages the gift card program, and therefore collects all funds from the activation of gift cards and reimburses franchisees for the redemption of gift cards in their stores. A liability for unredeemed gift cards is included in current liabilities in our balance sheets.

There are no expiration dates on the Company's gift cards, and the Company does not charge any service fees. While the Company's franchisees continue to honor all gift cards presented for payment, the Company may determine the likelihood of redemption to be remote for certain cards due to long periods of inactivity. The Company recognizes breakage from gift cards when the gift card is redeemed by the customer or the Company determines the likelihood of the gift card being redeemed by the customer is remote ("gift card breakage"). The determination of the gift card breakage rate is based upon Company-specific historical redemption patterns. Accrued gift card liability was \$0.6 million and \$0.6 million at February 28, 2025 and February 29, 2024, respectively. The Company recognized no breakage during FY 2025. The Company recognized breakage of \$40 thousand during FY 2024.

Goodwill

Goodwill arose primarily from two transaction types. The first 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. The

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

second type was 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, generally the first day of its fourth quarter, or more frequently when events or circumstances indicate that the carrying value of a reporting unit more likely than not exceeds its fair value. The recoverability of goodwill is evaluated through a comparison of the fair value of each of the Company's 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's goodwill is further described in Note 7 to the financial statements.

There have been no impairment charges to goodwill during FY 2025 or FY 2024.

Intangible Assets

Intangible assets represent non-physical assets that create future economic value and are primarily composed of packaging design, store design, trademarks and non-competition agreements. Intangible assets are amortized on a straight line basis over periods ranging from 5 years to 20 years based on the expected future economic value of the intangible asset. Intangible assets are recorded at their cost. The Company performs intangible asset impairment testing 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. The Company's intangible assets are further described in Note 7 to the financial statements.

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

The Company has performance obligations to sell products to franchisees and other customers, and revenue is recognized at a point in time. Control is transferred when the order has been shipped to a customer, utilizing a third party, or at the time of delivery when shipped on the Company's trucks. Revenue is measured based on the amount of consideration that is expected to be received by the Company for providing goods or services under a contract with a customer. 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 the Company's 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.

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

Franchise and Royalty Fees

The Company recognizes franchise fees over the term of the associated franchise agreement, which is generally a period of 10 years. In addition to the initial franchise fee, the Company currently 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. The Company has the discretion to set its marketing and promotion fees from 0% to 3% with proper notice to franchisees. Franchisees pay a monthly royalty to the Company based on specific criteria established in the applicable franchise agreement.

Use of Estimates

In preparing consolidated 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, and the disclosure of contingent assets and liabilities, at the date of the consolidated financial statements, and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Stock-Based Compensation

Under the Company's previous 2007 Equity Incentive Plan (as amended and restated, the "2007 Plan"), the Company could authorize and grant stock awards to employees, non-employee directors and certain other eligible participants, including stock options, restricted stock and restricted stock units. Effective June 2024, the Board authorized 600,000 new shares, along with 300,851 unused and available shares and 131,089 shares granted and outstanding from the 2007 Equity Incentive Plan, to form the 2024 Equity Incentive Plan ("2024 Plan") with a total of 1,031,940 shares. Stock-based compensation expense related to stock awards is measured based on the fair value of the awards granted and recognized as an expense over the requisite service period.

The fair value of each RSU award is based on the fair value of the underlying common stock as of the grant date. Stock-based compensation expense is recognized on a straight-line basis over the requisite service period, generally vested at the grant date or over a period of two to three years.

The Company accounts for forfeitures as they occur.

Related Party Transactions

On December 14, 2022 the Company entered into a Settlement Agreement and Release (the "Settlement Agreement"), by and among the Company, Bradley L. Radoff, an individual ("Radoff"), Andrew T. Berger, an individual, AB Value Partners, LP ("AB Value Partners"), AB Value Management LLC ("AB Value Management" and, together with AB Value Partners, "AB Value" and, together with Radoff, "ABV-Radoff"), and Mary Bradley, an individual, pertaining to, among other things, the dismissal of all pending lawsuits between the parties.

Pursuant to the Settlement Agreement, the Company and ABV-Radoff agreed to a "Standstill Period" commencing on the effective date of the agreement and ending on the date that is forty-five (45) days prior to the beginning of the Company's advance notice period for the nomination of directors at the Company's 2025 annual meeting of stockholders. During the Standstill Period, ABV-Radoff agreed, subject to certain exceptions, other than in Rule 144 open market broker sale transactions where the identity of the purchaser is not known and in underwritten widely dispersed public offerings, not to sell, offer, or agree to sell directly or indirectly, through swap or hedging transactions or otherwise, the securities of the Company or any rights decoupled from the underlying securities of the Company held by ABV-Radoff to any person or entity other than the Company or an affiliate of ABV-Radoff (a "Third Party") that, to the ABV-Radoff's knowledge would result in such Third Party, together with its Affiliates and Associates (as such terms are defined in the Settlement Agreement), owning, controlling, or otherwise having beneficial ownership or other ownership interest in the aggregate of more than 4.9% of the Company's common stock outstanding at such time, or would increase the beneficial ownership or other ownership interest of any Third Party who, together with its

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

Affiliates and Associates, has a beneficial ownership or other ownership interest in the aggregate of more than 4.9% of the shares Common Stock outstanding at such time (such restrictions collectively, the "Lock-Up Restriction").

On August 3, 2023, the Board of Directors of the Company authorized and approved the issuance of a limited waiver (the "Limited Waiver") of the Lock-Up Restriction with regard to a sale by ABV-Radoff of up to 200,000 shares of Common Stock to Global Value Investment Corp. ("GVIC") to be consummated by August 7, 2023. Jeffrey Geygan, the Company's Chairman of the Board and current Interim CEO of the Company, was the previous chief executive officer and principal of GVIC at the time of the transaction. Other than as waived by the Limited Waiver, the Settlement Agreement remains in full force and effect and the rights and obligations under the Settlement Agreement of each of the parties remain unchanged.

On November 26, 2024, the Company entered into a letter agreement with GVIC. The negotiation of the Agreement was overseen by an ad hoc committee of disinterested directors of the Company. Jeffrey R. Geygan was not a member of that committee. The Agreement provides that GVIC will have the right to designate one individual to the Board of Directors. In addition, the Company will cooperate in good faith with GVIC to mutually agree upon one additional individual to serve as an independent director on the Board. For the period from the effective date of the Agreement continuing through the day that is 15 days prior to the deadline for submission of stockholder proposals for the Company's 2027 annual meeting of stockholders, the Board will have no more than seven members. Also, if at any time GVIC no longer beneficially owns shares of the Company's common stock representing in the aggregate more than 10 percent of the Company's common stock then-outstanding, then its designated Board member will promptly offer to resign from the Board. The Company reimbursed GVIC for \$0.1 million of legal fees associated with executing the agreement.

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.

The weighted-average number of shares outstanding used in the computation of diluted earnings per share does not include outstanding common shares issuable if their effect would be anti-dilutive. During the year ended February 28, 2025, 235,664 shares of common stock that were issuable upon the vesting of restricted stock units were excluded from the computation of diluted earnings per share because their effect would have been anti-dilutive. During the year ended February 29, 2024, 960,677 shares of common stock that were issuable upon exercise of warrants, 160,958 shares of common stock that were issuable upon the vesting of restricted stock units, and 17,698 shares of common stock that were issuable upon the exercise of options were excluded from the computation of diluted earnings per share because their effect would have been anti-dilutive.

Advertising and Promotional Expenses

The Company expenses advertising costs as incurred. Total advertising expenses amounted to \$0.7 million and \$0.7 million for the years ended February 28, 2025 and February 29, 2024, respectively.

Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, trade and notes receivables, accounts payables, line of credit, and its note payable. The fair value of all instruments approximates the carrying value, because of the relatively short maturity of these instruments. The note payable approximates fair value due to the interest rates being consistent with market rates. All of the Company's financial instruments are classified as level 1 and level 2 assets within the fair value hierarchy. The Company does not have any financial instruments classified as level 3 assets.

Recently Adopted Accounting Pronouncements

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

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

In November 2023, the FASB issued ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures ("ASU 2023-07"). ASU 2023-07 enhances the disclosures required for operating segments in the Company's annual and interim consolidated financial statements. The disclosures required under ASU 2023-07 are also required for public entities with a single reportable segment. The updates in this ASU are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. The Company adopted this ASU for its annual report for the fiscal period ending February 28, 2025 and the previously reported segment disclosures have been recast to reflect the new presentation under ASU 2023-07 guidance.

New Accounting Pronouncements Not Yet Adopted

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures ("ASU 2023-09"). ASU 2023-09 requires disaggregated information about a reporting entity's effective tax rate reconciliation as well as information on income taxes paid. The updates in this ASU are effective for annual periods beginning after December 15, 2024. Early adoption is permitted. The Company is currently evaluating the impact of the new standard on its consolidated financial statements.

Subsequent Events

The Company was not in compliance with the liabilities to tangible net worth of 2.0:1.0 covenant as of the end of the Company's first fiscal quarter, for which a waiver was received.

NOTE 2 – SUPPLEMENTAL CASH FLOW INFORMATION

For the two years ended February 28 or 29:

(\$'s in thousands)

	2025	2024
Cash paid (received) for:		
Interest	\$ 454	\$ 25
Income taxes	88	(299)
Supplemental disclosure of non-cash operating activities:		
Inventory accrued but not yet paid	\$ 297	\$ -
Supplemental disclosure of non-cash investing activities:		
Sale of assets in exchange for note receivable	-	1,000

NOTE 3 – REVENUE FROM CONTRACTS WITH CUSTOMERS

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

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

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

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

The following table summarizes contract liabilities as of February 28, 2025 and February 29, 2024:

(\$'s in thousands)	Twelve Months Ended February 28 or 29:	
	2025	2024
Contract liabilities at the beginning of the year:	\$ 829	\$ 943
Revenue recognized	(188)	(168)
Contract fees received	102	54
Contract liabilities at the end of the year:	<u>\$ 743</u>	<u>\$ 829</u>

At February 28, 2025, annual revenue expected to be recognized in the future, related to performance obligations that are not yet fully satisfied, are estimated to be the following (amounts in thousands):

2026	\$ 139
2027	126
2028	102
2029	81
2030	71
Thereafter	224
Total	<u>\$ 743</u>

Gift Cards

The Company's franchisees sell gift cards, which do not have expiration dates or non-usage fees. The proceeds from the sale of gift cards by the franchisees are accumulated by the Company and paid out to the franchisees upon customer redemption. ASC 606 requires the use of the "proportionate" method for recognizing breakage. The Company recognizes breakage from gift cards when the gift card is redeemed by the customer or the Company determines the likelihood of the gift card being redeemed by the customer is remote ("gift card breakage"). The determination of the gift card breakage rate is based upon Company-specific historical redemption patterns. The Company recognized no breakage revenue during FY 2025 and breakage revenue of \$40 thousand during FY 2024.

Durango Product Sales of Confectionery Items, Retail Sales and Royalty and Marketing Fees

Durango Products Sales are those sold from the Company's factory in Durango Colorado. Retail sales include products sold in the retail store locations. Confectionery items sold to the Company's franchisees, others and its Company-owned stores' sales are recognized at the time of the underlying sale, based on the terms of the sale and when ownership of the inventory is transferred, and are presented net of sales taxes and discounts. Royalties and marketing fees from franchised or licensed locations, which are based on a percent of sales are recognized at the time the sales occur.

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

NOTE 4 – DISAGGREGATION OF REVENUE

The following tables present disaggregated revenue by the method of recognition and segment:

For the Year Ended February 28, 2025

Revenues recognized over time:

(\$'s in thousands)	Franchising	Manufacturing	Retail	Total
Franchise fees	\$ 188	-	\$ -	\$ 188

Revenues recognized at a point in time:

(\$'s in thousands)				
Durango Product sales	\$ -	\$ 22,549	\$ -	\$ 22,549
Retail sales	-	-	1,466	1,466
Royalty and marketing fees	5,376	-	-	5,376
Total revenues recognized over time and point in time	<u>\$ 5,564</u>	<u>\$ 22,549</u>	<u>\$ 1,466</u>	<u>\$ 29,579</u>

For the Year Ended February 29, 2024

Revenues recognized over time:

(\$'s in thousands)	Franchising	Manufacturing	Retail	Total
Franchise fees	\$ 168	\$ -	\$ -	\$ 168

Revenues recognized at a point in time:

(\$'s in thousands)				
Durango Product sales	\$ -	\$ 20,703	\$ -	\$ 20,703
Retail sales	-	-	1,319	1,319
Royalty and marketing fees	5,761	-	-	5,761
Total revenues recognized over time and point in time	<u>\$ 5,929</u>	<u>\$ 20,703</u>	<u>\$ 1,319</u>	<u>\$ 27,951</u>

NOTE 5 – INVENTORIES

Inventories consist of the following at February 28 or 29:

(\$'s in thousands)	2025	2024
Ingredients and supplies	\$ 2,864	\$ 2,038
Finished candy	2,277	2,509
Reserve for slow moving inventory	(511)	(189)
Total inventories	<u>\$ 4,630</u>	<u>\$ 4,358</u>

NOTE 6 – PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following at February 28 or 29:

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

(\$'s in thousands)	2025	2024
Land	\$ 124	\$ 514
Building	5,415	5,109
Machinery and equipment	14,904	12,509
Furniture and fixtures	519	590
Leasehold improvements	136	139
Transportation equipment	326	326
	21,424	19,187
Less accumulated depreciation	(12,015)	(11,429)
Property and equipment, net	<u>\$ 9,409</u>	<u>\$ 7,758</u>

Depreciation expense related to property and equipment totaled \$0.9 million and \$0.9 million during the fiscal years ended February 28, 2025 and February 29, 2024, respectively.

NOTE 7 – GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets consist of the following at February 28 or 29:

		2025		2024	
(\$'s in thousands)	Amortization Period (in Years)	Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Intangible assets subject to amortization					
Store design	10	\$ 395	\$ (295)	\$ 395	\$ (277)
Trademark/Non-competition agreements	5 - 20	259	(149)	259	(139)
Total		654	(444)	654	(416)
Goodwill and intangible assets not subject to amortization					
Goodwill					
Retail		\$ 362		\$ 362	
Franchising		97		97	
Manufacturing		97		97	
Trademark		20		20	
Total		576		576	
Total Goodwill and Intangible Assets		\$ 1,230	\$ (444)	\$ 1,230	\$ (416)

There was no change to goodwill during the fiscal years ended February 28, 2025 and February 29, 2024.

Amortization expense related to intangible assets totaled \$27 thousand and \$28 thousand during the fiscal years ended February 28, 2025 and February 29, 2024, respectively.

At February 28, 2025, annual amortization of intangible assets, based upon the Company's existing intangible assets and current useful lives, is estimated to be the following (amounts in thousands):

2026	\$ 27
2027	27
2028	27
2029	27
2030	27
Thereafter	75
Total	<u>\$ 210</u>

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

NOTE 8 – NOTE PAYABLE

On September 30, 2024, the Company entered into a new credit agreement (the "Credit Agreement") with a new lender, RMC Credit Facility, LLC ("RMC"). RMC is a related party of the Company as a member of the Company's board of directors was involved and an investor with the Credit Agreement. Pursuant to the Credit Agreement, the Company received an advance in the principal amount of \$6.0 million, which advance is evidence by a promissory note (the "Note"). The Note matures on September 30, 2027 (the "Maturity Date"), and interest will accrue at a rate of 12% per annum and is payable monthly in arrears. All outstanding principal and interest will be due on the Maturity Date. The Credit Agreement is collateralized by the Company's Durango real estate property and the related inventory and property, plant and equipment located on that property, as well as the Company's accounts receivable and cash accounts.

In connection with the Credit Agreement, the Company entered into a Deed of Trust with RMC and the Public Trustee of La Plata County, Colorado with respect to the Company's property in Durango, Colorado.

The proceeds of the Credit Agreement were used as follows: (i) \$3.5 million was used to repay the Wells Fargo Credit Agreement and (ii) the remaining balance was used for continued capital investment and working capital needs. The Credit Agreement contains customary events of default, including nonpayment of principal and interest when due, failure to comply with covenants, and a change of control of the Company, as well as customary affirmative and negative covenants, including, without limitation, certain reporting obligations and certain limitations on liens, encumbrances, and indebtedness. The Credit Agreement also limits capital expenditures to \$3.5 million per year and contains two financial covenants measured quarterly: a maximum ratio of total liabilities to total net worth and a minimum current ratio. The Company incurred \$0.1 million of loan origination fees, included as a debt discount and reduction of the notes payable on the balance sheet.

As of February 28, 2025, the Company had \$6.0 million outstanding on the Credit Agreement. Interest on the outstanding amount was paid through February 28, 2025. The Company was not in compliance with the requirement under the Credit Agreement to limit annual capital expenditures to \$3.5 million as of February 28, 2025, nor was the Company in compliance with the liabilities to tangible net worth of 2.0:1.0 as of February 28, 2025. The Company has received a waiver from the Lender as of the date of issuance of these financial statements and is in compliance with all other aspects of the Credit Agreement. In connection with the Credit Agreement, the Company repaid the outstanding balance of the previous Wells Fargo Credit Agreement of \$3.5 million on its maturity date on September 30, 2024.

NOTE 9 – COMMON STOCK

Securities Purchase Agreement

On August 5, 2024, the Company entered into securities purchase agreements with Steven L. Craig, an existing director of the Company and American Heritage Railways, Inc. a company affiliated with Allen C. Harper who joined the board of directors in December 2024 (the "Investors"), pursuant to which, among other things, the Investors agreed to subscribe for and purchase, and the Company agreed to issue and sell to the Investors, an aggregate of 1,250,000 of shares of the Company's common stock at a price per share equal to \$1.75, for total proceeds of approximately \$2.2 million. On September 5, 2024, the shares were subsequently registered for resale on a form S-1 that was declared effective by the SEC on October 9, 2024.

Stock Compensation Plans

Under the Company's previous 2007 Equity Incentive Plan, the Company may authorize and grant stock awards to employees, non-employee directors and certain other eligible participants, including stock options, restricted stock and restricted stock units. Effective June 2024, the Board authorized 600,000 new shares, along with 300,851 unused

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

and available shares and 131,089 shares granted and outstanding from the 2007 Plan, to form the 2024 Plan with a total of 1,031,940 shares. As of February 28, 2025, 656,465 shares were available for issuance.

The following table summarizes non-vested restricted stock unit activity for common stock during the years ended February 28 or 29, 2025 and 2024:

	Twelve Months Ended February 28 or 29:	
	2025	2024
Outstanding non-vested restricted stock units at beginning of year:	160,958	154,131
Granted	502,880	157,145
Vested	(166,147)	(48,890)
Cancelled/forfeited	(262,027)	(101,428)
Outstanding non-vested restricted stock units as of February 28 or 29:	<u>235,664</u>	<u>160,958</u>
Weighted average grant date fair value	\$ 2.52	\$ 5.59
Weighted average remaining vesting period (in years)	1.27	1.94

Total unrecognized stock-based compensation expense for non-vested restricted stock units was approximately \$0.4 million, and is expected to be recognized over the next 1.3 years.

The following table summarized stock option activity during the years ended February 28 or 29, 2025 and 2024:

	Twelve Months Ended February 28 or 29:	
	2025	2024
Outstanding stock options at beginning of year:	17,698	36,144
Granted	-	-
Exercised	-	-
Cancelled/forfeited	(17,698)	(18,446)
Outstanding stock options as of February 28 or 29:	<u>-</u>	<u>17,698</u>
Weighted average exercise price	\$ -	\$ 6.49
Weighted average remaining contractual term (in years)	-	8.26

During the year ended February 28, 2025, the Company issued a total of 502,880 restricted stock units, inclusive of the 2024 Plan and non-plan awards, which are subject to vesting over time. These issuances were made to certain of the Company's executives. These restricted stock units were issued with an aggregate grant date fair value of \$1.4 million or \$2.88 per share.

During the year ended February 29, 2024, the Company issued a total of 157,145 restricted stock units, inclusive of the 2007 Plan and non-plan awards, of which 95,151 restricted stock units are subject to vesting based on the achievement of Company performance goals and 61,994 restricted stock units that vest over time. These issuances were made to certain of the Company's executives. These restricted stock units were issued with an aggregate grant date fair value of \$0.9 million or \$5.59 per share. The performance-based restricted stock units will vest following the end of the Company's fiscal year ending February 2026 with respect to the target number of performance-based restricted stock units if the Company achieves metrics related to return on equity, Specialty Market gross margin, average unit volume, and social media engagement lifetime value during the performance period, subject to continued service through the end of the performance period. The performance-based restricted stock units may vest from 75%

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

to 110% of target units based upon actual performance. The time-based restricted stock units vest 33% annually on the anniversary date of the award until August 11, 2026.

The Company recognized \$0.3 million and \$0.4 million of stock-based compensation expense during the years ended February 28, 2025 and February 29, 2024, respectively. Compensation costs related to stock-based compensation are generally amortized over the vesting period of the stock awards.

Except as noted above, restricted stock units generally vest at the grant date or over a period of two to three years. During the years ended February 28 and 29, 2025 and 2024, restricted stock units which vested and common stock shares issued was 166,147 and 48,890, respectively.

Warrants

In connection with a terminated supplier agreement with a former customer of the Company, the Company issued a warrant (the "Warrant") to purchase up to 960,677 shares of the Company's common stock (the "Warrant Shares") at an exercise price of \$8.76 per share in 2019. The Warrant Shares were to vest in annual tranches in varying amounts following each contract year under the terminated supplier agreement, and was subject to, and only upon, achievement of certain revenue thresholds on an annual or cumulative five-year basis in connection with its performance under the terminated supplier agreement. The Warrant was to expire six months after the final and conclusive determination of revenue thresholds for the fifth contract year and the cumulative revenue determination in accordance with the terms of the Warrant.

On November 1, 2022, the Company sent a formal notice to the former customer terminating the agreement. As of February 28, 2025, no Warrant Shares had vested and the Company has no remaining material obligations under the Warrant. The warrant expired during the year ended February 28, 2025.

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

NOTE 10 – LEASING ARRANGEMENTS

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

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

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

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

The Company accounts for payments related to lease liabilities on a straight-line basis over the lease term. During the years ended February 28 or 29, 2025 and 2024, lease expense recognized in the consolidated statements of operations was \$0.5 million and \$0.6 million, respectively.

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

The lease liability reflects the present value of the Company's estimated future minimum lease payments over the life of its leases. This includes known escalations and renewal option periods reasonably assured of being exercised. Typically, renewal options are considered reasonably assured of being exercised if the sales performance of the location remains strong. Therefore, the right of use asset and lease liability include an assumption on renewal options that have not yet been exercised by the Company and are not currently a future obligation. The Company has separated non-lease components from lease components in the recognition of the Asset and Liability except in instances where such costs were not practical to separate. To the extent that occupancy costs, such as site maintenance, are included in the asset and liability, the impact is immaterial. For franchised locations, the related occupancy costs including property taxes, insurance and site maintenance are generally required to be paid by the franchisees as part of the franchise arrangement. In addition, the Company is the lessee under non-store related leases such as storage facilities and trucking equipment. For leases where the implicit rate is not readily determinable, the Company uses an incremental borrowing rate to calculate the lease liability that represents an estimate of the interest rate the Company would incur to borrow on a collateralized basis over the term of a lease. The weighted average discount rate used for operating leases was 3.9% and 3.9% as of February 28, 2025 and February 29, 2024, respectively. The total estimated future minimum lease payments is \$1.4 million as of February 28, 2025.

As of February 28, 2025, maturities of lease liabilities for the Company's operating leases were as follows (amounts in thousands):

FYE 26	\$	498
FYE 27		287
FYE 28		137
FYE 29		105
FYE 30		51
Thereafter		305
Total	\$	1,383
Less: Imputed interest		(125)
Present value of lease liabilities:	\$	<u>1,258</u>

The weighted average lease term at February 28 or 29, 2025 and 2024 was 5.8 years.

The following is a schedule of cash paid for lease liabilities for the two years ended February 28 or 29:

(\$'s in thousands)	2025	2024
Cash paid for amounts included in the measurement of lease liabilities	514	544

The Company did not enter into any new leases during the year ended February 28, 2025. During the year ended February 29, 2024, the Company entered into new leases representing a future lease liability of \$0.1 million.

The Company did not have any leases categorized as finance leases as of February 28, 2025 or February 29, 2024.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Purchase contracts

The Company frequently enters into purchase contracts of between six to twelve 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, 2025, the Company was contracted for approximately \$2.3

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

million of raw materials under such agreements. The Company has designated these contracts as normal under the normal purchase and sale exception under the accounting standards for derivatives. These contracts are not entered into for speculative purposes.

Litigation

From time to time, the Company is involved in litigation relating to claims arising out of its operations. The Company records accruals for outstanding legal matters when it believes it is probable that a loss will be incurred and the amount can be reasonably estimated. As of February 28, 2025, the Company is involved in the early stages of a legal dispute regarding fulfillment of the agreement to sell franchise rights and intangible assets in connection with the sale of U-Swirl (see Note 15). The Company does not expect this to have a material impact on the business or financial condition. The Company is not a party to any other legal proceedings that are expected, individually or in the aggregate, to have a material adverse effect on its business, financial condition or operating results.

NOTE 12 – INCOME TAXES

Income tax expense (benefit) is comprised of the following for the years ended February 28 or 29:

(\$'s in thousands)	2025	2024
Current		
Federal	\$ —	\$ —
State	—	—
Total Current	—	—
Deferred		
Federal	—	—
State	—	—
Total Deferred	—	—
Total	<u>\$ —</u>	<u>\$ —</u>

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 ended February 28 or 29:

	2025	2024
Statutory rate	21.0%	21.0%
State income taxes, net of federal benefit	0.0%	0.0%
Work opportunity tax credits	0.0%	0.0%
Equity compensation tax expense	0.0%	0.0%
Compensation and benefits permanent differences	(0.1)%	(0.2)%
Other	(0.1)%	1.6%
Valuation allowance	(20.8)%	(22.4)%
Effective tax rate	0.0%	(0.0)%

During FY 2025 and FY 2024, the Company's effective tax rate was zero. This was primarily the result of losses reported in the year, no income taxes due, and full valuation allowance against deferred tax assets.

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

The components of deferred income taxes as of February 28 or 29 are as follows:

(\$'s in thousands)	2025	2024
Deferred Tax Assets		
Allowance for doubtful accounts and notes	\$ 83	\$ 170
Inventories	127	31
Accrued compensation	105	438
Loss provisions and deferred income	347	304
Self-insurance accrual	—	28
Interest & other	30	15
Restructuring charges	100	99
Right of use liabilities	313	480
Accumulated net losses	5,223	3,577
Valuation allowance	(4,208)	(3,106)
Net deferred tax assets	\$ 2,120	\$ 2,036
Deferred Tax Liabilities		
Depreciation and amortization	(1,727)	(1,450)
Right of use assets	(309)	(480)
Prepaid expenses	(84)	(106)
Deferred Tax Liabilities	(2,120)	(2,036)
Net deferred tax assets	\$ -	\$ -

The following table summarizes deferred income tax valuation allowances as of February 28 or 29:

(\$'s in thousands)	2025	2024
Valuation allowance at beginning of period	\$ 3,106	\$ 1,721
Tax expense realized by valuation allowance	1,102	1,385
Valuation allowance at end of period	\$ 4,208	\$ 3,106

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 2020.

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. A valuation allowance to reduce the carrying amount of deferred income tax assets is established when it is more likely than not that we will not realize some portion or all of the tax benefit of our deferred income tax assets. The Company evaluates, on a quarterly basis, whether it is more likely than not that our deferred income tax assets are realizable based upon recent past financial performance, tax reporting positions, and expectations of future taxable income. The determination of deferred tax assets is subject to estimates and assumptions. The Company periodically evaluates our deferred tax assets to determine if our assumptions and estimates should change. As of February 28, 2025 and February 29, 2024, the Company had a full valuation allowance against its deferred tax assets.

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 consolidated 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

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

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 consolidated financial statements for the years ended February 28 or 29, 2025 or 2024. 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 the years ended February 28 or 29, 2025 and 2024.

The Company's subsidiary, SWRL, along with its previous subsidiary U-Swirl, had a history of net operating losses prior to the company's acquisition of them and thus the Company has a related net operating loss carry forward. In accordance with Section 382 of the Internal Revenue Code, deductibility of SWRL's and U-Swirl's Federal net operating loss carryovers may be subject to annual limitation in the event of a change in control. The Company has performed a preliminary evaluation as to whether a change in control has taken place, and has concluded that there was a change of control with respect to the net operating losses of U-Swirl when the Company acquired its controlling ownership interest. The initial limitations will continue to limit deductibility of SWRL's and U-Swirl's net operating loss carryovers, but the annual loss limitation will be deductible to RMCF and U-Swirl upon the filing of joint tax returns in FY 2017 and future years.

The Company estimates the potential future tax deductions of U-Swirl's Federal net operating losses, limited by section 382, to be approximately \$1.8 million with a resulting deferred tax asset of approximately \$0.4 million. U-Swirl's Federal net operating loss carryovers will expire at various dates beginning in 2026.

Income tax provision allocated to continuing operations and discontinued operations for the years ended February 28 or 29, 2025 and 2024 was as follows:

(\$'s in thousands)	2025		2024	
Continuing operations	\$	—	\$	—
Discontinued operations	\$	—		—
Total tax provision	\$	—	\$	—

NOTE 13 – 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, 2025 and 2024, the Company's contribution to the plan was approximately \$0.1 million and \$0.1 million, respectively.

NOTE 14 – OPERATING SEGMENTS

The Company classifies its business interests into three reportable segments: Rocky Mountain Chocolate Factory, Inc. Franchising, Manufacturing, Retail Stores, and Unallocated, which is the basis upon which the Company's Chief Operating Decision Maker (CODM), the interim chief executive officer, evaluates the Company's performance. The CODM uses the segment information in the annual planning process and considers actual versus plan variances in evaluating the performance of the segments. 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 the segment operating profit or loss, 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 information systems and corporate administration. All inter-segment sales prices are market based. Each segment is managed separately because of the differences in required infrastructure and the differences in products and services:

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

FY 2025

(\$'s in thousands)

	Franchising	Manufacturing	Retail	Unallocated	Total
Total revenues	\$ 5,564	\$ 23,572	\$ 1,466	\$ -	\$ 30,602
Intersegment revenues	-	(1,023)	-	-	(1,023)
Revenue from external customers	5,564	22,549	1,466	-	29,579
Costs and Expenses					
Cost of Sales	-	23,463	453	-	23,916
Labor costs	2,483	-	433	2,250	5,166
Operating expenses	1,338	-	283	545	2,166
Professional fees	403	-	-	2,335	2,738
Other general & administrative expenses	185	-	-	1,175	1,360
	4,409	23,463	1,169	6,305	35,346
Depreciation and amortization, exclusive of depreciation and amortization expense of \$775 included in cost of sales (manufacturing segment)	50	-	13	112	175
Total costs and expenses	4,459	23,463	1,182	6,417	35,521
Segment profit (loss)	1,105	(914)	284	(6,417)	(5,942)
Other income (expense)					
Interest expense	-	-	-	(454)	(454)
Interest income	-	-	-	27	27
Gain (loss) on sale of assets	-	-	-	247	247
Other income (expense), net	-	-	-	(180)	(180)
Loss before income taxes	1,105	(914)	284	(6,597)	(6,122)
Income tax provision	-	-	-	-	-
Earnings (loss) from continuing operations	1,105	(914)	284	(6,597)	(6,122)
Earnings (loss) from discontinued operations, net of tax	-	-	-	-	-
Consolidated net loss	<u>1,105</u>	<u>(914)</u>	<u>284</u>	<u>(6,597)</u>	<u>(6,122)</u>
Other Segment Disclosures					
Total assets	2,213	14,867	803	3,292	21,175
Capital expenditures	16	2,543	7	1,196	3,762

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

FY 2024

(\$'s in thousands)	Franchising	Manufacturing	Retail	Unallocated	Total
Total revenues	\$ 5,928	\$ 21,833	\$ 1,319	\$ -	\$ 29,080
Intersegment revenues	-	(1,129)	-	-	(1,129)
Revenue from external customers	5,928	20,704	1,319	-	27,951
Costs and Expenses					
Cost of Sales	-	20,200	456	-	20,656
Labor costs	1,947	-	337	3,373	5,657
Operating expenses	1,732	-	335	599	2,666
Professional fees	714	-	-	1,675	2,389
Other general & administrative expenses	321	-	-	1,026	1,347
	4,714	20,200	1,128	6,673	32,715
Depreciation and amortization, exclusive of depreciation and amortization expense of \$750 included in cost of sales (manufacturing segment)	32	6	8	92	138
Total costs and expenses	4,746	20,206	1,136	6,765	32,853
Segment profit (loss)	1,182	498	183	(6,765)	(4,902)
Other income (expense)					
Interest expense	-	-	-	(53)	(53)
Interest income	-	-	-	79	79
Gain (loss) on sale of assets	-	-	-	-	-
Other income (expense), net	-	-	-	26	26
Loss before income taxes	1,182	498	183	(6,739)	(4,876)
Income tax provision	-	-	-	-	-
Earnings (loss) from continuing operations	1,182	498	183	(6,739)	(4,876)
Earnings from discontinued operations, net of tax	-	-	-	704	704
Consolidated net loss	<u>1,182</u>	<u>498</u>	<u>183</u>	<u>(6,035)</u>	<u>(4,172)</u>
Other Segment Disclosures					
Total assets	1,255	11,989	510	6,823	20,577
Capital expenditures	135	2,297	42	543	3,017

NOTE 15 – DISCONTINUED OPERATIONS

On February 24, 2023 and May 1, 2023, the Company entered into agreements to sell: 1) all operating assets and inventory associated with the Company's three U-Swirl Company-owned locations, and 2) all franchise rights and intangible assets associated with the franchise operations of U-Swirl, respectively. The May 1, 2023 sale was completed pursuant to an Asset Purchase Agreement (the "Asset Purchase Agreement"), dated May 1, 2023, by and among the Company, as guarantor, U Swirl as seller, LLC ("Purchaser"), a related company of Fosters Freeze, Inc., a California corporation. Pursuant to the Asset Purchase Agreement, on the closing date, Purchaser paid to U-Swirl \$2.75 million, consisting of approximately (i) \$1.75 million in cash and (ii) \$1.0 million evidenced by a three-year

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

secured promissory note in the aggregate original principal amount of \$1.0 million. As a result of these asset sales, the activities of the Company's subsidiary, U-Swirl, which were previously recorded to the U-Swirl operating segment are reported as discontinued operations in the consolidated statement of operations, consolidated balance sheet and consolidated statement of cash flows for all periods presented. The majority of the assets and liabilities of U-Swirl met the accounting criteria to be classified as held for sale and were aggregated and reported on separate lines of the respective statements.

On October 31, 2023, the Company filed a certificate of dissolution with the Secretary of State of the State of Nevada with respect to U-Swirl. As a result, U-Swirl is effectively fully dissolved and no longer in legal existence.

The following table discloses the results of operations of the businesses reported as discontinued operations for the years ended February 28 or 29, 2025 and 2024, respectively (amounts in thousands):

(\$'s in thousands)	FOR THE YEARS ENDED FEBRUARY 28 or 29,			
	2025		2024	
Total Revenue	\$	—	\$	212
Cost of sales		—		—
Operating Expenses		—		143
Gain on disposal of assets		—		(635)
Other expense, net		—		—
Earnings from discontinued operations before income taxes		—		704
Income tax provision		—		—
Earnings (loss) from discontinued operations, net of tax	\$	—	\$	704

There were no assets or liabilities held for sale for U-Swirl as of February 28 or 29, 2025 and 2024, respectively:

The following table summarizes the gain recognized during the year ended February 29, 2024 related to the sale of assets on May 1, 2023, as described above (amounts in thousands):

Cash proceeds from the sale of assets	\$	1,749
Accounts receivable		9
Notes receivable		1,000
Total consideration received		2,758
Assets and liabilities transferred		
Franchise rights		1,703
Inventory		6
Liabilities		(229)
Net assets transferred		1,480
Costs associated with the sale of assets		643
Gain on disposal of assets	\$	635

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

Disclosure Controls and Procedures — The Company maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), that are designed to ensure that material information relating to 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 in the reports that the Company files or submits under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Management, under the supervision and with the participation of our Interim Chief Executive Officer and Chief Financial Officer, has conducted an evaluation of the Company's disclosure controls and procedures. Based on that evaluation, our Interim Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of February 28, 2025.

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 consolidated financial statements for external purposes in accordance with GAAP. Management, with the participation of our Interim Chief Executive Officer, has evaluated the effectiveness, as of February 28, 2025, 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 (2013). Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective as of February 28, 2025.

Under the applicable SEC rules, we are not required to include an attestation report of our independent registered public accounting firm, CohnReznick LLP, on the Company's internal control over financial reporting.

Changes in Internal Control over Financial Reporting — There were no changes in our internal control over financial reporting identified in management's evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the quarter ended February 28, 2025, that materially affected, or that we believe are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

During the three months ended February 28, 2025, none of our directors or officers (as defined in Rule 16a-1(f) of the Exchange Act) adopted or terminated a Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement (as such terms are defined in Item 408 of Regulation S-K under the Securities Act).

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not Applicable.

PART III.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is incorporated herein by reference from our Proxy Statement for our 2025 Annual Meeting of Stockholders, to be filed no later than 120 days after February 28, 2025.

The Company has adopted a comprehensive insider trading policy governing the purchase, sale and other dispositions of its securities by directors, officers, employees, and other designated individuals, which is designed to promote compliance with all applicable insider trading laws, rules, and regulations. A copy of this policy is filed as Exhibit 19.1 to this Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated herein by reference from our Proxy Statement for our 2025 Annual Meeting of Stockholders, to be filed no later than 120 days after February 28, 2025.

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 Proxy Statement for our 2025 Annual Meeting of Stockholders, to be filed no later than 120 days after February 28, 2025.

Equity Compensation Plan Information

The following table provides information with respect to the Company's equity compensation plan, as of February 28, 2025, which consists solely of the Company's 2024 Equity Incentive Plan:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (1)	Weighted-average exercise price of outstanding options, warrants and rights (1)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column(a)) (2)
Equity compensation plans approved by the Company's stockholders	235,664	\$ -	656,465
Equity compensation plans not approved by the Company's stockholders	-0-	-0-	-0-
Total	235,664	\$ -	656,465

(1) Awards outstanding under the 2024 Equity Incentive Plan as of February 28, 2025 consist of 235,664 unvested restricted stock units and no outstanding stock options.

(2) Represents shares remaining available under the Company's 2024 Equity Incentive Plan. Shares available for future issuances under the 2024 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.

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

The information required by this item is incorporated herein by reference from our Proxy Statement for our 2025 Annual Meeting of Stockholders, to be filed no later than 120 days after February 28, 2025.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated herein by reference from our Proxy Statement for our 2025 Annual Meeting of Stockholders, to be filed no later than 120 days after February 28, 2025.

PART IV.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

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

1. Financial Statements

	Page
Report of Independent Registered Public Accounting Firm (PCAOB ID No. 596)	33
Consolidated Statements of Operations	34
Consolidated Balance Sheets	35
Consolidated Statements of Changes in Stockholders' Equity	36
Consolidated Statements of Cash Flows	37
Notes to Consolidated Financial Statements	38

2. Financial Statement Schedule

Schedule II

Valuation and Qualifying Accounts (amounts in thousands):

	Balance at Beginning of Period	Additions Charged to Costs & Exp.	Deductions	Balance at End of Period
Year Ended February 28, 2025				
Valuation Allowance for Accounts and Notes Receivable	\$ 362	53	80	\$ 335
Year Ended February 29, 2024				
Valuation Allowance for Accounts and Notes Receivable	\$ 764	113	515	\$ 362

All other schedules have been omitted because they are not required, not inapplicable, or the required information is included in the consolidated financial statements or notes thereto.

[Table of Contents](#)

3.Exhibits

The exhibits listed on the Exhibit Index are incorporated by reference or filed as part of this Form 10-K, in each case as indicated herein (numbered in accordance with Item 601 of Regulation S-K).

EXHIBIT INDEX

Exhibit Number	Description	Incorporated by Reference or Filed/Furnished Herewith
2.1*	Asset Purchase Agreement, dated May 1, 2023, by and among U-Swirl International, Inc., a Nevada corporation, U Swirl, LLC, a Delaware limited liability company, and Rocky Mountain Chocolate Factory, Inc., a Delaware corporation	Exhibit 2.1 to the Current Report on Form 8-K filed on May 4, 2023 (File No. 001-36865)
3.1	Amended and Restated Certificate of Incorporation of Rocky Mountain Chocolate Factory, Inc., a Delaware corporation	Exhibit 3.1 to the Current Report on Form 8-K12G3 filed on March 2, 2015 (File No. 333-200063)
3.2	Third Amended and Restated Bylaws of Rocky Mountain Chocolate Factory, Inc.	Exhibit 3.1 to the Current Report on Form 8-K filed on September 12, 2023 (File No. 001-36865)
4.1**	Description of Securities	Exhibit 4.1 to the Annual Report on Form 10-K for the fiscal year ended February 29, 2024 (File No. 000-36865)
10.1**	Form of Employment Agreement (Officers)	Exhibit 10.1 to the Annual Report on Form 10-K for the fiscal year ended February 28, 2007 (File No. 000-14749)
10.2	Form of Franchise Agreement for Rocky Mountain Chocolate Factory	Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended May 31, 2010 (File No. 000-14749)
10.3**	Rocky Mountain Chocolate Factory, Inc. 2007 Equity Incentive Plan (as Amended and Restated)	Exhibit 10.1 to the Current Report on Form 8-K filed on September 18, 2020 (File No. 001-36865)
10.4**	Rocky Mountain Chocolate Factory, Inc. 2024 Omnibus Incentive Compensation Plan	Filed herewith.
10.5**	Form of Indemnification Agreement (Directors)	Exhibit 10.7 to the Annual Report on Form 10-K for the fiscal year ended February 28, 2007 (File No. 000-14749)
10.6**	Form of Indemnification Agreement (Officers)	Exhibit 10.8 to the Annual Report on Form 10-K for the fiscal year ended February 28, 2007 (File No. 000-14749)
10.7*	Master License Agreement, dated August 17, 2009, between Kahala Franchise Corp. and Rocky Mountain Chocolate Factory, Inc., a Colorado corporation	Exhibit 10.3 to the Quarterly Report on Form 10-Q of the Registrant for the quarter ended August 31, 2009 (File No. 000-14749)
10.8	Credit Agreement, dated October 13, 2021, between Wells Fargo Bank, National Association and Rocky Mountain Chocolate Factory, Inc.	Exhibit 10.3 to the Current Report on Form 8-K filed on October 6, 2022 (File No. 001-36865)

[Table of Contents](#)

10.9	First Amendment to Credit Agreement, dated September 26, 2022, between Wells Fargo Bank, National Association and Rocky Mountain Chocolate Factory, Inc.	Exhibit 10.1 to the Current Report on Form 8-K filed on October 6, 2022 (File No. 001-36865)
10.10	Second Amendment to Credit Agreement, dated September 20, 2023 by and between Wells Fargo Bank, National Association and Rocky Mountain Chocolate Factory, Inc.	Exhibit 10.1 to the Current Report on Form 8-K filed on October 3, 2023 (File No. 001-36865)
10.11	Revolving Line of Credit Note, dated September 28, 2023, between Wells Fargo Bank, National Association and Rocky Mountain Chocolate Factory, Inc.	Exhibit 10.2 to the Current Report on Form 8-K filed on October 3, 2023 (File No. 001-36865)
10.12†	Settlement and Release Agreement, dated December 14, 2022, between Bradley L. Radoff, Andrew T. Berger, AB Value Management LLC, Mary Bradley and Rocky Mountain Chocolate Factory, Inc.	Exhibit 10.1 to the Current Report on Form 8-K filed on December 16, 2022 (File No. 001-36865)
10.13**	Offer Letter, dated May 3, 2022, between Rocky Mountain Chocolate Factory, Inc. and Robert J. Sarlls.	Exhibit 10.1 to the Current Report on Form 8-K filed on May 6, 2022 (File No. 001-36865)
10.14**	Retirement Agreement and General Release, dated May 3, 2023, between Rocky Mountain Chocolate Factory, Inc., a Delaware Corporation, and Gregory L. Pope	Exhibit 10.1 to the Current Report on Form 8-K filed on May 8, 2023 (File No. 001-36865)
10.15**	Offer Letter, dated July 15, 2022, between Rocky Mountain Chocolate Factory, Inc. and Allen Arroyo	Exhibit 10.1 to the Current Report on Form 8-K filed on July 21, 2022 (File No. 001-36865)
10.16	Secured Promissory Note, dated May 1, 2023, by and between U Swirl, LLC, a Delaware limited liability company, and U-Swirl International, Inc., a Nevada corporation	Exhibit 10.1 to the Current Report on Form 8-K filed on May 4, 2023 (File No. 001-36865)
10.17	Security Agreement, dated May 1, 2023, by and among U-Swirl International, Inc., a Nevada corporation, Bob Partners X, LLC, a Delaware limited liability company, U Swirl, LLC, a Delaware limited liability company, U Swirl Franchising LLC, a Delaware limited liability company, and U Swirl Gift Card LLC	Exhibit 10.2 to the Current Report on Form 8-K filed on May 4, 2023 (File No. 001-36865)
10.18	Pledge Agreement, dated May 1, 2023, by and among, U Swirl, LLC, a Delaware limited liability company, U-Swirl International, Inc., a Nevada corporation, Bob Partners X, LLC, a Delaware limited liability company, and certain persons named therein	Exhibit 10.3 to the Current Report on Form 8-K filed on May 4, 2023 (File No. 001-36865)
10.19	Covenant Breach Waiver, dated January 22, 2024, issued by Wells Fargo Bank, N.A.	Exhibit 10.1 to the Current Report on Form 8-K filed on January 26, 2024 (File No. 001-36865)
10.20	Covenant Breach Waiver, dated May 15, 2025, issued by RMC Credit Facility, LLC	Filed herewith.
10.21	Offer Letter, dated March 25, 2024, by and between Rocky Mountain Chocolate Factory, Inc. and Starlette B. Johnson	Exhibit 10.1 to the Current Report on Form 8-K filed on March 28, 2024 (File No. 001-36865)
10.22	Separation Agreement, dated January 27, 2024, by and between Rocky Mountain Chocolate Factory, Inc. and Robert J. Sarlls	Exhibit 10.21 to the Annual Report on Form 10-K for the fiscal year ended February 29, 2024 (File No. 000-36865)

[Table of Contents](#)

10.23	Offer Letter, dated May 29, 2024, by and between Rocky Mountain Chocolate Factory, Inc. and Jeffrey R. Geygan	Exhibit 10.1 to the Current Report on Form 8-K filed on June 5, 2024 (File No. 001-36865)
10.24**	Offer Letter, executed July 18, 2024, by and between Rocky Mountain Chocolate Factory, Inc. and Carrie E. Cass	Exhibit 10.1 to the Current Report on Form 8-K filed on July 24, 2024 (File No. 001-36865)
10.25*	Promissory Note and Security Assignment and Assumption Agreement, dated as of July 26, 2024, by and between the Company and Isaac Lee Collins, LLC	Exhibit 10.1 to the Current Report on Form 8-K filed on July 31, 2024 (File No. 001-36865)
10.26	Securities Purchase Agreement, dated as of August 5, 2024, by and among Rocky Mountain Chocolate Factory, Inc. and certain purchasers thereto	Exhibit 10.1 to the Current Report on Form 8-K filed on August 7, 2024 (File No. 001-36865)
10.27	Registration Rights Agreement dated as of August 5, 2024, by and among Rocky Mountain Chocolate Factory, Inc. and certain purchasers thereto	Exhibit 10.2 to the Current Report on Form 8-K filed on August 7, 2024 (File No. 001-36865)
10.28	Credit Agreement, dated September 30, 2024, by and between Rocky Mountain Chocolate Factory, Inc., a Colorado corporation, and RMC Credit Facility, LLC, a Colorado limited liability company	Exhibit 10.1 to the Current Report on Form 8-K filed on October 4, 2024.
10.29	Promissory Note, dated September 30, 2024, made by Rocky Mountain Chocolate Factory, Inc., a Colorado corporation, to RMC Credit Facility, LLC, a Colorado limited liability company	Exhibit 10.2 to the Current Report on Form 8-K filed on October 4, 2024.
10.30	Deed of Trust, dated September 30, 2024, by and among Rocky Mountain Chocolate Factory, Inc., a Colorado corporation, RMC Credit Facility, LLC, a Colorado limited liability company, and the Public Trustee of La Plata County, Colorado	Exhibit 10.3 to the Current Report on Form 8-K filed on October 4, 2024.
10.31	Agreement dated as of November 26, 2024, by and between Rocky Mountain Chocolate Factory, Inc. and Global Value Investment Corporation and its affiliates	Exhibit 10.1 to the Current Report on Form 8-K filed on November 27, 2024.
19.1	Rocky Mountain Chocolate Factory, Inc. Insider Trading Policy	Filed herewith.
21.1	Subsidiaries of the Registrant	Exhibit 21.1 to the Annual Report on Form 10-K for the fiscal year ended February 29, 2024 (File No. 000-36865)
23.1	Consent of CohnReznick LLP Independent Registered Public Accounting Firm	Filed herewith.
31.1	Certification Pursuant To Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith.
31.2	Certification Pursuant To Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith.
32.1	Certification Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith.
32.2	Certification Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith.

[Table of Contents](#)

97.1	Rocky Mountain Chocolate Factory, Inc. Clawback Policy	Exhibit 97.1 to the Annual Report on Form 10-K for the fiscal year ended February 29, 2024 (File No. 000-36865)
101.INS	Inline XBRL Instance Document (the Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document) (1)	Filed herewith.
101.SCH	Inline XBRL Taxonomy Extension Schema With Embedded Linkbase Documents	Filed herewith.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document and contained in Exhibit 101)	Filed herewith.

* Contains material that has been omitted pursuant to a request for confidential treatment and such material has been filed separately with the SEC.

** Management contract or compensatory plan required to be filed as an exhibit pursuant to Item 15(c) of Form 10-K.

(1) These interactive data files shall not be deemed filed for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Exchange Act of 1937, as amended, or otherwise subject to liability under those sections.

ITEM 16. FORM 10-K SUMMARY

Not applicable.

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 20, 2025

/s/ Carrie E. Cass
CARRIE E. CASS
Principal Financial Officer and Principal Accounting Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Jeffrey R. Geygan and Carrie E. Cass and each of them, as his or her true and lawful attorneys-in-fact and agents, each with the full power of substitution, for him or her and in his or her name, place or stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

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 20, 2025

/s/ Jeffrey R. Geygan
JEFFREY R. GEYGAN
Interim Chief Executive Officer
(Principal Executive Officer)

Date: June 20, 2025

/s/ Carrie E. Cass
CARRIE E. CASS
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Date: June 20, 2025

/s/ Melvin Keating
MELVIN KEATING
Chair of Board

Date: June 20, 2025

/s/ Steven L. Craig
STEVEN L. CRAIG
Director

Date: June 20, 2025

/s/ Allen C. Harper
ALLEN C. HARPER
Director

Date: June 20, 2025

/s/ Brian Quinn
BRIAN QUINN
Director

DESCRIPTION OF CAPITAL STOCK

Rocky Mountain Chocolate Factory, Inc. (the "Company") is incorporated in the State of Delaware and has one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which is our common stock, \$0.001 par value per share ("Common Stock"). The rights of stockholders of the Company are generally governed by Delaware law and the Company's amended and restated certificate of incorporation (the "Certificate of Incorporation") and Third Amended and Restated Bylaws (the "Bylaws"). The following is a summary of the material provisions of the Certificate of Incorporation and Bylaws. This summary is not complete and is qualified by reference to the full texts of the Certificate of Incorporation and Bylaws, copies of which are filed with the Securities and Exchange Commission ("SEC"), as well as applicable provisions of the Delaware General Corporation Law ("DGCL").

General

The authorized capital stock of the Company consists of 46,000,000 shares of Common Stock, and 250,000 shares of preferred stock, \$0.001 par value per share ("Preferred Stock").

Common Stock

The holders of Common Stock are entitled to one vote per share on all matters to be voted on by the common stockholders, including the election of directors. Except as provided by the terms of any outstanding Preferred Stock, our common stockholders will possess exclusive voting power. The holders of Common Stock are not entitled to cumulative voting in the election of directors. Directors will be elected by a plurality of the votes cast in the election of directors at a duly called meeting at which a quorum is present. The affirmative vote of a majority of the votes cast at a duly called meeting at which a quorum is present shall be sufficient to approve all other matters which may properly come before the meeting, unless more than a majority of the votes cast is required by law or the Certificate of Incorporation.

Subject to preferences of any outstanding shares of Preferred Stock, the holders of Common Stock are entitled to receive ratably any dividends our Board of Directors ("Board of Directors") may declare out of funds legally available for the payment of dividends. If the Company is liquidated, dissolved or wound up, the holders of Common Stock are entitled to share pro rata in all assets remaining after payment of, or provision for, the Company's liabilities and liquidation preferences of any outstanding shares of Preferred Stock. Holders of our Common Stock have no preemptive, subscription, redemption, sinking fund or conversion rights. The rights, preferences and privileges of holders of our Common Stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of Preferred Stock which we may designate and issue in the future.

Preferred Stock

The Board of Directors has the authority, subject to limitations prescribed by law, without further action by the stockholders, to issue up to 250,000 shares of Preferred Stock from time to time in one or more series and to establish the number of shares to be included in each such series. The Board of Directors also has the authority to fix the designations, voting powers, preferences, privileges, rights and limitations of any series of Preferred Stock, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights of the Common Stock. The Board of Directors, without stockholder approval, can issue Preferred Stock with voting, conversion or other rights that could adversely affect the voting power and other rights of the holders of Common Stock. The issuance of Preferred Stock may decrease the market price of the Company's Common Stock.

Board of Directors

The Board of Directors is not classified and each of our directors is elected annually. Our Certificate of Incorporation provides that the number of directors may be fixed only by the resolution of the Board of Directors. Subject to the rights of the holders of any outstanding Preferred Stock, any vacancy in the Board of Directors (including a vacancy caused by an increase in the number of directors) may be filled solely by resolution adopted by a majority of our directors then in office, whether or not such majority constitutes less than a quorum, or by a single remaining director. Subject to the rights of holders of any outstanding Preferred Stock to elect directors or to remove directors so elected, a director may be removed only by the affirmative vote of the holders of at least a majority of the voting power of the outstanding capital stock entitled to vote in the election of directors, voting as a single class.

Special Meetings of Stockholders

Subject to the rights of holders of any outstanding Preferred Stock, special meetings of stockholders may be called only (a) pursuant to a resolution approved by a majority of the Board of Directors, (b) by the chair of the Board of Directors, or (c) by holders of at least 25% of all the shares entitled to vote at the meeting, provided that such

holders have continuously held at least 25% of all the shares entitled to vote at the meeting for a period of two years prior to such special meeting.

No Stockholder Action by Written Consent

The Certificate of Incorporation provides that stockholders may not take action by written consent in lieu of a meeting.

Advance Notice Requirements for Stockholder Proposals and Director Nominations

Except as provided in Rule 14a-8 of the Exchange Act and under the "Proxy Access" heading below, a stockholder who intends to propose business or nominate candidates for election as directors at an annual or special meeting of the stockholders of the Company must comply with the notice, informational requirements and procedures set forth in our Certificate of Incorporation and Bylaws. For the notice to be timely in connection with an annual meeting, such notice must be received by the Secretary of the Company at the principal executive offices of the Company not less than 90 nor more than 120 days prior to the one-year anniversary of the preceding year's annual meeting. However, in the event that the next annual meeting of stockholders is convened more than 30 days prior to or delayed by more than 30 days after the one-year anniversary of the date of the prior year's annual meeting, notice by the stockholder to be timely must be received by the Secretary of the Company at the principal executive offices of the Company not later than the close of business on the later of the (i) 90th day before such annual meeting or (ii) 10th day following the date on which public announcement of the date of the next annual meeting of stockholders is first made. To nominate a nominee for election to the Board of Directors at a special meeting at which directors are to be elected, a stockholder's notice must be received by the Secretary of the Company at the principal executive offices of the Company not later than the close of business on the later of the 90th day prior to such special meeting or the 10th day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting.

Proxy Access

A qualifying stockholder, or a group of up to 20 such stockholders, owning at least 3% of the Company's outstanding Common Stock throughout the three-year period preceding and including the date of submission of a director nomination notice, and who continues to own at least 3% of the Company's outstanding Common Stock through the date of an annual meeting, may generally be able to nominate and include in the Company's proxy materials for an annual meeting of stockholders, qualifying director nominees constituting up to the greater of one nominee or 25% of the total number of directors of the Company on the last day on which a director nomination notice may be submitted pursuant to the Bylaws; provided that the qualifying stockholder(s) and director nominee(s) satisfy the eligibility, procedural and other requirements specified in the Bylaws, including that notice of a nomination be delivered to the Company not less than 120 days or more than 150 days before the first anniversary of the date that the Company first sent its proxy statement or a notice of availability of proxy materials (whichever is earlier) to stockholders for the prior year's annual meeting.

Amendment to the Certificate of Incorporation and the Bylaws

The Certificate of Incorporation may generally be amended by the affirmative vote of a majority of the holders of the outstanding stock entitled to vote, except with respect to provisions regarding (i) the (a) Board of Directors, (b) stockholder meetings, and (c) the alteration, amendment, or repeal of the Certificate of Incorporation, which may only be amended upon approval of holders of at least 66-2/3% of the voting power of all of the Company's then-outstanding shares then entitled to vote in the election of directors, voting together as a single class, and (ii) the limitation of director liability and indemnification, which may only be amended by the affirmative vote of the holders of at least 80% of the voting power of the Company's then-outstanding shares then entitled to vote in the election of directors, voting together as a single class. The Bylaws may generally be amended by the Board of Directors or by stockholders upon approval of holders of at least 66-2/3% of the voting power of all of the Company's then-outstanding voting stock, voting together as a single class.

Limitations on Business Combinations with Interested Stockholders

We are also subject to Section 203 of the Delaware General Corporation Law which, subject to exceptions, prohibits a Delaware corporation from engaging in any business combination with any "interested stockholder" for a period of three years following the date that a stockholder became an interested stockholder, unless:

- prior to that date, the Board of Directors approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;
- upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock outstanding at the time the transaction commenced, excluding for purposes of determining the voting stock outstanding (but not the outstanding voting stock owned by the interested stockholder) (a) shares owned by persons who are directors and also officers, and (b) shares owned by employee stock plans in which employee participants do not have the right

to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or

- on or following that date the business combination is approved by the Board of Directors and authorized at an annual or special meeting of stockholders, by the affirmative vote of at least 66-2/3% of the outstanding voting stock that is not owned by the interested stockholder.

The term "interested stockholder" is defined generally as any person who is the owner of 15% or more of the Company's outstanding voting stock or any person who is an affiliate or associate of the Company and was the owner of 15% or more of the Company's outstanding voting stock at any time within the three-year period immediately prior to the date on which it is sought to be determined whether such person is an interested stockholder, and the affiliates and associates of such person.

Anti-Takeover Effects of Various Provisions

Certain provisions of the DGCL, our Certificate of Incorporation and our Bylaws summarized above may have an anti-takeover effect and could make the following transactions more difficult: acquisition of the Company by means of a tender offer; acquisition of the Company by means of a proxy contest or otherwise; or removal of the Company's incumbent officers and directors. It is possible that these provisions could make it more difficult to accomplish or could deter transactions that stockholders may otherwise consider to be in their best interest or in the best interests of the Company, including transactions that might result in a premium over the market price for shares of our Common Stock.

Transfer Agent

The transfer agent for the Common Stock is Computershare Trust Company, N.A. Its address is c/o Computershare Investor Services, 150 Royall St., Suite 101, Canton, MA 02021 or P.O. Box 43078, Providence, RI 02940-3078 and its telephone number is (800) 962-4284.

Nasdaq Global Market Listing

Our Common Stock is listed on the Nasdaq Global Market under the trading symbol "RMCF."

**ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. 2024 OMNIBUS
INCENTIVE COMPENSATION PLAN**

**Article 1
Effective Date, Objectives and Duration**

1.1 Adoption of the Plan. The Board of Directors of Rocky Mountain Chocolate Factory, Inc., a Delaware corporation (the "Company"), adopted the Rocky Mountain Chocolate Factory, Inc. 2024 Omnibus Incentive Compensation Plan (the "Plan") on June 25, 2024 (the "Effective Date"), subject to approval by the stockholders of the Company within twelve (12) months after the Board's adoption of the Plan. Awards, other than Restricted Shares, may be granted on and after the Effective Date; but, no such Awards may be exercised, vested, paid or otherwise settled, or any Shares issued with respect thereto, unless and until the stockholders of the Company approve the Plan within the twelve (12) months after the Board's adoption of the Plan. Restricted Shares may only be granted if and after the stockholders of the Company approve the Plan.

1.2 Objective of the Plan. The Plan is intended to attract and retain highly qualified persons to serve as employees, consultants and non-employee directors and promote ownership by such employees, consultants and non-employee directors of a greater proprietary interest in the Company, thereby aligning their interests more closely with the interests of the Company's stockholders.

1.3 Duration of the Plan. The Plan commenced on the date of adoption of the Plan by the Board, subject to approval by the stockholders of the Company within the twelve (12) months after the Board's adoption of the Plan. If the stockholders of the Company so approve the Plan, the Plan shall remain in effect, subject to the right of the Board to amend or terminate the Plan at any time pursuant to Article 17 hereof, until the earlier of 11:59 p.m. (ET) on the day immediately preceding the tenth (10th) anniversary of the Effective Date, or the date all Shares subject to the Plan shall have been issued and the restrictions on all Restricted Shares granted under the Plan shall have lapsed, according to the Plan's provisions.

Article 2 Definitions

Whenever used in the Plan, the following terms shall have the meanings set forth below:

2.1 "409A Award" has the meaning set forth in Section 15.1.

2.2 "5% Exception Limit" has the meaning set forth in Section 5.3.

2.3 "\$100,000 Limit" has the meaning set forth in Section 6.4(d).

2.4 "Acquired Entity" has the meaning set forth in Section 5.6(b).

2.5 "Acquired Entity Awards" has the meaning set forth in Section 5.6(b).

2.6 "Affiliate" means any corporation, trade or business or other entity, including but not limited to partnerships, limited liability companies and joint ventures, directly or indirectly controlling, controlled by or under common control with the Company, within the meaning of Section 405 of the Securities Act. Affiliate includes any corporation, trade or business or other entity that becomes such on or after the Effective Date.

2.7 "Applicable Law" means U.S. federal, state and local laws applicable to the Company, any legal or regulatory requirement relating to the Plan, Awards and/or Shares under applicable U.S. federal, state and local laws, the requirements of Nasdaq and any other stock exchange or automated quotation system upon which the Shares are listed or quoted, the Code, and the applicable laws, rules, regulations and

requirements of any other country or jurisdiction where Awards are or are to be granted, exercised, vested or settled, as such laws, rules, regulations and requirements shall be in place from time to time.

2.8 "Award" means Options (including Non-Qualified Options and Incentive Stock Options), SARs, Restricted Shares, Performance Units (which may be paid in cash), Performance Shares, Deferred Stock, Restricted Stock Units, Dividend Equivalents and Other Stock-Based Awards granted under the Plan.

2.9 "Award Agreement" means a written agreement entered into by the Company and a Grantee setting forth the terms and provisions applicable to an Award granted under this Plan, including any amendment or modification thereof. The Committee may provide for the use of electronic, internet or other non-paper Award Agreements and the use of electronic, internet or other non-paper means for the acceptance thereof and actions thereunder by the Grantee.

2.10 "Beneficiary" means one or more persons or entities that become entitled to receive any amount payable under this Plan after the Grantee's death. The Grantee's Beneficiary is the Grantee's surviving spouse, unless the Grantee designates one or more persons or entities to be the Grantee's Beneficiary. The Grantee may make, change or revoke a Beneficiary designation at any time before his or her death without the consent of the Grantee's spouse or anyone the Grantee previously named as a Beneficiary, and the Grantee may designate primary and secondary Beneficiaries. A Beneficiary designation must comply with procedures established by the Committee and must be received by the Committee before the Grantee's death. If the Grantee dies without a valid Beneficiary designation (as determined by the Committee), and the Grantee has no surviving spouse, the Beneficiary shall be the Grantee's estate.

2.11 "Board" means the Board of Directors of the Company.

2.12 "Business Combination" has the meaning set forth in Section 2.17(a).

2.13 "Bylaws" means the Company's bylaws, as amended and/or restated from time to time.

2.14 "Cause" shall have the same definition as under any employment or service agreement between the Company or any Affiliate and the Grantee or, if no such employment or service agreement exists or if such employment or service agreement does not contain any such definition or words of similar import, "Cause" means, except as otherwise set forth in the Award Agreement, (i) the Grantee's act or failure to act amounting to gross negligence or willful misconduct to the detriment of the Company or any Affiliate; (ii) the Grantee's dishonesty, fraud, theft or embezzlement of funds or properties in the course of Grantee's employment; (iii) the Grantee's commission of, indictment for, or pleading guilty or confessing to any felony; (iv) the Grantee's gross neglect of, or prolonged absence from (other than due to Disability and without the written consent of the Company or an Affiliate), Grantee's duties, (v) the Grantee's refusal to comply with any lawful directive or policy of the Company or any Affiliate, which refusal is not cured by the Grantee within ten (10) days of such written notice from the Company or Affiliate, (vi) a material breach by the Grantee of any fiduciary duty owed to the Company or any Affiliate, (vii) the Grantee engaging in any activity that is in conflict with or adverse to the reputation, business or other interests of the Company or any Affiliate or that is reasonably determined to be detrimental to the reputation, business or other interests of the Company or any Affiliate, or (viii) the Grantee's breach of any restrictive covenant or other agreement with the Company or any Affiliate, including but not limited to, confidentiality covenants, covenants not to compete, non-solicitation covenants and non-disclosure covenants. For

purposes of the Plan, the Grantee's resignation without the Company's or an Affiliate's written consent in anticipation of termination of employment for Cause shall constitute a termination of employment for Cause. The determination of "Cause" shall be made by the Committee, and its determination shall be final, binding and conclusive on the Company, any Affiliate and each Grantee. Without in any way limiting the effect of the foregoing, for purposes of the Plan and an Award, a Participant's employment or service shall be deemed to have terminated for Cause if, after the Participant's employment or service has terminated, facts and

circumstances are discovered that would have justified, in the opinion of the Committee, a termination for Cause.

2.15 "CEO" means the Chief Executive Officer of the Company.

2.16 "Certificate of Incorporation" means the Company's certificate of incorporation, as amended and/or restated from time to time.

2.17 "Change in Control" shall be deemed to have occurred upon the first occurrence of an event set forth in any one of the following paragraphs:

(a) The accumulation in any number of related or unrelated transactions (other than an offering of Shares to the general public through a registration statement filed with the Securities and Exchange Commission) by any Person of beneficial ownership (as such term is used in Sections 13(d) and 14(d)(2) of the Exchange Act) of more than fifty percent (50%) of the combined voting power of the Company's voting stock; provided that, for purposes of this subsection (a), a Change in Control will not be deemed to have occurred if the accumulation of more than fifty percent (50%) of the combined voting power of the Company's voting stock results from any acquisition of voting stock (i) by the Company or any Affiliate, (ii) by any employee benefit plan (or related trust) sponsored or maintained by the Company or any Affiliate, (iii) by any Person that, prior to the transaction, directly or indirectly, controls, is controlled by, or is under common control with, the Company, or (iv) by any Person pursuant to a merger, consolidation or reorganization involving the Company (a "Business Combination") that would not cause a Change in Control under subsection (b) below; or

(b) Consummation of a Business Combination, unless, immediately following that Business Combination, (i) all or substantially all of the Persons who were the beneficial owners of voting stock of the Company immediately prior to that Business Combination beneficially own, directly or indirectly, more than fifty percent (50%) of the combined voting power of the Company's voting stock resulting from that Business Combination (including, without limitation, an entity that as a result of that transaction owns the Company or all or substantially all of the Company's assets, either directly or through one or more subsidiaries) in substantially the same proportions relative to each other as their ownership, immediately prior to that Business Combination, of the voting stock of the Company and (ii) no Person has beneficial ownership of fifty percent (50%) or more of the combined voting power of the Company's voting stock (including any entity that as the result of that transaction owns the Company or all or substantially all of, the Company's assets either directly or through one or more subsidiaries); or

(c) During any twelve (12)-month period, Incumbent Board Members cease to constitute a majority of the Board; or

(d) A sale or other disposition of all or substantially all of the assets of the Company, except pursuant to a Business Combination that would not cause a Change in Control under subsection (b) above; or

(e) A complete liquidation or dissolution of the Company, except pursuant to a Business Combination that would not cause a Change in Control under subsection (b) above.

Notwithstanding the foregoing, in the case of any Award that constitutes deferred compensation within the meaning of Section 409A of the Code, there shall not be a Change in Control unless there is a change in the ownership or effective control of the Company, or in a substantial portion of the assets of the Company, within the meaning of Section 409A of the Code where necessary for such Award to comply with Section 409A of the Code.

2.18 " Code " means the Internal Revenue Code of 1986, as amended.

2.19 " Committee " has the meaning set forth in Section 3.1(a).

2.20 " Company " has the meaning set forth in Section 1.1.

2.21 " Compensation Committee " means the compensation committee of the Board.

2.22 " Corporate Transaction " has the meaning set forth in Section 4.2(b).

2.23 " Current Grant " has the meaning set forth in Section 6.4(d).

2.24 " Data " has the meaning set forth in Section 18.22.

2.25 "Deferred Stock" means a right, granted under Article 9, to receive Shares at the end of a specified deferral period.

2.26 "Disability" or "Disabled" means, unless otherwise defined in an Award Agreement, or as otherwise determined under procedures established by the Committee for purposes of the Plan:

(a) Except as provided in (b) or (c) below, "Disability" or "Disabled" means, for any Grantee, any injury, illness or sickness that qualifies as a long-term disability within the meaning of the Company's long-term disability program ("LTD Program") and on account of which such Grantee is entitled to receive LTD Program benefits;

(b) In the case of an Incentive Stock Option or an Award granted in tandem with an Incentive Stock Option, "Disability" and "Disabled" has the meaning under Section 22(e)(3) of the Code; and

(c) In the case of any Award that constitutes deferred compensation within the meaning of Section 409A of the Code, "Disability" and "Disabled" means as defined in regulations under Code Section 409A where necessary for such Award to comply with Section 409A of the Code. For purpose of Code Section 409A, a Grantee will be considered to have incurred a Disability or to be Disabled if: (i) the Grantee is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, or (ii) the Grantee is, by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering employees of the Grantee's employer.

2.27 " Disqualifying Disposition " has the meaning set forth in Section 6.4(f).

2.28 " Dividend Equivalent " means a right to receive cash or Shares equal to any dividends or distributions paid on Shares, if and when paid or distributed, on a specified number of Shares, which dividends have a record date on or after the date of grant of the Dividend Equivalents or related Award and before the date Dividend Equivalents or related Award become payable.

2.29 " Dodd-Frank " means the Dodd-Frank Wall Street Reform and Consumer Protection Act.

2.30 " DRO " has the meaning set forth in Section 5.4(a).

2.31 " Effective Date " has the meaning set forth in Section 1.1.

2.32 "Eligible Person" means any employee (including any officer) of, non-employee consultant to, or Non-Employee Director of the Company or any Affiliate, or potential employee (including a potential officer) of, potential non-employee consultant to, or potential Non-Employee Director of the Company or an Affiliate; provided, however, that (i) solely with respect to the grant of an Incentive Stock Option, an Eligible Person shall be any employee (including any officer) of the Company or any Subsidiary Corporation and (ii) the Committee may establish additional eligibility criteria for determining an Eligible Person for any Awards granted hereunder. Solely for purposes of Section 5.6(b), current or former employees or Non-Employee Directors of, or non-employee consultants to, an Acquired Entity who receive Substitute Awards in substitution for Acquired Entity Awards shall be considered Eligible Persons under this Plan with respect to such Substitute Awards.

2.33 "ERISA" has the meaning set forth in Section 5.4(a).

2.34 "Exchange Act" means the Securities Exchange Act of 1934, as amended, and all rules and regulations promulgated thereunder.

2.35 "Exercise Price" means (a) with respect to an Option, the price at which a Share may be purchased by a Grantee pursuant to such Option or (b) with respect to an SAR, the price established at the time an SAR is granted pursuant to Article 7, which is used to determine the amount, if any, of the payment due to a Grantee upon exercise of the SAR.

2.36 "Fair Market Value" means, unless the Committee determines otherwise, a price that is based on the closing price of a Share reported on Nasdaq on the applicable date or on the established stock exchange which is the principal exchange upon which the Shares are traded on the applicable date or, if the Shares are not traded on such date, the immediately preceding trading day. Alternatively, if the Shares are exclusively traded over the counter at the time a determination of Fair Market Value is required to be made hereunder, Fair Market Value shall be deemed to be equal to the arithmetic mean between the reported high and low or closing bid and asked prices of a Share on the applicable date, or, if no such trades were made that day, then the most recent date on which Shares were so traded. In the event Shares are not publicly traded at the time a determination of their value is required to be made hereunder, the determination of their Fair Market Value shall be made by the Committee in such manner as it deems appropriate provided such manner is consistent with Treasury Regulation 1.409A-1(b)(5)(iv)(B). The Fair Market Value that the Committee determines shall be final, binding and conclusive on the Company, any Affiliate and each Grantee.

2.37 "FICA" has the meaning set forth in Section 16.1(a).

2.38 "Fiscal Year" means the twelve (12)-month period beginning on each March 1 and ending on the last day of the next following February.

2.39 "Good Reason" shall have the same definition as under any employment or service agreement between the Company or any Affiliate and the Grantee or, if no such employment or service agreement exists or if such employment or service agreement does not contain any such definition or words of similar import, "Good Reason" means, except as otherwise set forth in the Award Agreement, without the Grantee's consent, the following: (a) any action taken by the Company or an Affiliate which results in a material reduction in the Grantee's authority, duties or responsibilities (except that any change in the foregoing that results solely from (i) the Company ceasing to be a publicly traded entity or from the Company becoming a wholly-owned subsidiary of another publicly traded entity or (ii) any change in the geographic scope of the Grantee's authority, duties or responsibilities will not, in any event and standing alone, constitute a substantial reduction in the Grantee's authority, duties or responsibilities); (b) the assignment to the Grantee of duties that are materially inconsistent with Grantee's authority, duties or responsibilities; (c) any material decrease in the Grantee's base salary or annual bonus opportunity, except to the extent the Company has instituted a salary or bonus reduction generally applicable to all similar employees of the Company other than in contemplation of or after a Change in Control; or (d) the relocation

of the Grantee to any principal place of employment other than that as of the date of grant of the Award, or any requirement that Grantee relocate his or her residence other than to that as of the date of grant of the Award, without the Grantee's express written consent to either such relocation, which in either event would increase the Grantee's commute by more than fifty (50) miles; provided, however, this subsection (d) shall not apply in the case of business travel which requires the Grantee to relocate temporarily for periods of ninety (90) days or less. Notwithstanding the above, and without limitation, "Good Reason" shall not include any resignation by the Grantee where Cause for the Grantee's termination by the Company or an Affiliate exists. The Grantee must give the Company or Affiliate that employs the Grantee notice of any event or condition that would constitute "Good Reason" within thirty (30) days of the event or condition which would constitute "Good Reason," and, upon the receipt of such notice, the Company or Affiliate that employs the Grantee shall have thirty (30) days to remedy such event or condition. If such event or condition is not remedied within such thirty (30)-day period, any termination of employment by the Grantee for "Good Reason" must occur within thirty (30) days after the period for remedying such condition or event has expired.

2.40 "Grant Date" means the date on which an Award is granted or such later date as specified in advance by the Committee.

2.41 "Grantee" means an Eligible Person to whom an Award has been granted under the Plan.

2.42 "Immediate Family" has the meaning set forth in Section 5.4(c).

2.43 "Incentive Stock Option" means an Option that is intended to meet the requirements of Section 422 of the Code.

2.44 "Incumbent Board Member" means an individual who either is (a) a member of the Board as of the effective date of the Board's adoption of this Plan or (b) a member who becomes a member of the Board subsequent to the date of the Board's adoption of this Plan whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least sixty percent (60%) of the then Incumbent Board Members (either by a specific vote or by approval of the proxy statement of the Company in which that person is named as a nominee for director, without objection to that nomination), but excluding, for that purpose, any individual whose initial assumption of office occurs as a result of an actual or threatened election contest (within the meaning of Rule 14a-11 of the Exchange Act) with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board.

2.45 "LTD Program" has the meaning set forth in Section 2.26(a).

2.46 "Management Committee" has the meaning set forth in Section 3.1(b).

2.47 "More Than Ten Percent (10%) Owner" has the meaning set forth in Section 6.4(b).

2.48 "Nasdaq" means the Nasdaq Global Market.

2.49 "Net After Tax Receipt" has the meaning set forth in Article 17.

2.50 "Non-Employee Director" means a member of the Board, or the board of directors of an Affiliate, who is not an employee of the Company or any Affiliate.

2.51 "Non-Qualified Stock Option" means an option that is not intended to meet the requirements of Section 422 of the Code.

2.52 "Option" means an option granted under Article 6 of the Plan.

2.53 " Other Plans " has the meaning set forth in Section 6.4(d).

2.54 "Other Stock-Based Award" means a right, granted under Article 12 hereof, that relates to or is valued by reference to Shares or other Awards relating to Shares.

2.55 " Overpayment " has the meaning set forth in Article 17.

2.56 "Parent Corporation" means any parent corporation of the Company within the meaning of Section 424(e) of the Code.

2.57 "Performance-Based Award" means an Award with respect to which the grant, vesting, payment and/or settlement is contingent upon the satisfaction of specified Performance Measures in the specified performance period.

2.58 " Performance Measures " mean one or more performance measures established by the Committee as a requirement for an Award to vest and/or become exercisable or settled. An Award may be contingent upon the Grantee's continued employment or service in addition to the Performance Measures. In determining if the Performance Measures have been achieved, the Committee will adjust the performance targets in the event of any unbudgeted acquisition, divestiture or other unexpected fundamental change in the business of the Company, an Affiliate or business unit or in any product that is material taken as a whole as appropriate to fairly and equitably determine if the Award is to become exercisable, nonforfeitable and transferable or earned and payable pursuant to the conditions set forth in the Award. Additionally, in determining if such performance conditions have been achieved, the Committee also will adjust the performance targets in the event of any (i) unanticipated asset write-downs or impairment charges, (ii) litigation or claim judgments or settlements thereof, (iii) changes in tax laws, accounting principles or other laws or provisions affecting reported results, (iv) accruals for reorganization or restructuring programs, or (v) other extraordinary non-reoccurring items.

2.59 "Performance Share" and "Performance Unit" mean an Award granted as a Performance Share or Performance Unit under Article 10.

2.60 "Period of Restriction" means the period during which Restricted Shares are subject to Forfeiture if the conditions specified in the Award Agreement are not satisfied.

2.61 "Period of Vesting" means the period during which the Award is subject to forfeiture or may not be exercised if the conditions specified in the Award Agreement are not satisfied.

2.62 " Permitted Transferee " has the meaning set forth in Section 5.4(c).

2.63 " Person " means any individual, sole proprietorship, partnership, joint venture, limited liability company, trust, unincorporated organization, association, corporation, institution, public benefit corporation, entity or government instrumentality, division, agency, body or department.

2.64 " Plan " has the meaning set forth in Section 1.1.

2.65 " Present Value " has the meaning set forth in Article 17.

2.66 " Prior Grants " has the meaning set forth in Section 6.4(e).

2.67 "Prior Plan" means the Rocky Mountain Chocolate Factory, Inc. 2007 Equity Incentive Plan, as amended.

2.68 " Proceeding " has the meaning set forth in Section 18.11.

2.69 “ Reduced Amount ” has the meaning set forth in Article 17.

2.70 “ Restricted Shares ” means Shares issued under Article 9 that are both subject to Forfeiture and are nontransferable if the Grantee does not satisfy the conditions specified in the Award Agreement applicable to such Shares and subject to the Grantee paying the nominal value in cash for each Share to the extent required by the Committee.

2.71 “Restricted Stock Units” are rights, granted under Article 9, to receive Shares if the Grantee satisfies the conditions specified in the Award Agreement applicable to such rights, and subject always to the Grantee paying the nominal value in cash for each such Share to the extent required by the Committee.

2.72 “Retirement” means a Grantee’s Termination of Service on or after attaining such age and/or completing such years of service as the Committee may determine and set forth in an Award Agreement.

2.73 “ Returned Shares ” has the meaning set forth in Section 4.1.

2.74 “Rule 16b-3” means Rule 16b-3 promulgated by the SEC under the Exchange Act, as amended from time to time, together with any successor rule.

2.75 “ Sarbanes-Oxley ” means the Sarbanes-Oxley Act of 2002.

2.76 “ SEC ” means the United States Securities and Exchange Commission, or any successor thereto.

2.77 “Section 16 Non-Employee Director” means a member of the Board who satisfies the requirements to qualify as a “non-employee director” under Rule 16b-3.

2.78 “Section 16 Person” means a person who is subject to potential liability under Section 16(b) of the Exchange Act with respect to transactions involving equity securities of the Company.

2.79 “ Securities Act ” means the Securities Act of 1933, as amended, and all rules and regulations promulgated thereunder.

2.80 “Separation from Service” means, with respect to any Award that constitutes deferred compensation within the meaning of Code Section 409A, a “separation from service” as defined in Treasury Regulation Section 1.409A-1(h).

2.81 “Share” means the common stock, \$0.001 par value per share, of the Company, and, unless the context otherwise requires, such other securities of the Company, as may be substituted or resubstituted for Shares pursuant to Section 4.2 hereof.

2.82 “ Stock Appreciation Right ” or “ SAR ” means an Award granted under Article 7 of the Plan.

2.83 “Subsidiary Corporation” means a corporation other than the Company in an unbroken chain of corporations beginning with the Company if, at the time of granting the Award, each of the corporations other than the last corporation in the unbroken chain owns shares or stock possessing fifty percent (50%) or more of the total combined voting power of all classes of shares or stock in one of the other corporations in such chain.

2.84 “ Substitute Awards ” has the meaning set forth in Section 5.6(b).

2.85 “Surviving Company” means the surviving corporation in any merger or consolidation, involving the Company, including the Company if the Company is the surviving corporation, or the direct

or indirect parent company of the Company or such surviving corporation following a sale of substantially all of the outstanding shares or stock of the Company.

2.86 "Tax Date" has the meaning set forth in Section 16.1(a).

2.87 "Tendered Restricted Shares" has the meaning set forth in Section 6.5.

2.88 "Term" of any Option or SAR means the period beginning on the Grant Date of an Option or SAR and ending on the date such Option or SAR expires, terminates or is cancelled. No Option or SAR granted under this Plan shall have a Term exceeding 10 years.

2.89 "Termination of Service" means (a) that the employee has terminated employment with the Company and its Affiliates, the non-employee consultant is no longer serving as a consultant to the Company or an Affiliate or the Non-Employee Director has ceased being a director of the Company or any Affiliate or (b) when an entity which is employing the employee or non-employee consultant or on whose board of directors the Non-Employee Director is serving, ceases to be an Affiliate, unless the Participant otherwise is, or thereupon becomes, an employee, non-employee consultant or Non-Employee Director of the Company or another Affiliate, at the time such entity ceases to be an Affiliate. In the event an employee, non-employee consultant or Non-Employee Director becomes one of the other categories of Eligible Persons upon the termination of such employee's employment, such consultant's consultancy or such Non-Employee Director's service, unless otherwise determined by the Committee, in its sole discretion, no Termination of Service will be deemed to have occurred until such time as such person is no longer an employee, non-employee consultant or Non-Employee Director. Notwithstanding the foregoing, however, that if an Award constitutes deferred compensation within the meaning of Code Section 409A, Termination of Service with respect to such Award shall mean the Grantee's Separation from Service to the extent necessary for such Award to comply with Section 409A of the Code.

2.90 "Underpayment" has the meaning set forth in Article 17.

Article 3 Administration

3.1 Committee .

(a) Subject to Article 12 and Section 3.2, the Plan shall be administered by the Compensation Committee or the Board itself if no Compensation Committee exists. Notwithstanding the foregoing, either the Board or the Compensation Committee may at any time and in one or more instances reserve administrative powers to itself as the Committee or exercise any of the administrative powers of the Committee. To the extent the Board or Compensation Committee considers it desirable to comply with Rule 16b-3, the Committee shall consist of two or more directors of the Company, all of whom qualify as "independent directors" within the meaning of the Nasdaq listing standards and as Section 16 Non-Employee Directors. The number of members of the Committee shall from time to time be increased or decreased, and shall be subject to such conditions, in each case if and to the extent the Board deems it appropriate to permit transactions in Shares pursuant to the Plan to satisfy such conditions of Rule 16b-3.

(b) The Board or the Compensation Committee may appoint and delegate to another committee ("Management Committee"), or to the CEO, any or all of the authority of the Board or the Committee, as applicable, with respect to Awards to Grantees other than Grantees who are executive officers or Non-Employee Directors, or who are (or are expected to be) Section 16 Persons at the time any such delegated authority is exercised.

(c) Unless the context requires otherwise, any references herein to "Committee" include references to, the Board or the Compensation Committee to the extent the Board or the

Compensation Committee, as applicable, has assumed or exercises administrative powers as the Committee pursuant to subsection (a), and to the Management Committee or the CEO to the extent either has been delegated authority pursuant to subsection (b), as applicable; provided that, (i) for purposes of Awards to Non-Employee Directors, "Committee" shall include only the full Board, and (ii) for purposes of Awards intended to comply with Rule 16b-3, "Committee" shall include only the Compensation Committee.

3.2 Powers of Committee. Subject to and consistent with the provisions of the Plan (including Article 14), the Committee has full and final authority and sole discretion as follows; provided that any such authority or discretion exercised with respect to a specific Non-Employee Director shall be approved by the affirmative vote of a majority of the members of the Board, even if not a quorum, but excluding the Non-Employee Director with respect to whom such authority or discretion is exercised:

(a) to determine when, to whom and in what types and amounts Awards should be granted;

(b) to grant Awards to Eligible Persons in any number and to determine the terms and conditions applicable to each Award;

(c) subject to Section 5.3 below, to determine whether, to what extent and under what circumstances, subject to Applicable Law, (i) an Award may be settled in, or the exercise price of an Award may be paid in, cash, Shares, other Awards or other property, (ii) an Award may be accelerated, vested, canceled, forfeited or surrendered, (iii) any terms of the Award may be waived, or (iv) whether to accelerate the exercisability of, or to accelerate or waive any or all of the terms and conditions applicable to, any Award or any group of Awards for any reason and at any time;

(d) to determine with respect to Awards granted to Eligible Persons whether, to what extent and under what circumstances cash, Shares, other Awards, other property and other amounts payable with respect to an Award will be deferred, either at the election of the Grantee or if and to the extent specified in the Award Agreement automatically or at the election of the Committee;

(e) subject to Section 3.3 below, to offer to exchange or buy out any previously granted Award for a payment in cash, Shares or other Award;

(f) subject to Section 5.3 below, to provide in the terms of the Award or otherwise for accelerated exercisability or vesting of any Award upon the occurrence of one or more events other than completion of a service period, including without limitation the Grantee's Retirement, death, Disability or Termination of Service by the Company and its Affiliates without Cause, or termination by the Grantee for Good Reason or a Change in Control (provided such accelerated exercisability or vesting does not violate Code Section 409A);

(g) to construe and interpret the Plan and to make all determinations, including factual determinations, necessary or advisable for the administration of the Plan;

(h) to make, amend, suspend, waive and rescind rules and regulations relating to the Plan;

(i) to appoint such agents as the Committee may deem necessary or advisable to administer the Plan;

(j) with the consent of the Grantee, to amend any such Award Agreement at any time; provided, however, that the consent of the Grantee shall not be required for any amendment (i) which does not materially adversely affect the rights of the Grantee, or (ii) which is necessary or

advisable (as determined by the Committee) to carry out the purpose of the Award as a result of any new Applicable Law or change in an existing Applicable Law, or (iii) to the extent the Award Agreement specifically permits amendment without consent;

(k)subject to Section 3.3, to cancel, with the consent of the Grantee, outstanding Awards and to grant new Awards in substitution therefor;

(l)to impose such additional terms and conditions upon the grant, exercise or retention of Awards as the Committee may, before or concurrently with the grant thereof, deem appropriate, including limiting the percentage of Awards which may from time to time be exercised by a Grantee;

(m)to adopt rules and/or procedures (including the adoption of any subplan under the Plan) relating to the operation and administration of the Plan to accommodate requirements of state, foreign, and local law and procedures;

(n)to correct any defect or supply any omission or reconcile any inconsistency, and to construe and interpret the Plan, the rules and regulations, and Award Agreement or any other instrument entered into or relating to an Award under the Plan;

(o)to modify, extend or renew an Award, subject to Sections 1.3, 5.3 and 5.9, provided, however, that such action does not subject the Award to Section 409A of the Code without the consent of the Grantee;

(p)subject to Section 3.3, to provide for the settlement of any Award in cash, Shares or a combination thereof; and

(q)to take any other action with respect to any matters relating to the Plan for which it is responsible and to make all other decisions and determinations as may be required under the terms of the Plan or as the Committee may deem necessary or advisable for the administration of the Plan.

Any action of the Committee with respect to the Plan shall be final, conclusive and binding on all persons. The express grant of any specific power to the Committee, and the taking of any action by the Committee, shall not be construed as limiting any power or authority of the Committee. The Committee may delegate to officers or managers of the Company or any Affiliate the authority, subject to such terms as the Committee shall determine, to perform specified functions under the Plan (subject to Section 5.7). The Committee may revoke or amend the terms of any delegation at any time but such action shall not invalidate any prior actions of the Committee's delegate or delegates that were consistent with the terms of the Plan and the Committee's prior delegation.

The Company shall bear all expenses of administering the Plan.

Notwithstanding any provision of the Plan to the contrary, the Committee, in its sole discretion, may modify the terms and conditions of the Plan and/or any Award granted to Grantees outside the United States to comply with applicable foreign laws or listing requirements of any such foreign stock exchange; and take any action, before or after an Award is made, that it deems advisable to obtain approval or comply with any necessary local governmental regulatory exemptions or approvals or listing requirements of any such foreign stock exchange. Notwithstanding the foregoing, the Committee may not take any actions hereunder, and no Awards shall be granted, that would violate the Exchange Act or any other securities law or governing statute or any other Applicable Law.

3.3No Repricings. Notwithstanding any provision in Section 3.2 to the contrary, the terms of any outstanding Option or SAR may not be amended to reduce the Exercise Price of such Option or SAR,

or cancel any outstanding Option or SAR in exchange for other Options or SARs with an Exercise Price that is less than the Exercise Price of the cancelled Option or SAR or for any cash payment (or Shares having a Fair Market Value) in an amount that exceeds the excess of the Fair Market Value of the Shares underlying such cancelled Option or SAR over the aggregate Exercise Price of such Option or SAR or for any other Award, without stockholder approval; provided, however, that the restrictions set forth in this Section 3.3, shall not apply (i) unless the Company has a class of shares or stock that is registered under Section 12 of the Exchange Act or (ii) to any adjustment allowed under Section 4.2.

Article 4

Shares Subject to the Plan and Maximum Awards

4.1 Number of Shares Available for Grants. Subject to adjustment as provided in Section 4.2 and except as provided in Section 5.6(b), the maximum number of Shares hereby reserved for delivery in connection with Awards under the Plan shall be (i) 600,000 Shares, plus (ii) that number of Shares remaining available for issuance as of the Effective Date under the Prior Plan (that is, Shares not subject to outstanding awards under the Prior Plan nor delivered from the Shares reserved under the Prior Plan), plus

(iii) that number of Shares subject to awards granted under the Prior Plan that are outstanding as of the Effective Date and which become available in accordance with the provisions below after the stockholders of the Company approve the Plan. Subject to adjustment as provided in Section 4.2, the total number of Shares that may be delivered pursuant to the exercise of Incentive Stock Options granted hereunder shall not exceed 600,000. If the stockholders of the Company approve the Plan, no further awards shall be granted

under the Prior Plan after the date of such approval; if the stockholders of the Company do not approve the Plan, the Prior Plan shall remain in effect for the grant of awards thereunder.

Shares covered by an Award shall only be counted as used to the extent actually used. A Share issued in connection with an Award under the Plan shall reduce the total number of Shares available for issuance under the Plan by one; provided, however, that, upon settlement of a stock-settled SAR, the total number of Shares available for issuance under the Plan shall be reduced by the gross number of Shares with respect to which the SAR is exercised.

If any Award under the Plan, or any award under the Prior Plan that is outstanding as of the Effective Date, terminates without the delivery of Shares, whether by lapse, forfeiture, cancellation or otherwise, the Shares subject to such Award, or such award under the Prior Plan that is outstanding as of the Effective Date, to the extent of any such termination, shall again be available for grant under the Plan. Notwithstanding the foregoing, upon the exercise of any Award or any award under the Prior Plan granted in tandem with any other Award or any other award under the Prior Plan, such related Award or related award under the Prior Plan shall be cancelled to the extent of the number of Shares as to which the Award or the award under the Prior Plan is exercised and such number of Shares shall no longer be available for Awards under the Plan. If any Shares subject to an Award granted hereunder, or any award granted under the Prior Plan that is outstanding as of the Effective Date, are withheld or applied as payment in connection with the exercise of such Award or such award under the Prior Plan or the withholding or payment of taxes related thereto or Shares separately surrendered by the Grantee for any such purpose ("Returned Shares"), such Returned Shares will be treated as having been delivered for purposes of determining the maximum number of Shares available for grant under the Plan and shall not again be treated as available for grant under the Plan. The number of Shares available for issuance under the Plan may not be increased through the Company's purchase of Shares on the open market with the proceeds obtained from the exercise of any Options or other purchase rights granted hereunder or under the Prior Plan. In addition, in the case of any Substitute Award granted in assumption of or in substitution for an Acquired Entity Award, Shares delivered or deliverable in connection with such Substitute Award shall not be counted against the number of Shares reserved under the Plan (to the extent permitted by the rules of Nasdaq and any other stock exchange or automated quotation system upon which the Shares are listed or quoted), and available shares of stock under a stockholder-approved plan of an Acquired Entity (as appropriately adjusted to reflect the transaction) also may be used for Awards under the Plan, which shall not reduce the number of Shares

otherwise available under the Plan (subject to applicable requirements of Nasdaq and any other stock exchange or automated quotation system upon which the Shares are listed or quoted).

Shares may be allotted and issued pursuant to the Plan from the Company's authorized but unissued share capital, or the reissue of treasury Shares.

The proceeds that the Company receives in connection with Awards granted under the Plan, if any, shall be used for general corporate purposes and shall be added to the general funds of the Company.

4.2 Adjustments in Authorized Shares and Awards; Liquidation, Dissolution or Change in Control.

(a) In the event that the Committee determines that any dividend or other distribution (excluding any ordinary dividend or distribution) (whether in the form of cash, Shares, or other property), recapitalization, forward or reverse stock split, subdivision, consolidation or reduction of capital, reorganization, merger, consolidation, scheme of arrangement, split-up, spin-off or combination involving the Company or repurchase or exchange of Shares or other securities of the Company or other rights to purchase Shares or other securities of the Company, or other corporate transaction or event affects the Shares, such that any adjustment is determined by the Committee

to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of (i) the number and type of Shares (or other securities or property) with respect to which Awards may be granted, (ii) the number and type of Shares (or other securities or property) subject to outstanding Awards, (iii) the Exercise Price with respect to any Award or, if deemed appropriate, make provision for a cash payment to the holder of an outstanding Award, (iv) the number and kind of Shares of outstanding Restricted Shares, or the Shares underlying any Award of Restricted Stock Units, Deferred Stock or other outstanding Share-based Award and (v) any other terms and conditions of the Award. Notwithstanding the foregoing,

(x) no such adjustment shall be authorized with respect to any Options or SARs to the extent that such adjustment would cause the Option or SAR (determined as if such Option or SAR was an Incentive Stock Option) to violate Section 424(a) of the Code or with respect to any Awards to the extent such adjustment would subject any Grantee to taxation under Section 409A of the Code; and

(y) the number of Shares subject to any Award denominated in Shares shall always be a whole number.

(b) In the event of a merger or consolidation of the Company with or into another corporation or a sale of all or substantially all of the shares or stock of the Company or all or substantially all of the assets of the Company, including by way of a court sanctioned compromise or scheme of arrangement, reorganization, merger, combination, purchase, recapitalization, liquidation, or sale, transfer, exchange or other disposition (a "Corporate Transaction") that results in a Change in Control, unless an outstanding Award is assumed by the Surviving Company or replaced with an equivalent Award granted by the Surviving Company in substitution for such outstanding Award, the Committee shall cancel any outstanding Awards that are not vested and nonforfeitable as of the consummation of such Corporate Transaction (unless the vesting of the Award is accelerated as described below) and with respect to any vested and nonforfeitable Awards, the Committee shall either (i) allow all Grantees to exercise such Awards in the nature of Options, SARs or other purchase rights to the extent then exercisable or to become exercisable upon the Change in Control within a reasonable period prior to the consummation of the Change in Control and cancel any Awards in the nature of Options, SARs or other purchase rights that remain unexercised upon consummation of the Change in Control, and/or (ii) cancel any or all of such outstanding Awards in exchange for a payment (in cash and/or in securities and/or other property) in an amount equal to the amount that the Grantee would have received (net of the Exercise Price with respect to any Awards in the nature of Options, SARs or other purchase rights) and on the

same terms (including without limitation any earn-out, escrow or other deferred consideration provisions) as if such vested Awards were settled or distributed or such Awards in the nature of vested Options, SARs or other purchase rights were exercised immediately prior to the consummation of the Change in Control. Notwithstanding the foregoing, if an Option, SAR or other purchase right is not assumed by the Surviving Company or replaced with an equivalent Award issued by the Surviving Company and the Exercise Price with respect to the outstanding Option, SAR or other purchase right equals or exceeds the amount payable per Share in the Change in Control, such Awards shall be cancelled without any payment to the Grantee.

(c) Immediately prior to consummation of any Corporate Transaction that results in a Change in Control (subject to consummation of the Change in Control), all outstanding Awards will become vested and non-forfeitable, earned and payable and any conditions on any such Award shall lapse, as to all of such Award to the extent then outstanding, including Shares as to which the Award would not otherwise be exercisable or non-forfeitable or earned and payable, unless the outstanding Award is assumed by the Surviving Company or replaced with an equivalent Award granted by the Surviving Company in substitution for such outstanding Award. If the outstanding Award is assumed by the Surviving Company or replaced with an equivalent Award granted by the Surviving Company in substitution for such outstanding Award, then all such outstanding Awards will become vested and non-forfeitable, earned and payable and any conditions on any such Award shall lapse, as to all of such Award to the extent then outstanding, including Shares as to which the Award would not otherwise be exercisable or non-forfeitable or earned and payable, upon the Grantee's subsequent Retirement, death, Disability, or Termination of Service by the Company and its Affiliates without Cause or by the Grantee for Good Reason, in any such case on or within the twelve (12) months after the Change in Control (provided such accelerated exercisability or vesting does not violate Code Section 409A).

(d) Notwithstanding the forgoing provisions of this Section 4.2, if an Award constitutes deferred compensation within the meaning of Code Section 409A, no payment or settlement of such Award shall be made pursuant to Section 4.2(b) or (c), unless the Corporate Transaction or the dissolution or liquidation of the Company, as applicable, constitutes a change in ownership or effective control of the Company or a change in ownership of a substantial portion of the assets of the Company as described in Treasury Regulation Section 1.409A-3(i)(5) and such payment or settlement does not result in a violation of Section 409A of the Code. Additionally, with respect to any Award with respect to which the grant, vesting, payment and/or settlement is contingent upon the satisfaction of specified Performance Measures in the specified performance period and which is not assumed by the Surviving Company or replaced with an equivalent Award granted by the Surviving Company in substitution for such outstanding Award, unless the Award Agreement provides otherwise, the Award shall become vested, and be paid and settled, pursuant to Section 4.2(b) or (c), at target, with the amount prorated based on the number of days in the specified performance period prior to and including the date of the Change in Control over the number of days in the specified performance period. If any such Awards are assumed by the Surviving Company or replaced with an equivalent Award granted by the Surviving Company in substitution for such outstanding Award, unless the Award Agreement provides otherwise, the Award shall be converted into a time-based Award as of the Change in Control at target, subject to the Grantee's continued employment or other service, and such outstanding Awards will become vested and non-forfeitable, earned and payable and any conditions on any such Award shall lapse, as to all of such Award to the extent then outstanding, including Shares as to which the Award would not otherwise be exercisable or non-forfeitable or earned and payable, upon the Grantee's subsequent Retirement, death, Disability, or Termination of Service by the Company and its Affiliates without Cause or by the Grantee for Good Reason, in any such case on or within the twelve (12) months after the Change in Control (provided such accelerated exercisability or vesting does not violate Code Section 409A).

Article 5

Eligibility and General Conditions of Awards

5.1 Eligibility. The Committee may in its discretion grant Awards to any Eligible Person, whether or not he or she has previously received an Award; provided, however, that all Awards made to Non-Employee Directors shall be determined by the Board in its sole discretion.

5.2 Award Agreement. To the extent not set forth in the Plan, the terms and conditions of each Award shall be set forth in an Award Agreement and, unless the Committee determines otherwise, such Agreement must be signed, acknowledged and returned by the Grantee to the Company. Unless the Committee determines otherwise, any failure by the Grantee to sign and return the Agreement within such period of time following the granting of the Award as the Committee shall prescribe shall cause such Award to the Grantee to be null and void. By accepting an Award or other benefits under the Plan (including participation in the Plan), each Grantee shall be conclusively deemed to have indicated acceptance and ratification of, and consented to, all provisions of the Plan and the Award Agreement.

5.3 General Terms and Termination of Service. The Committee may impose on any Award or the exercise or settlement thereof, at the date of grant or, subject to the provisions of Section 14.2, thereafter, such additional terms and conditions not inconsistent with the provisions of the Plan as the Committee shall determine, including without limitation terms requiring forfeiture or transfer, acceleration or pro-rata acceleration of Awards in the event of a Termination of Service by the Grantee. Awards may be granted for no consideration other than prior and future services save that in no event will Shares subject to an Award be allotted and issued unless the nominal value per Share is paid in cash, to the extent required by Applicable Law. Except as otherwise determined by the Committee pursuant to this Section 5.3 or set forth in an Award Agreement, all Options that have not been exercised, or any other Awards that remain subject to a risk of forfeiture or which are not otherwise vested, or which have outstanding Performance Periods, at the time of a Termination of Service shall be forfeited to the Company. Notwithstanding any other provision of the Plan to the contrary and subject to the immediately following proviso, equity-based Awards granted under the Plan shall vest no earlier than the first anniversary of the date the Award is granted, and performance-based Awards must have a performance period of at least one year; provided, however, the following Awards shall not be subject to the foregoing minimum vesting requirements: any (i) Awards granted in connection with awards that are assumed, converted or substituted pursuant to Section 5.6 of this Plan; (ii) Shares delivered in lieu of fully vested cash obligations; (iii) Awards granted to non-employee directors that vest on the earlier of the one-year anniversary of the date of grant of the Award and the next annual meeting of the Company's stockholders which is at least 50 weeks after the immediately preceding year's annual meeting of the Company's stockholders; and (iv) additional Awards that the Committee may grant without regard to the foregoing minimum vesting requirements up to a maximum of five percent (5%) of the number of Shares that are available for issuance under the Plan (subject to adjustment under Section 4.2) (the "5% Exception Limit"). For the avoidance of doubt, the foregoing restriction does not apply to the Committee's discretion to provide in the terms of the Award or otherwise for accelerated exercisability or vesting of any Award upon the occurrence of one or more events other than completion of a service period, including without limitation the Grantee's Retirement, death, Disability, Termination of Service by the Company and its Affiliates without Cause or by the Grantee for Good Reason or a Change in Control (provided such accelerated exercisability or vesting does not violate Code Section 409A). Additionally, notwithstanding any other provision of this Plan or any Award Agreement to the contrary, no dividends or Dividend Equivalents shall be paid with respect to any Awards that do not become vested, non-forfeitable or payable under the Plan.

5.4 Nontransferability of Awards .

(a) Each Award and each right under any Award shall be exercisable only by the Grantee during the Grantee's lifetime, or, if permissible under Applicable Law, by the Grantee's guardian or legal representative or by a transferee receiving such Award pursuant to a domestic relations order (a "DRO") as defined in the Code or Title I of the Employee Retirement Income

Security Act of 1974, as amended ("ERISA"), or the rules thereunder.

(b) No Award (prior to the time, if applicable, Shares are delivered in respect of such Award), and no right under any Award, may be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by a Grantee otherwise than by will or by the laws of descent and distribution (or in the case of Restricted Shares, to the Company) or pursuant to a DRO, and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company or any Affiliate; provided that the designation of a beneficiary to receive benefits in the event of the Grantee's death shall not constitute an assignment, alienation, pledge, attachment, sale, transfer or encumbrance.

(c) Notwithstanding subsections (a) and (b) above, to the extent provided in the Award Agreement, Awards (other than Incentive Stock Options and corresponding tandem Awards), may be transferred, without consideration, to a Permitted Transferee. For this purpose, a "Permitted Transferee" in respect of any Grantee means any member of the Immediate Family of such Grantee, any trust of which all of the primary beneficiaries are such Grantee or members of his or her Immediate Family, or any partnership (including limited liability companies and similar entities) of which all of the partners or members are such Grantee or members of his or her Immediate Family; and the "Immediate Family" of a Grantee means the Grantee's spouse, any person sharing the Grantee's household (other than a tenant or employee), children, stepchildren, grandchildren, parents, stepparents, siblings, grandparents, nieces and nephews. Such Award may be exercised by such transferee in accordance with the terms of the Award Agreement. If so determined by the Committee, a Grantee may, in the manner established by the Committee, designate a beneficiary or beneficiaries to exercise the rights of the Grantee, and to receive any distribution with respect to any Award, after the death of the Grantee. A transferee, beneficiary, guardian, legal representative or other person claiming any rights under the Plan from or through any Grantee shall be subject to and consistent with the provisions of the Plan and any applicable Award Agreement, except to the extent the Plan and Award Agreement otherwise provide with respect to such persons, and to any additional restrictions or limitations deemed necessary or appropriate by the Committee.

(d) Nothing herein shall be construed as requiring the Company or any Affiliate to honor a DRO except to the extent required under Applicable Law.

5.5 Cancellation and Rescission of Awards . Unless the Award Agreement specifies otherwise, the Committee may cancel, rescind, suspend, withhold, or otherwise limit or restrict any unexercised or other Award at any time if the Grantee is not in compliance with all applicable provisions of the Award Agreement and the Plan or if the Grantee has a Termination of Service. Additionally, notwithstanding any other provision of the Plan or any Agreement to the contrary, a Grantee shall forfeit any and all rights under an Award if the Grantee incurs a Termination of Service by the Company or any Affiliate for Cause.

5.6 Stand-Alone, Tandem and Substitute Awards .

(a) Awards granted under the Plan may, in the discretion of the Committee, be granted either alone or in addition to, in tandem with, or in substitution for, any other Award granted under the Plan unless such tandem or substitution Award would subject the Grantee to tax penalties imposed under Section 409A of the Code. If an Award is granted in substitution for another Award or any non-Plan award or benefit, the Committee shall require the surrender of such other Award or non-Plan award or benefit in consideration for the grant of the new Award. Awards granted in addition to or in tandem with other Awards or non-Plan awards or benefits may be granted either at the same time as or at a different time from the grant of such other Awards or non-Plan awards or benefits; provided, however, that if any SAR is granted in tandem with an Incentive Stock Option, such SAR and Incentive Stock Option must have the same Grant Date, Term and the Exercise Price of the SAR may not be less than the Exercise Price of the related Incentive Stock

Option.

(b) The Committee may, in its discretion and on such terms and conditions as the Committee considers appropriate in the circumstances, grant Awards under the Plan ("Substitute Awards") in substitution for share or stock and share or stock-based awards ("Acquired Entity Awards") held by current or former employees or non-employee directors of, or consultants to, another corporation or entity who become Eligible Persons as the result of a merger or consolidation of the employing corporation or other entity (the "Acquired Entity") with the Company or an Affiliate or the acquisition by the Company or an Affiliate of property or shares or stock of the Acquired Entity immediately prior to such merger, consolidation or acquisition in order to preserve for the Grantee the economic value of all or a portion of such Acquired Entity Award at such price

as the Committee determines necessary to achieve preservation of economic value. The limitations of Section 4.1 on the number of Shares reserved or available for grants shall not apply to Substitute Awards granted under this Section 5.6(b).

5.7 Deferral of Award Payouts. The Committee may permit a Grantee to defer, or if and to the extent specified in an Award Agreement require the Grantee to defer, receipt of the payment of cash or the delivery of Shares that would otherwise be due by virtue of the lapse or waiver of restrictions with respect to Awards, the satisfaction of any requirements or goals with respect to Awards, the lapse or waiver of the deferral period for Awards, or the lapse or waiver of restrictions with respect to Awards. If the Committee permits such deferrals, the Committee shall establish rules and procedures for making such deferral elections and for the payment of such deferrals, which shall conform in form and substance with applicable regulations promulgated under Section 409A of the Code so that the Grantee is not subjected to tax penalties under Section 409A of the Code with respect to such deferrals. Except as otherwise provided in an Award Agreement, any payment or any Shares that are subject to such deferral shall be made or delivered to the Grantee as specified in the Award Agreement or pursuant to the Grantee's deferral election.

5.8 Extension of Term of Award .

(a) Notwithstanding any provision of the Plan providing for the maximum term of an Award, in the event any Award would expire prior to exercise, vesting or settlement because trading in Shares is prohibited by law or by any insider trading policy of the Company, the Committee may extend the term of the Award (or provide for such in the applicable Award Agreement) until thirty (30) days after the expiration of any such prohibitions to permit the Grantee to realize the value of the Award, provided such extension (i) is permitted by law, (ii) does not violate Code Section 409A with respect to any Award, and (iii) does not otherwise adversely impact the tax consequences of the Award (such as with respect to incentive stock options and related Awards).

(b) This Section 5.8(b) applies to an Option or SAR if (i) the Grantee to whom the Option or SAR was granted remains in the continuous employment or service of the Company or an Affiliate from the date the Option or SAR was granted until the expiration date of such Option or SAR, (ii) on the expiration date the Fair Market Value of a share exceeds the exercise price of the Option or SAR, (iii) the Option or SAR has become exercisable on or before the expiration date and (iv) the term of the Option or SAR will not be extended as described above. In that event, subject to Sections 3.1(a), 5.8(a), 5.9, and 6.5 in all respects, each Option or SAR to which this Section 5.8(b) applies shall be exercised automatically on the expiration date to the extent that it is outstanding and unexercised on such date. An Option that is exercised pursuant to this Section 5.8(b) shall result in the issuance to the Grantee of that number of whole Shares that have a Fair Market Value that most nearly equals, but does not exceed, the excess of the Fair Market Value of a Share on the expiration date over the Option exercise price multiplied by the number of Shares subject to the exercisable portion of the Option. A SAR that is exercised pursuant to this Section 5.8(b) shall be settled in accordance with its terms on the expiration date.

5.9 Conditions on Delivery of Shares . The Company will not be obligated to deliver any Shares under the Plan or remove restrictions from Shares previously delivered under the Plan until (i) all Award conditions have been met or removed to the Company's satisfaction, (ii) as determined by the Company, all other legal matters regarding the issuance and delivery of such Shares have been satisfied, including any applicable securities laws and rules and regulations of Nasdaq and any other stock exchange or automated quotation system upon which the Shares are listed or quoted, and (iii) the Grantee has executed and delivered to the Company such representations or agreements as the Committee deems necessary or appropriate to satisfy any Applicable Laws. The Company's inability to obtain authority from any regulatory body having jurisdiction, which the Committee determines is necessary to the lawful issuance

and sale of any Shares, will relieve the Company of any liability for failing to issue or sell such Shares as to which such requisite authority has not been obtained.

Article 6 Stock Options

6.1 Grant of Options. Subject to and consistent with the provisions of the Plan, Options may be granted to any Eligible Person in such number, and upon such terms, and at any time and from time to time as shall be determined by the Committee.

6.2 Award Agreement. Each Option grant shall be evidenced by an Award Agreement that shall specify the Exercise Price, the Term of the Option, the number of Shares to which the Option pertains, the time or times at which such Option shall be exercisable, whether the Option is intended to be a Non- Qualified Stock Option or an Incentive Stock Option and such other provisions as the Committee shall determine. Except as otherwise set forth in Section 5.6(b) above, no Option shall have a term of more than ten (10) years after its Grant Date, subject to earlier termination as provided herein or in the applicable Award Agreement. No Option may be exercised at a time when such exercise and/or the issuance of Shares pursuant to such exercise would be in breach of Applicable Law. No dividend rights or Dividend Equivalents may be granted in conjunction with any grant of Options.

6.3 Option Exercise Price. The Exercise Price of an Option under this Plan shall be determined in the sole discretion of the Committee but may not be less than one hundred percent (100%) of the Fair Market Value of a Share on the Grant Date (except as otherwise set forth in Section 5.6(b) above) and shall not be less than the nominal value per Share if required by Applicable Law.

6.4 Grant of Incentive Stock Options . At the time of the grant of any Option, the Committee may in its discretion designate that such Option shall be made subject to additional restrictions to permit it to qualify as an Incentive Stock Option. An Option designated as an Incentive Stock Option:

(a) shall be granted only to an employee of the Company, a Parent Corporation or a Subsidiary Corporation;

(b) shall have an Exercise Price of not less than one hundred percent (100%) of the Fair Market Value of a Share on the Grant Date, and, if granted to a person who owns capital stock (including stock treated as owned under Section 424(d) of the Code) possessing more than ten percent (10%) of the total combined voting power of all classes of capital stock of the Company or any Subsidiary Corporation (a " More Than Ten Percent (10%) Owner "), have an Exercise Price not less than one hundred and ten percent (110%) of the Fair Market Value of a Share on its Grant Date;

(c) shall be for a period of not more than 10 years (five years if the Grantee is a More Than 10% Owner) from its Grant Date, and shall be subject to earlier termination as provided herein or in the applicable Award Agreement;

(d) shall not have an aggregate Fair Market Value (as of the Grant Date) of the Shares with respect to which Incentive Stock Options (whether granted under the Plan or any other stock option plan of the Grantee's employer or any parent or Subsidiary Corporation ("Other Plans")) are exercisable for the first time by such Grantee during any calendar year ("Current Grant"), determined in accordance with the provisions of Section 422 of the Code, which exceeds \$100,000 (the "\$100,000 Limit");

(e) shall, if the aggregate Fair Market Value of the Shares (determined on the Grant Date) with respect to the Current Grant and all Incentive Stock Options previously granted under the Plan and any Other Plans which are exercisable for the first time during a calendar year ("Prior Grants") would exceed the \$100,000 Limit, be, as to the portion in excess of the \$100,000 Limit, exercisable as a separate option that is not an Incentive Stock Option at such date or dates as are provided in the Current Grant;

(f) shall require the Grantee to notify the Committee of any disposition of any Shares delivered pursuant to the exercise of the Incentive Stock Option under the circumstances described in Section 421(b) of the Code (relating to holding periods and certain disqualifying dispositions) ("Disqualifying Disposition") within ten (10) days of such a Disqualifying Disposition;

(g) shall by its terms not be assignable or transferable other than by will or the laws of descent and distribution and may be exercised, during the Grantee's lifetime, only by the Grantee; provided, however, that the Grantee may, to the extent provided in the Plan in any manner specified by the Committee, designate in writing a beneficiary to exercise his or her Incentive Stock Option after the Grantee's death; and

(h) shall, if such Option nevertheless fails to meet the foregoing requirements, or otherwise fails to meet the requirements of Section 422 of the Code for an Incentive Stock Option, be treated for all purposes of this Plan, except as otherwise provided in subsections (d) and (e) above, as an Option that is not an Incentive Stock Option.

Notwithstanding the foregoing and Section 3.2, the Committee may, without the consent of the Grantee, at any time before the exercise of an Option (whether or not an Incentive Stock Option), take any action necessary to prevent such Option from being treated as an Incentive Stock Option. No Option that is intended to be an Incentive Stock Option shall be invalid for failure to qualify as an Incentive Stock Option.

6.5 Payment of Exercise Price. Except as otherwise provided by the Committee in an Award Agreement, Options shall be exercised by the delivery of a written notice of exercise to the Company, setting forth the number of Shares with respect to which the Option is to be exercised, accompanied by full payment for the Shares made by any one or more of the following means:

(a) cash, personal check, cash equivalent or wire transfer;

(b) subject to Applicable Law and with the approval of the Committee, by delivery of Shares owned by the Grantee prior to exercise, valued at their Fair Market Value on the date of exercise;

(c) subject to Applicable Law and with the approval of the Committee, Shares acquired upon the exercise of such Option, such Shares valued at their Fair Market Value on the date of exercise;

(d) subject to Applicable Law and with the approval of the Committee, Restricted Shares held by the Grantee prior to the exercise of the Option, each such share valued at the Fair Market Value of a Share on the date of exercise; or

(e) subject to Applicable Law (including the prohibited loan provisions of Section 402 of Sarbanes-Oxley), through the sale of the Shares acquired on exercise of the Option through a broker-dealer to whom the Grantee has submitted an irrevocable notice of exercise and irrevocable instructions to deliver promptly to the Company the amount of sale proceeds sufficient to pay for

such Shares, together with, if requested by the Company, the amount of federal, state, local or foreign withholding taxes payable by Grantee by reason of such exercise.

The Committee may in its discretion specify that, if any Restricted Shares ("Tendered Restricted Shares") are used to pay the Exercise Price, (x) all the Shares acquired on exercise of the Option shall be subject to the same restrictions as the Tendered Restricted Shares, determined as of the date of exercise of the Option, or (y) a number of Shares acquired on exercise of the Option equal to the number of Tendered Restricted Shares shall be subject to the same restrictions as the Tendered Restricted Shares, determined as of the date of exercise of the Option.

Article 7

Stock Appreciation Rights

7.1 Issuance. Subject to and consistent with the provisions of the Plan, the Committee, at any time and from time to time, may grant SARs to any Eligible Person either alone or in addition to other Awards granted under the Plan. Such SARs may, but need not, be granted in connection with a specific Option granted under Article 6. The Committee may impose such conditions or restrictions on the exercise of any SAR as it shall deem appropriate. No dividend rights or Dividend Equivalents may be granted in conjunction with any grant of SARs.

7.2 Award Agreements. Each SAR grant shall be evidenced by an Award Agreement in such form as the Committee may approve and shall contain such terms and conditions not inconsistent with other provisions of the Plan as shall be determined from time to time by the Committee. Except as otherwise set forth in Section 5.6(b) above, no SAR shall have a term of more than ten (10) years after its Grant Date, subject to earlier termination as provided herein or in the applicable Award Agreement. No SAR may be exercised at a time when such exercise and/or the issuance of Shares pursuant to such exercise would be in breach of Applicable Law.

7.3 SAR Exercise Price. The Exercise Price of a SAR shall be determined by the Committee in its sole discretion; provided that, except as otherwise set forth in Section 5.6(b), the Exercise Price shall not be less than one hundred percent (100%) of the Fair Market Value of a Share on the date of the grant of the SAR (or the exercise price of the related Option if granted in tandem therewith).

7.4 Exercise and Payment. Upon the exercise of an SAR, a Grantee shall be entitled to receive payment from the Company in an amount determined by multiplying (a) the excess of the Fair Market Value of a Share on the date of exercise over the Exercise Price; by (b) the number of Shares with respect to which the SAR is exercised. SARs shall be deemed exercised on the date written notice of exercise in a form acceptable to the Committee is received by the Secretary of the Company. The Company shall make payment in respect of any SAR within thirty (30) days of the date the SAR is exercised, unless the Award Agreement specifically provides otherwise. Any payment by the Company in respect of a SAR may be made in cash, Shares, other property, or any combination thereof, as the Committee, in its sole discretion, shall determine.

7.5 Grant Limitations. The Committee may at any time impose any other limitations upon the exercise of SARs which, in the Committee's sole discretion, are necessary or desirable in order for Grantees to qualify for an exemption from Section 16(b) of the Exchange Act.

Article 8 Restricted Shares

8.1 Grant of Restricted Shares. Subject to and consistent with the provisions of the Plan, the Committee, at any time and from time to time, may grant Restricted Shares to any Eligible Person in such amounts as the Committee shall determine.

8.2 Award Agreement. Each grant of Restricted Shares shall be evidenced by an Award Agreement that shall specify the Period(s) of Restriction, the number of Restricted Shares granted, and such other provisions as the Committee shall determine. The Committee may impose such conditions and/or restrictions on any Restricted Shares granted pursuant to the Plan as it may deem advisable, including restrictions based upon the achievement of specific time-based restrictions, Performance Measures, time-based restrictions on vesting following the attainment of the Performance Measures, and/or restrictions under Applicable Law.

8.3 Consideration for Restricted Shares. The Committee shall determine the amount, if any, that a Grantee shall pay for Restricted Shares provided that it shall be no less than the nominal value per Restricted Share if required to be paid by Applicable Law.

8.4 Effect of Forfeiture. If Restricted Shares are forfeited, and if the Grantee was required to pay for such shares or acquired such Restricted Shares upon the exercise of an Option, the Grantee shall be deemed to have resold such Restricted Shares to the Company at a price equal to the lesser of (x) the amount paid by the Grantee for such Restricted Shares, or (y) the Fair Market Value of a Share on the date of such forfeiture. The Company shall pay to the Grantee the deemed sale price as soon as is administratively practical. Such Restricted Shares shall cease to be outstanding and shall no longer confer on the Grantee thereof any rights as a stockholder of the Company, from and after the date of the event causing the forfeiture, whether or not the Grantee accepts the Company's tender of payment for such Restricted Shares.

8.5 Voting and Dividend Equivalent Rights Attributable to Restricted Shares. A Grantee awarded Restricted Shares will have all voting rights with respect to such Restricted Shares. Unless the Committee determines and sets forth in the Award Agreement that Grantee will not be entitled to receive any dividends with respect to such Restricted Shares, a Grantee will have the right to receive all dividends in respect of such Restricted Shares, which dividends shall be either deemed reinvested in additional shares of Restricted Shares, which shall remain subject to the same forfeiture conditions applicable to the Restricted Shares to which such dividends relate, or paid in cash if and at the time the Restricted Shares are no longer subject to forfeiture, as the Committee shall set forth in the Award Agreement. No dividends may be paid with respect to Restricted Shares that are Forfeited.

8.6 Escrow; Legends. The Committee may provide that the certificates for any Restricted Shares if certificated (x) shall be held (together with a stock transfer form executed in blank by the Grantee) in escrow by the Secretary of the Company until such Restricted Shares become non-Forfeitable or are Forfeited and/or (y) shall bear an appropriate legend restricting the transfer of such Restricted Shares under the Plan. If any Restricted Shares become nonforfeitable, the Company shall cause certificates for such shares to be delivered without such legend.

Article 9

Deferred Stock and Restricted Stock Units

9.1 Grant of Deferred Stock and Restricted Stock Units. Subject to and consistent with the provisions of the Plan, the Committee, at any time and from time to time, may grant Deferred Stock and/or Restricted Stock Units to any Eligible Person, in such amount and upon such terms as the Committee shall determine. Deferred Stock must conform in form and substance with applicable regulations promulgated under Section 409A of the Code and with Article 14 to ensure that the Grantee is not subjected to tax penalties under Section 409A of the Code with respect to such Deferred Stock.

9.2 Vesting and Delivery .

(a) Delivery of Shares subject to a Deferred Stock grant will occur upon expiration of the deferral period or upon the occurrence of one or more of the distribution events described in Section 409A of the Code as specified by the Committee in the Grantee's Award Agreement for the Award of Deferred Stock. An Award of Deferred Stock may be subject to such substantial risk of forfeiture conditions as the Committee may impose, which conditions may lapse at such times or upon the achievement of such objectives as the Committee shall determine at the time of grant or thereafter. Unless otherwise determined by the Committee, to the extent that the Grantee has a Termination of Service while the Deferred Stock remains subject to a substantial risk of forfeiture, such Deferred Shares shall be forfeited, unless the Committee determines that such substantial risk of forfeiture shall lapse in the event of the Grantee's Termination of Service due to Retirement, death, Disability, or involuntary termination by the Company or an Affiliate without Cause or termination by the Grantee for Good Reason (provided such accelerated exercisability or vesting does not violate Code Section 409A).

(b) Unless specified otherwise by the Committee in the Grantee's Award Agreement for the Award of Restricted Stock Units, delivery of Shares subject to a grant of Restricted Stock Units shall occur no later than the 15th day of the third month following the end of the taxable year of the Grantee or the fiscal year of the Company in which the Grantee's rights under such Restricted Stock Units are no longer subject to a substantial risk of forfeiture as defined in final regulations under Section 409A of the Code. Unless otherwise determined by the Committee, to the extent that the Grantee has a Termination of Service while the Restricted Stock Units remain subject to a substantial risk of forfeiture, such Restricted Stock Units shall be forfeited, unless the Committee determines that such substantial risk of forfeiture shall lapse in the event of the Grantee's Termination of Service due to Retirement, death, Disability, or involuntary termination by the Company or an Affiliate without Cause or termination by the Grantee for Good Reason; (provided such accelerated exercisability or vesting does not violate Code Section 409A).

9.3 Voting and Dividend Equivalent Rights Attributable to Deferred Stock and Restricted Stock Units. A Grantee awarded Deferred Stock or Restricted Stock Units will have no voting rights with respect to such Deferred Stock or Restricted Stock Units prior to the delivery of Shares in settlement of such Deferred Stock and/or Restricted Stock Units. Unless the Committee determines and sets forth in the Award Agreement that a Grantee will not be entitled to receive any such Dividend Equivalents with respect to such Deferred Stock or Restricted Stock Units, the Grantee will have the right to receive Dividend Equivalents in respect of Deferred Stock and/or Restricted Stock Units, which Dividend Equivalents shall be either deemed reinvested in additional Shares of Deferred Stock or Restricted Stock Units, as applicable, which shall remain subject to the same forfeiture conditions applicable to the Deferred Stock or Restricted Stock Units to which such Dividend Equivalents relate, or paid in cash if and at the time the Deferred Stock or Restricted Stock Units are no longer subject to forfeiture and deliverable, as the Committee shall set forth in the Award Agreement. No Dividend Equivalents may be paid on Deferred Stock or Restricted Stock Units that are Forfeited.

Article 10

Performance Units and Performance Shares

10.1 Grant of Performance Units and Performance Shares. Subject to and consistent with the provisions of the Plan, Performance Units or Performance Shares may be granted to any Eligible Person in such amounts and upon such terms, and at any time and from time to time, as shall be determined by the Committee.

10.2 Value/Performance Goals. The Committee shall set Performance Measures in its discretion which, depending on the extent to which they are met, will determine the number or value of Performance Units or Performance Shares that will be paid to the Grantee.

10.3 Earning of Performance Units and Performance Shares. After the applicable Performance

Period has ended, the holder of Performance Units or Performance Shares shall be entitled to payment based on the level of achievement of performance goals set by the Committee. At the discretion of the Committee, the settlement of Performance Units or Performance Shares may be in cash, Shares of equivalent value, or in some combination thereof, as set forth in the Award Agreement provided that if it is to be in Shares, issuance of the Shares shall be subject to payment by the Grantee in cash of the nominal value for each Share so issued to the extent required by Applicable Law.

If a Grantee is promoted, demoted or transferred to a different business unit of the Company during a Performance Period, then, to the extent the Committee determines that the Award, the performance goals, or the Performance Period are no longer appropriate, the Committee may adjust, change, eliminate or cancel the Award, the performance goals, or the applicable Performance Period, as it deems appropriate in order to make them appropriate and comparable to the initial Award, the performance goals, or the Performance Period.

Unless the Committee determines and sets forth in the Award Agreement that a Grantee will not be entitled to vote or receive any dividends or Dividend Equivalents declared with respect to Shares deliverable in connection with grants of Performance Units or Performance Shares, the Grantee shall have the right to vote the Shares in respect of such Performance Shares and the right to receive any dividends or Dividend Equivalents in respect of such Performance Units and Performance Shares, which dividends and Dividend Equivalents shall either be deemed reinvested in additional Shares of Performance Units or Performance Shares, as applicable, which shall remain subject to the same forfeiture conditions applicable to the Performance Units or Performance Shares to which such dividends and Dividend Equivalents relate, or paid in cash if and at the time the Performance Units or Performance Shares are payable and/or no longer subject to forfeiture, as the Committee shall set forth in the Award Agreement. No dividends or Dividend Equivalents may be paid on Performance Units or Performance Shares that are forfeited.

Article 11

Dividend Equivalents

The Committee is authorized to grant Awards of Dividend Equivalents alone or in conjunction with other Awards; provided, however, that no Dividend Equivalents may be granted in conjunction with any grant of Options or SARs, and no Dividend Equivalents may be paid on any Awards unless and until the Awards become vested, nonforfeitable and/or payable. The Committee may provide that Dividend Equivalents not paid in connection with an Award shall either be (i) paid or distributed in cash when the Dividend Equivalents or Awards to which such Dividend Equivalents relate become vested, nonforfeitable and/or payable or (ii) deemed to have been reinvested in additional Dividends Equivalents or Awards.

Article 12

Other Stock-Based Awards

The Committee is authorized, subject to limitations under Applicable Law, to grant such other Awards that are denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, Shares, as deemed by the Committee to be consistent with the purposes of the Plan, including Shares awarded which are not subject to any restrictions or conditions, convertible or exchangeable debt securities or other rights convertible or exchangeable into Shares, and Awards valued by reference to the value of securities of or the performance of specified Affiliates. Subject to and consistent with the provisions of the Plan, the Committee shall determine the terms and conditions of such Awards. Except as provided by the Committee, Shares delivered pursuant to a purchase right granted under this Article 12 shall be purchased for such consideration, paid for by such methods and in such forms, including cash, Shares, outstanding Awards or other property, as the Committee shall determine.

Article 13

Non-Employee Director Awards

Subject to the terms of the Plan, the Committee may grant Awards to any Non-Employee Director, in such amount and upon such terms and at any time and from time to time as shall be determined by the Committee in its sole discretion. Except as otherwise provided in Section 5.6(b), a Non-Employee Director may not be granted Awards during any single Fiscal Year that, taken together with any cash fees paid to such Non-Employee Director during such Fiscal Year in respect of the Non-Employee Director's service as a member of the Board during such Fiscal Year, exceeds \$250,000 in total value (calculating the value of any such Awards based on the grant date fair value of such Awards for financial accounting purposes).

Article 14

Amendment, Modification, and Termination

14.1 Amendment, Modification, and Termination. Subject to Section 14.2, the Board may, at any time and from time to time, alter, amend, suspend, discontinue or terminate the Plan in whole or in part without the approval of the Company's stockholders, except that (a) any amendment or alteration shall be subject to the approval of the Company's stockholders if such stockholder approval is required by any Applicable Law, and (b) the Board may otherwise, in its discretion, determine to submit other such amendments or alterations to stockholders for approval.

14.2 Awards Previously Granted. Except as otherwise specifically permitted in the Plan or an Award Agreement, no termination, amendment, or modification of the Plan shall materially adversely affect in any material way any Award previously granted under the Plan, without the written consent of the Grantee of such Award. Notwithstanding the foregoing, the Board reserves the authority to terminate a

409A Award granted under the Plan in return for payment of the vested portion of the 409A Award provided the termination and payment satisfies the rules under Section 409A of the Code.

Article 15

Compliance with Code Section 409A

15.1 Awards Subject to Code Section 409A. The provisions of this Article 15 and Section 409A of the Code shall apply to any Award or portion thereof that is or becomes deferred compensation subject to Code Section 409A (a "409A Award"), notwithstanding any provision to the contrary contained in the Plan or the Award Agreement applicable to such Award to the extent required for the Award to comply with Section 409A of the Code.

15.2 Distributions. Except as otherwise permitted or required by Code Section 409A, no distribution in settlement of a 409A Award may commence earlier than (i) Separation from Service; (ii) the date the Grantee becomes Disabled (as defined in Section 2.26(b)); (iii) the date of the Grantee's death; (iv) a specified time (or pursuant to a fixed schedule) that is either (a) specified by the Committee upon the grant of the Award and set forth in the Award Agreement or (b) specified by the Grantee in an Election complying with the requirements of Section 409A of the Code; or (vi) a change in control of the Company within the meaning of Treasury Regulation Section 1.409A-3(h)(5).

15.3 Six-Month Delay. Notwithstanding anything herein or in any Award Agreement or election to the contrary, to the extent that distribution of a 409A Award is triggered by a Grantee's Separation from Service, if the Grantee is then a "specified employee" (as defined in Treasury Regulation Section 1.409A-1(i)), no distribution may be made before the date which is six (6) months after such Grantee's Separation from Service, or, if earlier, the date of the Grantee's death, to the extent required to comply with Code Section 409A.

15.4 Short-Term Deferral. If an Award Agreement does not specify a payment date, payment of the Award will be made no later than the 15th day of the third month following the end of the taxable year of the Grantee during which the Grantee's right to payment is no longer subject to a substantial risk of forfeiture under Section 409A of the Code. All rights to payments and benefits under an Award shall be

treated as rights to receive a series of separate payments and benefits to the fullest extent allowed by Section 409A of the Code.

Article 16 Withholding

16.1 Required Withholding .

(a) The Committee in its sole discretion may provide that when taxes are to be withheld in connection with the exercise of an Option or SAR, or upon the lapse of restrictions on Restricted Shares, or upon the transfer of Shares, or upon payment of any other benefit or right under this Plan (the date on which such exercise occurs or such restrictions lapse or such payment of any other benefit or right occurs hereinafter referred to as the "Tax Date"), the Grantee may elect to make payment for the withholding of federal, state and local taxes, including Social Security and Medicare ("FICA") taxes by one or a combination of the following methods:

- (i) payment of an amount in cash equal to the amount to be withheld (including cash obtained through the sale of the Shares acquired on exercise of an Option or SAR, upon the lapse of restrictions on Restricted Shares, or upon the transfer of Shares, through a broker-dealer to whom the Grantee has submitted irrevocable instructions to deliver promptly to the Company, the amount to be withheld);
- (ii) delivering part or all of the amount to be withheld in the form of Shares valued at their Fair Market Value on the Tax Date;
- (iii) requesting the Company to withhold from those Shares that would otherwise be received upon exercise of the Option or SAR, upon the lapse of restrictions on Restricted Stock, or upon the transfer of Shares, a number of Shares having a Fair Market Value on the Tax Date equal to the amount to be withheld; or
- (iv) withholding from any other compensation otherwise due to the Grantee.

The Committee in its sole discretion may provide that the maximum amount of tax withholding upon exercise of an Option or SAR, upon the lapse of restrictions on Restricted Shares, or upon the transfer of Shares, to be satisfied by withholding Shares upon exercise of such Option or SAR, upon the lapse of restrictions on Restricted Shares, or upon the transfer of Shares, pursuant to clause (iii) above shall not exceed the minimum amount of taxes, including FICA taxes, required to be withheld under federal, state and local law that will not result in adverse financial accounting consequences with respect to such Awards and is permitted under applicable withholding rules promulgated by the Internal Revenue Service or another applicable governmental entity. An election by Grantee under this subsection is irrevocable. Any fractional share amount and any additional withholding not paid by the withholding or surrender of Shares must be paid in cash. If no timely election is made, the Grantee must deliver cash to satisfy all tax withholding requirements.

(b) Notwithstanding the foregoing, any Grantee who makes a Disqualifying Disposition or an election under Section 83(b) of the Code shall remit to the Company an amount, if any, sufficient to satisfy all resulting tax withholding requirements in the same manner as set forth in subsection (a) (other than (a)(iii) above).

16.2 Notification under Code Section 83(b). If the Grantee, in connection with the exercise of any Option, or the grant of Restricted Shares, makes the election permitted under Section 83(b) of the Code to include in such Grantee's gross income in the year of transfer the amounts specified in Section 83(b) of

the Code, then such Grantee shall notify the Company of such election within 10 days of filing the notice of the election with the Internal Revenue Service, in addition to any filing and notification required pursuant to regulations issued under Section 83(b) of the Code. The Committee may, in connection with the grant of an Award or at any time thereafter, prohibit a Grantee from making the election described above.

Article 17 Limitation on Benefits

Despite any other provisions of this Plan to the contrary, if the receipt of any payments or benefits under this Plan, alone or in combination with any other payments or distributions under any other plan, agreement or arrangement, would subject a Grantee to tax under Code Section 4999, the Committee may determine whether some amount of such payments or benefits would meet the definition of a "Reduced Amount." If the Committee determines that there is a Reduced Amount, the total payments or benefits to the Grantee under all Awards must be reduced to such Reduced Amount, but not below zero, with the amounts to be reduced so as to maximize the aggregate Net After Tax Receipts to the Grantee; provided, that, notwithstanding the foregoing, payments or benefits that are not subject to Section 409A of the Code shall be reduced before any payment or benefits that are subject to Section 409A of the Code and all such

reductions shall comply with Section 409A of the Code with respect to any amounts subject to Section 409A of the Code. If the Committee determines that the benefits and payments must be reduced to the Reduced Amount, the Company must promptly notify the Grantee of that determination, with a copy of the detailed calculations by the Committee. All determinations of the Committee under this Article 17 are final, conclusive and binding upon the Company and the Grantee. It is the intention of the Company and the Grantee to reduce the payments under this Plan only if the aggregate Net After Tax Receipts to the Grantee would thereby be increased. As result of the uncertainty in the application of Code Section 4999 at the time of the initial determination by the Committee under this Article 17, however, it is possible that amounts will have been paid under the Plan to or for the benefit of a Grantee which should not have been so paid ("Overpayment") or that additional amounts which will not have been paid under the Plan to or for the benefit of a Grantee could have been so paid ("Underpayment"), in each case consistent with the calculation of the Reduced Amount. If the Committee, based either upon the assertion of a deficiency by the Internal Revenue Service against the Company or the Grantee, which the Committee believes has a high probability of success, or controlling precedent or other substantial authority, determines that an Overpayment has been made, any such Overpayment must be treated for all purposes as a loan, to the extent permitted by Applicable Law, which the Grantee must repay to the Company together with interest at the applicable federal rate under Code Section 7872(f)(2); provided, however, that no such loan may be deemed to have been made and no amount shall be payable by the Grantee to the Company if and to the extent such deemed loan and payment would not either reduce the amount on which the Grantee is subject to tax under Code Sections 1, 3101 or 4999 or generate a refund of such taxes. If the Committee, based upon controlling precedent or other substantial authority, determines that an Underpayment has occurred, the Committee must promptly notify the Company of the amount of the Underpayment, which then shall be paid promptly to the Grantee but no later than the end of the Grantee's taxable year next following the Grantee's taxable year in which the determination is made that the underpayment has occurred. For purposes of this Article 17,

(i) "Net After Tax Receipt" means the Present Value of payments and benefits under this Plan and any other plan, agreement or arrangement, net of all taxes imposed on Grantee with respect thereto under Code Sections 1, 3101 and 4999, determined by applying the highest marginal rate under Code Section 1 which applies to the Grantee's taxable income for the applicable taxable year; (ii) "Present Value" means the value determined in accordance with Code Section 280G(d)(4) and (iii) "Reduced Amount" means the smallest aggregate amount of all payments and benefits under this Plan and any other plan, agreement or arrangement, which (a) is less than the sum of all such payments and benefits under this Plan and any other plan, agreement or arrangement, and (b) results in aggregate Net After Tax Receipts which are equal to or greater than the Net After Tax Receipts which would result if the aggregate payments and benefits under this Plan and any other plan, agreement or arrangement, were any other amount less than the sum of all payments and benefits to be made under this Plan. Any reduction of payments or benefits pursuant to this Article 17 shall be made in the following order (first against any such items that are not subject to Section

409A of the Code): (i) first against any cash compensation in order of the latest amounts to be paid and otherwise on a pro rata basis, (ii) second against any benefits otherwise payable in order of the latest amounts to be delivered and otherwise on a pro rata basis; and (iii) third against any equity or related awards in order of the latest amounts to be settled and otherwise on a pro rata basis.

Article 18

Additional Provisions

18.1 **Successors.** All obligations of the Company under the Plan with respect to Awards granted hereunder shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise of all or substantially all of the business and/or assets of the Company.

18.2 **Severability.** If any part of the Plan is declared by any court or governmental authority to be unlawful or invalid, such unlawfulness or invalidity shall not invalidate any other part of the Plan. Any

Section or part of a Section so declared to be unlawful or invalid shall, if possible, be construed in a manner which will give effect to the terms of such Section or part of a Section to the fullest extent possible while remaining lawful and valid.

18.3 **Requirements of Law.** The granting of Awards and the delivery of Shares under the Plan shall be subject to all Applicable Laws, rules, and regulations, and to such approvals by any governmental agencies or Nasdaq and any other stock exchange or automated quotation system upon which the Shares are listed or quoted as may be required. Notwithstanding any provision of the Plan or any Award, Grantees shall not be entitled to exercise, or receive benefits under, any Award, and the Company (and any Affiliate) shall not be obligated to deliver any Shares or deliver benefits to a Grantee, if such exercise or delivery would constitute a violation by the Grantee or the Company of any Applicable Law or regulation.

18.4 Securities Law Compliance .

(a) If the Committee deems it necessary to comply with any Applicable Law, the Committee may impose any restriction on Awards or Shares acquired pursuant to Awards under the Plan as it may deem advisable. In addition, if requested by the Company and any underwriter engaged by the Company, Shares acquired pursuant to Awards may not be sold or otherwise transferred or disposed of for such period following the date of the final prospectus or prospectus supplement relating to an underwritten public offering as the Company or such underwriter shall specify reasonably and in good faith. All certificates for Shares delivered under the Plan pursuant to any Award or the exercise thereof shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations and other requirements of the SEC, Nasdaq and any other stock exchange or automated quotation system upon which the Shares are listed or quoted, any applicable securities law, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions. If so requested by the Company, the Grantee shall make a written representation to the Company that he or she will not sell or offer to sell any Shares unless a registration statement shall be in effect with respect to such Shares under the Securities Act and any applicable state securities law or unless he or she shall have furnished to the Company, in form and substance satisfactory to the Company, that such registration is not required.

(b) If the Committee determines that the exercise or non-forfeiture of, or delivery of benefits pursuant to, any Award would violate any Applicable Law or result in the imposition of excise taxes on the Company or its Affiliates under the statutes, rules or regulations of any applicable jurisdiction, then the Committee may postpone any such exercise, non-forfeiture or delivery, as applicable, but the Company shall use all reasonable efforts to cause such exercise, non-forfeiture or delivery to comply with all such provisions at the earliest practicable date.

(c) The Committee may require each Grantee receiving Shares pursuant to an Award under the Plan to represent to and agree with the Company in writing that the Grantee is acquiring the Shares without a view to distribution thereof. In addition to any legend required by the Plan, the certificates for such Shares may include any legend that the Committee deems appropriate to reflect any restrictions on transfer. All certificates for Shares delivered under the Plan shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations and other requirements of the SEC, Nasdaq and any other stock exchange or automated quotation system upon which the Shares are listed or quoted, any applicable federal or state securities law, and any applicable corporate law, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

(d) A Grantee shall be required to supply the Company with certificates, representations and information that the Company requests and otherwise cooperate with the Company in obtaining any listing, registration, qualification, exemption, consent or approval the Company deems necessary or appropriate.

18.5 Awards Subject to Share Retention Guidelines and Claw-Back Policies. Notwithstanding any provisions herein to the contrary, (i) Shares acquired by a Grantee under the Plan upon the exercise, payment or settlement of an Award shall be subject to the terms of any Share retention guidelines currently in effect or subsequently adopted by the Board and (ii) all Awards granted hereunder shall be subject to the terms of any recoupment policy currently in effect or subsequently adopted by the Board to implement Section 304 of Sarbanes-Oxley, Dodd-Frank or Section 10D of the Exchange Act (or with any amendment or modification of such recoupment policy adopted by the Board) to the extent that such Award (whether or not previously exercised or settled) or the value of such Award is required to be returned to the Company pursuant to the terms of such recoupment policy.

18.6 No Rights as a Stockholder. Unless otherwise determined by the Committee and set forth in the Award Agreement, no Grantee shall have any rights as a stockholder of the Company with respect to the Shares (other than Restricted Shares) which may be deliverable upon exercise or payment of such Award until such Shares have been delivered to him or her. Restricted Shares, whether held by a Grantee or in escrow by the Secretary of the Company, shall confer on the Grantee all rights of a stockholder of the Company, except as otherwise provided in the Plan or Award Agreement. At the time of grant of an Award, the Committee will require the payment of cash dividends thereon to be deferred and, if the Committee so determines, reinvested in additional Awards. Stock dividends and deferred cash dividends issued with respect to Awards shall be subject to the same restrictions and other terms as apply to the Awards with respect to which such dividends are issued. The Committee may in its discretion provide for payment of interest on deferred cash dividends.

18.7 Employee Status. If the terms of any Award provide that it may be exercised or paid only during employment or continued service or within a specified period of time after termination of employment or continued service, the Committee may decide to what extent leaves of absence for governmental or military service, illness, temporary disability, or other reasons shall not be deemed interruptions of continuous employment or service. For purposes of the Plan, employment and continued service shall be deemed to exist between the Grantee and the Company and/or an Affiliate if, at the time of the determination, the Grantee is a director, officer, employee, consultant or advisor of the Company or an Affiliate. A Grantee on military leave, sick leave or other bona fide leave of absence shall continue to be considered an employee for purposes of the Plan during such leave if the period of leave does not exceed three months, or, if longer, so long as the individual's right to re-employment with the Company or any of its Affiliates is guaranteed either by statute, agreement or contract. If the period of leave exceeds three months, and the individual's right to re-employment is not guaranteed by statute, agreement or contract, the employment shall be deemed to be terminated on the first day after the end of such three-month period. Except as may otherwise be expressly provided in an Agreement, Awards granted to a director, officer, employee, consultant or adviser shall not be affected by any change in the status of the Grantee so long as

the Grantee continues to be a director, officer, employee, consultant or advisor to the Company or any of its Affiliates (regardless of having changed from one to the other or having been transferred from one entity to another). The Grantee's employment or continued service shall not be considered interrupted in the event the Committee, in its discretion and as specified at or prior to such occurrence, determines there is no interruption in the case of a spin-off, sale or disposition of the Grantee's employer from the Company or an Affiliate, except that if the Committee does not otherwise specify such at or prior to such occurrence, the Grantee will be deemed to have a termination of employment or continuous service to the extent the Affiliate that employs the Grantee is no longer the Company or an entity that qualifies as an Affiliate. With respect to any Award constituting deferred compensation with the meaning of Code Section 409A, nothing in this Section 18.7 shall be interpreted to modify the definition of Separation from Service.

18.8 Nature of Payments . Unless otherwise specified in the Award Agreement, Awards shall be special incentive payments to the Grantee and shall not be taken into account in computing the amount of salary or compensation of the Grantee for purposes of determining any pension, retirement, death or other benefit under (a) any pension, retirement, profit sharing, bonus, insurance or other employee benefit plan of the Company or any Affiliate, except as such plan shall otherwise expressly provide, or (b) any agreement between (i) the Company or any Affiliate and (ii) the Grantee, except as such agreement shall otherwise expressly provide.

18.9 Non-Exclusivity of Plan. Neither the adoption of the Plan by the Board nor its submission to the stockholders of the Company for approval shall be construed as creating any limitations on the power of the Board to adopt such other compensatory arrangements for employees or Non-Employee Directors as it may deem desirable.

18.10 Governing Law. The Plan, and all agreements hereunder, shall be construed in accordance with and governed by the laws of the State of Delaware, other than its laws respecting choice of law, to the extent not preempted by federal law.

18.11 Jurisdiction; Waiver of Jury Trial . Any suit, action or proceeding with respect to the Plan or any Award, or any judgment entered by any court of competent jurisdiction in respect of any thereof, shall be resolved only in the courts of the State of Delaware or the United States District Court for the State of Delaware and the appellate courts having jurisdiction of appeals in such courts. In that context, and without limiting the generality of the foregoing, the Company and each Grantee shall irrevocably and unconditionally (a) submit in any proceeding relating to the Plan or any Award Agreement, or for the recognition and enforcement of any judgment in respect thereof (a "Proceeding"), to the exclusive jurisdiction of the courts of the State of Delaware, the court of the United States of America for the State of Delaware, and appellate courts having jurisdiction of appeals from any of the foregoing, and agree that all claims in respect of any such Proceeding shall be heard and determined in such Delaware State court or, to the extent permitted by law, in such federal court, (b) consent that any such Proceeding may and shall be brought in such courts and waives any objection that the Company and each Grantee may now or thereafter have to the venue or jurisdiction of any such Proceeding in any such court or that such Proceeding was brought in an inconvenient court and agree not to plead or claim the same, (c) waive all right to trial by jury in any Proceeding (whether based on contract, tort or otherwise) arising out of or relating to the Plan or any Award Agreement, (d) agree that service of process in any such Proceeding may be effected by mailing a copy of such process by registered or certified mail (or any substantially similar form of mail), postage prepaid, to such party, in the case of a Grantee, at the Grantee's address shown in the books and records of the Company or, in the case of the Company, at the Company's principal offices, attention General Counsel, and (e) agree that nothing in the Plan shall affect the right to effect service of process in any other manner permitted by the laws of the State of Delaware.

18.12 Unfunded Status of Awards; Creation of Trusts . The Plan is intended to constitute an "unfunded" plan for incentive and deferred compensation. With respect to any payments not yet made to a Grantee pursuant to an Award, nothing contained in the Plan or any Award Agreement shall give any such

Grantee any rights that are greater than those of a general creditor of the Company; provided, however, that the Committee may authorize the creation of trusts or make other arrangements to meet the Company's obligations under the Plan to deliver cash, Shares or other property pursuant to any Award which trusts or other arrangements shall be consistent with the "unfunded" status of the Plan unless the Committee otherwise determines.

18.13Participation. No employee or officer shall have the right to be selected to receive an Award under this Plan or, having been so selected, to be selected to receive a future Award.

18.14Military Service . To the extent required by Applicable Law, Awards shall be administered in accordance with Section 414(u) of the Code and the Uniformed Services Employment and Reemployment Rights Act of 1994.

18.15Construction . The following rules of construction will apply to the Plan: (a) the word "or" is disjunctive but not necessarily exclusive, and (b) words in the singular include the plural and words in the plural include the singular.

18.16Other Benefits . No Award granted or paid out under the Plan shall be deemed compensation for purposes of computing benefits under any retirement plan of the Company or its Affiliates nor affect any benefit under any other benefit plan now or subsequently in effect under which the availability or amount of benefits is related to the level of compensation unless such retirement or other benefit specifically provides that an Award shall be counted as compensation for purposes of such plan.

18.17Death/Disability. The Committee may in its discretion require the transferee of a Grantee to supply it with written notice of the Grantee's death or Disability and to supply it with a copy of the will (in the case of the Grantee's death) or such other evidence as the Committee deems necessary to establish the validity of the transfer of an Award. The Committee may also require that the agreement of the transferee to be bound by all of the terms and conditions of the Plan and the particular Award.

18.18Headings. The headings of articles and sections are included solely for convenience of reference, and if there is any conflict between such headings and the text of this Plan, the text shall control.

18.19Obligations . Unless otherwise specified in the Award Agreement, the obligation to deliver, pay or transfer any amount of money or other property pursuant to Awards under this Plan shall be the sole obligation of a Grantee's employer; provided that the obligation to deliver or transfer any Shares pursuant to Awards under this Plan shall be the sole obligation of the Company.

18.20No Right to Continue in Service or Employment. Nothing in the Plan or any Award Agreement shall confer upon any Non-Employee Director the right to continue to serve as a director of the Company. Nothing contained in the Plan or any Agreement shall confer upon any Grantee any right with respect to the continuation of employment or service by the Company or any Affiliate or interfere in any way with the right of the Company or any Affiliate, subject to the terms of any separate employment agreement to the contrary, at any time to terminate such employment or service or to increase or decrease the compensation of the Grantee.

18.21 Payment on Behalf of Grantee or Beneficiary .

(a)If the Grantee is incompetent to handle Grantee's affairs at the time the Grantee is eligible to receive a payment from the Plan, the Committee will make payment to the Grantee's court-appointed personal representative or, if none, the Committee, in its sole discretion, may make payment to the Grantee's duly appointed guardian, legal representative, next-of-kin or attorney-in- fact for the benefit of the Grantee.

(b)If the Beneficiary of a deceased Grantee is a minor or is legally incompetent, the

Committee will make payment to the Beneficiary's court-appointed guardian or personal representative or to a trust established for the benefit of the Beneficiary, or if no such guardian, representative or trust exists, the Committee, in its sole discretion, may make payment to the Beneficiary's surviving parent or his or her next-of-kin for the benefit of the Beneficiary.

(c) If the Committee for any reason considers it improper to direct any payment as specified in this Section 18.21, the Committee may request a court of appropriate jurisdiction to determine the appropriate payee.

(d) Any payment made by the Committee pursuant to this Section 18.21 shall be in full satisfaction of all liability of the Plan, the Company and its Affiliates with respect to any benefit due a Grantee or a Grantee's Beneficiary under this Plan.

18.22 Data Privacy. As a condition for receiving an Award, each Grantee explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of personal data as described in this Section by and among the Company and its Affiliates exclusively for implementing, administering and managing the Grantee's participation in the Plan. The Company and its Affiliates may hold certain personal information about a Grantee, including the Grantee's name, address and telephone number; birthdate; social security, insurance number or other identification number; salary; nationality; job title(s); any Shares held in the Company or its Affiliates; and Award details, to implement, manage and administer the Plan and Awards (the "Data"). The Company and its Affiliates may transfer the Data amongst themselves as necessary to implement, administer and manage a Grantee's participation in the Plan, and the Company and its Affiliates may transfer the Data to third parties assisting the Company with Plan implementation, administration and management. These recipients may be located in the Grantee's country, or elsewhere, and the Grantee's country may have different data privacy laws and protections than the recipients' country. By accepting an Award, each Grantee authorizes such recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, to implement, administer and manage the Grantee's participation in the Plan, including any required Data transfer to a broker or other third party with whom the Company or the Grantee may elect to deposit any Shares. The Data related to a Grantee will be held only as long as necessary to implement, administer, and manage the Grantee's participation in the Plan. A Grantee may, at any time, view the Data that the Company holds regarding such Grantee, request additional information about the storage and processing of the Data regarding such Grantee, recommend any necessary corrections to the Data regarding the Grantee or refuse or withdraw the consents in this Section 18.22 in writing, without cost, by contacting the local human resources representative. The Company may cancel Grantee's ability to participate in the Plan and, in the Committee's discretion, the Grantee may forfeit any outstanding Awards if the Grantee refuses or withdraws the consents in this Section 18.22. For more information on the consequences of refusing or withdrawing consent, Grantees may contact their local human resources representative.

18.23 Miscellaneous .

(a) No person shall have any claim or right to receive an Award hereunder. The Committee's granting of an Award to a Grantee at any time shall neither require the Committee to grant any other Award to such Grantee or other person at any time or preclude the Committee from making subsequent grants to such Grantee or any other person.

(b) Nothing contained herein prohibits the Grantee from: (1) reporting possible violations of federal law or regulations, including any possible securities laws violations, to any governmental agency or entity; (2) making any other disclosures that are protected under the whistleblower provisions of federal law or regulations; or (3) otherwise fully participating in any federal whistleblower programs, including but not limited to any such programs managed by the SEC. The Grantee does not need prior authorization from the Company to make any such reports or disclosures, and is not required to notify the Company about such disclosures.

(c) Agreements evidencing Awards under the Plan shall contain such other terms and conditions, not inconsistent with the Plan, as the Committee may determine in its sole discretion, including penalties for the commission of competitive acts or other actions detrimental to the Company. Notwithstanding any other provision hereof, the Committee shall have the right at any time to deny or delay a Grantee's exercise of Options or the settlement of an Award if such Grantee is reasonably believed by the Committee (i) to be engaged in material conduct adversely affecting the Company or (ii) to be contemplating such conduct, unless and until the Committee shall have received reasonable assurance that the Grantee is not engaged in, and is not contemplating, such material conduct adverse to the interests of the Company.

(d) Grantees are and at all times shall remain subject to the securities trading policies adopted by the Company from time to time throughout the period of time during which they may exercise Options, SARs or sell Shares acquired pursuant to the Plan.

(e) Notwithstanding any other provision of this Plan, (i) the Company shall not be obliged to issue any shares pursuant to an Award unless at least the par value of such newly issued share has been fully paid in advance to the extent required by Applicable Law (which requirement may mean the holder of an Award is obliged to make such payment) and (ii) the Company shall not be obliged to issue or deliver any shares in satisfaction of Awards until all legal and regulatory requirements associated with such issue or delivery have been complied with to the satisfaction of the Committee.

(f) The Committee has no obligation to search for the whereabouts of any Grantee or Beneficiary if the location of such Grantee or Beneficiary are not made known to the Committee.

RMC Credit Facility LLC
4100 MacArthur Blvd, Suite 100
Newport Beach, CA 92660

May 15, 2025

Rocky Mountain Chocolate Factory, Inc. 265 Turner Drive
Durango, CO 81303 Dear Jeff and Carrie:

We have learned of the following breach of the terms as of February 25, 2025 of the Credit Agreement dated September 20, 2025 between Rocky Mountain Chocolate Factory, Inc. and RMC Credit Facility LLC:

- I) SECTION 4.9 (a): Total liabilities divided by Tangible Net Worth not greater than 2.0 to 1.0 at each fiscal quarter end, with "Total Liabilities" defined as the aggregate of current liabilities and non-current liabilities less subordinated debt, and with "Tangible Net Worth" defined as the aggregate of total stockholders equity plus subordinated debt less any intangible assets; notwithstanding any language in this agreement to the contrary, the Total liabilities divided by Tangible Net Worth Ratio shall be calculated using generally accepted accounting principles.
- 2) SECTION 5.2: CAPITAL EXPENDITURES. Make any additional investment in any fixed or capital assets (including assets leased under capital leases) in any fiscal year in excess of an aggregate of \$3,500,000.00.

Subject to the terms and conditions set forth herein, RMC Credit Facility LLC has decided to waive its default rights with respect to the breach of the terms as described above. This waiver applies only to this specific instance described above. It is not a waiver of any subsequent breach of the same provisions of the Credit Agreement, nor is it a waiver of any breach of any other provision of the Credit Agreement.

Except as expressly stated in this letter, RMC Credit Facility LLC reserves all of the rights, powers and remedies available to RMC Credit Facility LLC under the Credit Agreement and any other contracts or instruments signed by representatives of Rocky Mountain Chocolate Factory, Inc.

Very truly yours,

Date: May 15, 2025

By: /s/ Steven L. Craig

SEPARATION AGREEMENT AND GENERAL RELEASE

This Separation Agreement and General Release (hereinafter "Agreement") is hereby entered into effective as of January 27, 2024 between ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. (hereinafter "the Company") and ROBERT J. SARLLS (hereinafter "Mr. Sarlls"), who are collectively referred to herein as the "Parties." As set forth in more detail below, by signing this Agreement, Mr. Sarlls understands that he, among other things, is giving up claims (both known and unknown) he might have against the Company, is releasing the Company from all liability, and is agreeing not to file a lawsuit of any kind against the Company. In consideration of the mutual promises contained herein, and other good and valuable consideration as hereinafter recited, the receipt and adequacy of which is hereby acknowledged, the Parties, intending to be legally bound, agree as follows:

1. Effective as of January 27, 2024, the Company has involuntarily terminated the employment of Mr. Sarlls without Cause (as defined in the employment agreement between the Company and Mr. Sarlls dated May 3, 2022) (the "Employment Agreement"). In accordance with the Employment Agreement, Mr. Sarlls hereby resigns from the Company's Board of Directors, and any positions held with any affiliates of the Company, effective as of January 27, 2024.

2. In full and complete settlement of these matters, the Company agrees to provide the following payments and benefits to Mr. Sarlls in accordance with the terms of the Employment Agreement:

(a) Base salary continuation for a period of fifteen (15) months on the Company's regular payroll schedule, commencing with the first payday following January 27, 2024 (i.e., February 6, 2024) and ending on April 29, 2025. As of January 27, 2024, Mr. Sarlls' annual base salary is \$390,000, and therefore, the gross amount of each salary continuation payment will be \$15,000. As set forth in the Employment Agreement, no payments of base salary will be made until April 2, 2024, which is the first payday occurring after the sixty (60)-day period following January 27, 2024. Payments of base salary that would have been made on the regular payroll schedule during this sixty (60) day period (gross amount of \$60,000) shall be made on April 2, 2024, along with the \$15,000 (gross amount) otherwise payable on that date. The total amount of the base salary continuation payments under this Section 2(a) is \$495,000.

(b) Accrued unused PTO in the gross amount of \$37,500 payable on the February 7, 2024 payday.

(c) If Mr. Sarlls elects COBRA health coverage continuation, the Company will reimburse Mr. Sarlls for, or pay directly, the premium charged for such coverage, until the earliest to occur of (i) January 27, 2025, (ii) the date on which Mr. Sarlls obtains health insurance coverage from another source, or (iii) the date on which Mr. Sarlls ceases to be eligible for COBRA health coverage continuation.

Mr. Sarlls agrees that he is not otherwise entitled to the payments and benefits described in Sections 2(a), and (c) above unless he signs this Agreement and does not revoke it within the revocation period described in Section 22. Mr. Sarlls further agrees that, except as provided in this Agreement, he is not entitled to any compensation, payments, reimbursement, equity, stock,

options, benefits or remuneration in any form from the Company or any Releasee (as defined below), including but not limited to any portion of the annual cash incentive award for the fiscal year ending February 29, 2024, and that he has forfeited all of his outstanding nonvested equity awards, which are as follows:

i. 11,528 Time-Vested Stock Options granted May 9, 2022. (A total of 27,668 Time-Vested Options were granted on this date, of which 16,140 have vested and remain exercisable in accordance with their terms, subject to the terms of the stock option agreement regarding expiration of unexercised vested stock options following termination of employment.)

ii. 27,130 Time-Vested Restricted Stock Units granted August 11, 2023.

iii. 42,391 Performance-Vested Restricted Stock Units granted August 11, 2023.

3. Mr. Sarlls waives any right to future employment with the Company or any of its parents, subsidiaries, affiliates, or successors. Mr. Sarlls further agrees never to apply for, seek, or pursue employment at, or election or appointment to the board of directors of, the Company or any such related entities, and agrees that the Company or such related entities has no obligation to consider any such application.

4. Mr. Sarlls agrees that upon the separation of his employment with the Company, he will surrender, to the best of his abilities, to the Company every item and every document that is the Company's property (including but not limited to keys, credit cards, records, computers, peripherals, computer files or storage media, notes, memoranda, models, inventory and equipment) or contains Company information, in whatever form. All of these materials are the sole and absolute property of the Company.

5. All reference requests from Mr. Sarlls's prospective employers shall be made in writing addressed to the attention of the Chair of the Company's Board of Directors, and shall include a written authorization signed by Mr. Sarlls for the release of the information. The Company will provide to prospective employers Mr. Sarlls's dates of employment, job title, and last annual compensation. Mr. Sarlls hereby acknowledges that the Confidential and Proprietary Information, Inventions Assignment, Restrictive Covenant and Arbitration Agreement between him and the Company shall remain in effect in accordance with its terms.

6. Mr. Sarlls will cooperate with any reasonable request by the Company in connection with any matter with which he was involved or any existing or potential claim, investigation, administrative proceeding, lawsuit or other legal or business matter that arose during his employment by the Company.

7. Mr. Sarlls agrees that, to the maximum extent permitted by law, and in consideration of the payments and consideration described herein, he will, and hereby does, forever and irrevocably release and discharge the Company, its officers, directors, employees, independent contractors, agents, affiliates, parents, subsidiaries, divisions, predecessors, employee benefit plans, purchasers, assigns, representatives, successors and successors in interest (herein

collectively referred to as "Releasees") from any and all claims, causes of action, damages of any kind, obligations, contracts, promises, expenses, costs, attorneys' fees, compensation, and liabilities, known or unknown, whatsoever which he now has, has had, or may have, whether the same be at law, in equity, or mixed, in any way arising from or relating to any act, occurrence, or transaction on or before the date of this Agreement, including without limitation his employment and separation of employment from the Company. This waiver and release does not apply to any claim that may arise after the date that Mr. Sarlls signs this Agreement. THIS IS A GENERAL RELEASE. Mr. Sarlls expressly acknowledges that this General Release includes, but is not limited to, Mr. Sarlls's intent to release the Company from any claim relating to his employment at the Company, including, but not limited to, tort and contract claims, wrongful discharge claims, pension claims, employee benefit claims, severance benefits, statutory claims, compensation claims, claims for damages, claims under any state, local or federal wage and hour law or wage payment or collection law, and claims of discrimination, retaliation or harassment based on age, race, color, sex, religion, handicap, disability, national origin, ancestry, citizenship, marital status, sexual orientation, genetic information or any other protected basis, or any other claim of employment discrimination, retaliation or harassment under the Age Discrimination In Employment Act (29 U.S.C. §§ 626 et seq., "ADEA"), Title VII of the Civil Rights Acts of 1964 and 1991 as amended (42 U.S.C. §§ 2000e et seq.), the Americans With Disabilities Act (42 U.S.C. §§ 12101 et m.), and any other law, statute, regulation or ordinance of any kind, including those prohibiting employment discrimination or governing employment. The Parties agree that this General Release provision, and the covenant not to sue provision below, survive and remain in full force and effect in the event the Company or any Releasee institutes an action or proceeding against Mr. Sarlls for breach of any provision of this Agreement.

8. Mr. Sarlls represents and agrees that he has not, by himself or on his behalf, instituted, prosecuted, filed, or processed any litigation, claims or proceedings against the Company or any Releasees. Mr. Sarlls agrees, to the maximum extent permitted by law, not to make or file any lawsuits, complaints, or other proceedings against the Company or any Releasee or to join in any such lawsuits, complaints, or other proceedings against the Company or Releasees concerning any matter relating to his employment with the Company or that arose on or prior to the date of this Agreement. Nothing in this Agreement prohibits Mr. Sarlls from filing a charge with any government administrative agency (such as the Equal Employment Opportunity Commission), or from testifying, assisting or participating in an investigation, hearing or proceeding conducted by such agency; however, Mr. Sarlls waives the right to receive any individualized relief, such as reinstatement, backpay, or other damages, in a lawsuit or administrative action brought by Mr. Sarlls or by any government agency on his behalf. Mr. Sarlls agrees that if there is any complaint filed in any court or arbitral forum which seeks reinstatement, damages or other remedies for Mr. Sarlls relating to any claim that is covered by this Agreement, Mr. Sarlls will immediately file a dismissal with prejudice of such claim or remedy.

9. Mr. Sarlls further agrees and covenants that, to the maximum extent permitted by law, he will not and has not, encourage or voluntarily assist or aid in any way others in making or filing any lawsuits, complaints, or other proceedings against the Company, or any other Releasee.

10. Nothing in this Agreement prevents Mr. Sarlls from discussing or disclosing information about unlawful acts in the workplace, such as harassment or discrimination or any other conduct that Mr. Sarlls has reason to believe is unlawful.

11.Mr. Sarlls acknowledges and declares that he has been fully compensated for all work performed and time he has worked while employed by the Company, and that he is not owed any compensation, wages, salary, payments, bonus, equity interest, remuneration or income from the Company of any kind, including, but not limited to amounts under his Employment Agreement with the Company, except as provided in this Agreement.

12.The Parties further agree that, in entering into this Agreement, the Company is expressly relying on the foregoing representations by Mr. Sarlls, and that Mr. Sarlls is expressly relying on the foregoing representations of the Company. The Parties further agree that the representations made by each party in the proceeding sections are admissions by each party and are admissible, if offered by the Company or Mr. Sarlls, as a sworn statement of fact by the Company or Mr. Sarlls in any proceeding between the Parties.

13. The Parties agree that the above-mentioned consideration is not to be construed as an admission of any wrongdoing or liability on the part of the either Party under any statute or otherwise, but that on the contrary, any such wrongdoing or liability is expressly denied by the Parties.

14. Mr. Sarlls agrees that neither this Agreement nor the negotiations in pursuance thereof shall be construed or interpreted to render Mr. Sarlls a prevailing party for any reason, including but not limited to an award of attorney's fees, expenses or costs under any statute or otherwise.

15.Mr. Sarlls agrees that, to the maximum extent permitted by law, the terms of this Agreement and the negotiations in pursuance thereof are strictly confidential and shall not be disclosed, and have not been disclosed, to any person or entity. Mr. Sarlls may disclose the Agreement to his attorneys, accountants and tax advisors who, as agents and representatives of Mr. Sarlls, also must keep the terms of this Agreement strictly confidential.

16.Mr. Sarlls agrees that, to the maximum extent permitted by law, he will not and has not, by any verbal, written or electronic expression or communication (including use of any social or professional networking websites and/or blogs), or by any deed or act of communication, disparage, criticize, condemn or impugn the Company or Releasees, or their reputation or character, or any of their actions, services, products, writings, policies, practices, procedures or advertisements.

17.Mr. Sarlls agrees that a violation or breach of his duties, obligations or covenants in this Agreement by Mr. Sarlls will support a cause of action for breach of contract, and will entitle the Company to recover damages flowing from such breach, specifically including, but not limited to, the recovery of any payments made to Mr. Sarlls under this Agreement, to stop any payments or obligations owing under this Agreement, to recover the costs and attorneys' fees the Company incurs to recover under this Section 17 and to obtain injunctive, monetary or other relief permitted by law. It is expressly agreed that the non-exclusive damages set forth above in this Section 17 in the event of a breach are not a penalty, but are fair and reasonable in light of the difficulty of proving prejudice to the Company in the event of such a breach.

18. The Parties further agree that this Agreement shall be binding upon and inure to the benefit of the personal representatives, heirs, executors, and administrators of Mr. Sarlls and the heirs, executors, administrators, affiliates, successors, predecessors, subsidiaries, divisions, officers, purchasers, agents, assigns, representatives, directors and employees of the Company, that this Agreement contains and comprises the entire agreement and understanding of the Parties, that there are no additional promises, contracts, terms or conditions between the Parties other than those contained herein, and that this Agreement shall not be modified except in writing signed by each of the Parties hereto.

19. The Parties agree that this Agreement and the rights and obligations hereunder shall be governed by, and construed in accordance with, the laws of the State of Colorado regardless of any principles of conflicts of laws or choice of laws of any jurisdiction. The Parties agree that the state courts of the State of Colorado and, if the jurisdictional prerequisites exist, the United States District Court for the District of Colorado, shall have sole and exclusive jurisdiction and venue to hear and determine any dispute or controversy arising under or concerning this Agreement. Mr. Sarlls and the Company hereby waive trial by jury as to any and all litigation arising out of and/or relating to this Agreement.

20. If any terms of the above provisions of this Agreement are found null, void or inoperative, for any reason, the remaining provisions will remain in full force and effect. The language of all parts of this Agreement shall in all cases be construed as a whole, according to its fair meaning, and not strictly for or against either of the Parties.

21. Mr. Sarlls understands that he has twenty-one (21) days from the date of his receipt of this Agreement, which was January 31, 2024, to consider his decision to sign it, and that he may unilaterally waive this period at his election. Mr. Sarlls's signature on this Agreement constitutes an express waiver of the twenty-one (21) day period if affixed prior to the expiration of that period. By signing this Agreement, Mr. Sarlls expressly acknowledges that his decision to sign this Agreement was knowing and voluntary and of his own free will. The Parties agree that any revisions or modifications to this Agreement, whether material or immaterial, will not and did not restart this time period.

22. Mr. Sarlls acknowledges that he may revoke this Agreement only as it pertains to claims under the ADEA for up to and including seven (7) days after his execution of this Agreement, and that the aspects of this Agreement regarding his release of claims under the ADEA shall not become effective until the expiration of seven (7) days from the date of his execution of this Agreement. This provision regarding revocation shall have no effect on the validity and enforceability of any other term, condition or provision of this Agreement, which becomes effective when signed. In the event that Mr. Sarlls revokes this Agreement as it pertains to claims under the ADEA, the Parties agree that, in lieu of the payments and benefits set forth in Sections 2(a) and (c) above, the Company will pay to Mr. Sarlls a lump sum of \$5,000.00 (Five Thousand Dollars), less all lawful deductions, the adequacy of which is hereby acknowledged. Mr. Sarlls accordingly agrees that, in the event he revokes this Agreement as it pertains to claims under the ADEA, all other provisions of this Agreement (including without limitation the release provisions in Section 7) are independently supported by adequate consideration and are fully enforceable. Mr. Sarlls expressly agrees that, in order to be effective, his revocation pursuant to this Section 22 must be in writing and must actually be received by Mr. Jeffrey R. Geygan, Chair of the Board of

Directors of the Company, by 5:00 p.m. Mountain Time on or before the seventh day following his execution of this Agreement.

23. The Parties agree that, to the extent that any provision of this Agreement is determined to be in violation of the Older Workers Benefit Protection Act ("OWBPA"), it should be severed from the Agreement or modified to comply with the OWBPA, without affecting the validity or enforceability of any of the other terms or provisions of the Agreement.

24. The Company hereby advises Mr. Sarlls to consult with an attorney prior to executing this Agreement.

25. Mr. Sarlls acknowledges, certifies and agrees: (a) that he has carefully read this Agreement and understands all of its terms; (b) that he had a reasonable amount of time to consider his decision to sign this Agreement; (c) that in executing this Agreement he does not rely and has not relied upon any representation or statement made by any of the Company's agents, representatives, or attorneys with regard to the subject matter, basis, or effect of the Agreement; (d) that he enters into this Agreement voluntarily, of his own free will, without any duress and with knowledge of its meaning and effect; (e) that he is not owed any wages by the Company for work performed, whether as wages or salary, overtime, bonuses or commissions, or for accrued but unused paid time off, and that Mr. Sarlls has been fully compensated for all hours worked; (f) that Mr. Sarlls is not aware of any factual basis for a claim that the Company has defrauded the government of the United States or of any State; (g) that Mr. Sarlls has incurred no work-related injuries; (h) that Mr. Sarlls has received all family or medical leave to which he was entitled under the law; and (i) that Mr. Sarlls has been and hereby is advised to consult with legal counsel of Mr. Sarlls's choice prior to execution and delivery of this Agreement, and that Mr. Sarlls has done so or voluntarily elected not to do so. The Company is expressly relying on the foregoing representations and admissions by Mr. Sarlls, and the Parties agree that such representations are admissible, if offered by the Company, as sworn statements of fact by Mr. Sarlls in any proceeding between the Parties.

26. This Agreement may be executed in counterparts, each of which will be deemed an original but all of which together will constitute one and the same instrument. An originally executed version of this Agreement that is scanned as an image file (e.g., Adobe PDF, TIF, JPEG, etc.) and then delivered by one party to the other party via electronic mail as evidence of signature, shall, for all purposes hereof, be deemed an original signature. In addition, an originally executed version of this Agreement that is delivered via facsimile by one party to the other party as evidence of signature shall, for all purposes hereof, be deemed an original.

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the day and year first written above.

/s/ Robert J. Sarlls
Robert J. Sarlls

02/01/24
Date

ROCKY MOUNTAIN CHOCOLATE
FACTORY, INC.

/s/ Jeffrey R. Geygan
Jeffrey R. Geygan,
Chair, Board of Directors

01/27/24
Date

*Adopted June 27, 2023***ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. INSIDER TRADING POLICY****I. Purpose**

Rocky Mountain Chocolate Factory, Inc. (the “Company”) has adopted this Insider Trading Policy (this “Policy”) to satisfy the Company’s obligation to prevent insider trading and to help the Company’s personnel and its external advisors avoid violating insider trading laws.

II. Persons Subject to the Policy

This Policy applies to (i) all officers, directors and employees of the Company and its subsidiaries, (ii) immediate family members (as defined below) and any persons that reside in the same household as any of the foregoing persons and (iii) any other person whose transactions in Company Securities (as defined below) are directed by, or subject to influence or control by the foregoing persons, and any trust, partnership, corporation or other entity over which such persons have investment control (collectively, “Insiders”). Individuals subject to this Policy are responsible for ensuring that members of their households also comply with this Policy and therefore should make them aware of the need to confer with you before they trade in Company Securities (as defined below) and should treat all such transactions for the purposes of this Policy and applicable securities laws as if the transactions were for your own account.

This Policy does not, however, apply to personal securities transactions of your immediate family members (as defined below) where the purchase or sale decision is made by a third party not controlled by, influenced by or related to you or your immediate family members (as defined below).

For purposes of this Policy, “immediate family member” means any spouse, child, stepchild, grandchild, parent, stepparent, grandparent, sibling, mother or father-in-law, son or daughter-in-law, or brother or sister-in-law (as well as other adoptive relationships), whether or not sharing the same household as the persons described in item (i) above.

All consultants and outside advisors assisting the Company on sensitive matters are expected to abide by this Policy, although the Company assumes no responsibility with respect to the actions of persons who are not under its direct control.

Persons in possession of material non-public information related to, affecting or regarding the Company or its subsidiaries (“Inside Information”) when their employment or service terminates may not trade in Company Securities (as defined below) until that information has become public or is no longer material.

Notwithstanding the foregoing, this Policy, including, without limitation, the pre-clearance policy, blackout periods and prohibited transactions, does not apply to institutional investors that

engage in the investment of securities in the ordinary course of its business, and the related transaction in the Company's equity securities by such entities, that may be affiliated with a director of the Company or for Company equity securities that a director may be deemed to have beneficial ownership of by virtue of such affiliation.

- **Transactions Subject to the Policy**

This Policy applies to all transactions in securities of the Company (collectively referred to in this Policy as "Company Securities"), including common stock, options to purchase common stock, preferred stock, convertible debt and warrants, or any other type of securities that the Company has or may issue, as well as derivative securities that are not issued by the Company, such as exchange-traded put or call options or swaps relating to the Company Securities.

- **General Policy**

No Insider who is in possession of Inside Information may, either directly or indirectly, (i) purchase or sell Company Securities or, (ii) without the consent of the Company, provide Inside Information to any other person outside of the Company, including family and friends, provided that notwithstanding the foregoing (y) a director may provide Inside Information to his or her employer provided such employer either (I) complies with this paragraph or (II) has established its own insider trading controls and procedures in compliance with applicable securities laws; and (z) an Insider may disclose Inside Information as required by law.

Insiders may not disclose, convey or "tip" Inside Information to any person by providing them with Inside Information other than to disclose on a "need to know" basis to directors, officers and employees of the Company or outside advisors in the course of performing their duties for the Company (it being understood that directors may disclose Inside Information to their employers; provided that such employer either (I) complies with the requirements of the first paragraph of this Section IV or (II) has established its own insider trading controls and procedures in compliance with applicable securities laws). When sharing Inside Information with other directors, officers and employees of the Company or outside advisors, or other persons involved in the business and affairs of the Company, such information should be confined to as small a group as possible. Unlawful tipping includes passing on Inside Information to friends, family members or acquaintances under circumstances that suggest that persons subject to this Policy were trying to help the recipients of such information to make a profit or avoid a loss by trading in Company Securities based on such information.

- **Definition of Inside Information**

Material Information. Information is considered "material" if a reasonable investor would consider that information important in making a decision to buy, hold or sell Company Securities or the securities of another public company. Any information that could be expected to affect the Company's stock price, whether it is positive or negative, should be considered material. Determining whether information is material is not always straightforward; rather, materiality is based on an assessment of all of the facts and circumstances and is often evaluated by enforcement authorities with the benefit of hindsight. When doubt exists as to whether information would be considered "material," the information should be presumed to be material. While it is not possible

to identify in advance all information that will be deemed to be material, some examples of such information would include the following:

- merger, acquisition, joint venture, partnerships, strategic alliances, collaborations or investment proposals;
- annual or quarterly financial statements;
- earnings estimates;
- changes to operational or financial guidance;
- significant expansion or curtailment of operations;
- material information regarding an existing or potential customer or supplier;
- unusual borrowings;
- public or private securities offerings;
- litigation (pending or threatened);
- changes in executive management or members of the Board of Directors;
- information concerning intellectual property, regulatory approvals or other developments (positive or negative), product or technological plans, developments or agreements;
- communications to or from regulatory agencies;
- new product launches or the introduction of new business strategies;
- the status of the Company's progress toward achieving significant Company goals;
- listing on or delisting from a stock exchange;
- new major contracts, customers, distributors or suppliers, or the loss of any of the foregoing; or
- significant related party transactions.

Non-Public Information. Information that has not been widely disseminated to the public is generally considered to be non-public information. Information generally becomes available to the public when it has been disclosed by the Company or third parties in a press release or other authorized public statement, including any filing with the Securities and Exchange Commission (the "SEC"). Once information is widely disseminated, it is still necessary to afford the investing public with sufficient time to absorb the information. As a general rule, information should not be considered fully absorbed by the marketplace until **after the second full trading day after the information is released**. If, for example, the Company were to make an announcement prior to the start of trading on a Monday, a person covered by this Policy should not trade in Company Securities until the start of trading on Wednesday. Depending on the particular circumstances, the Company may determine that a longer or shorter period should apply to the release of specific material non-public information.

If you are unsure whether you are in possession of Inside Information, you should consult with the Chief Compliance Officer prior to engaging in, or entering into an agreement, understanding or arrangement to engage in, a purchase or sale transaction of any Company Securities. However, you are responsible for determining whether you are in possession of Inside Information and any action on the part of the Company, the Chief Compliance Officer or any other employee or director pursuant to this Policy or otherwise does not in any way constitute legal advice or insulate you from liability under applicable securities laws.

• **Special and Prohibited Transactions**

In addition to the other restrictions set forth in this Policy, the following transactions are strictly prohibited at all times:

- trading in call or put options involving Company Securities and other derivative securities;
- engaging in short sales of Company Securities;
- holding Company Securities in margin status in an investment account;
- all forms of hedging or monetization transactions, such as zero-cost collars and forward sale contracts;
- and
- pledging Company Securities to secure margin or other loans.

If you are unsure whether a particular transaction is prohibited under this Policy, you should consult with the Chief Compliance Officer prior to engaging in, or entering into, an agreement, understanding or arrangement to engage in, such transaction.

• **Transactions Not Subject to Trading Restrictions Under the Policy**

The trading restriction prohibitions in this Policy do not apply to:

- the granting of options or other equity awards;
- the purchase or sale of Company Securities from or to the Company, as applicable;
- bona fide gifts of Company Securities;
- purchases or sales of Company Securities made pursuant to any binding contract, specific instruction or written plan entered into outside of a blackout period and while the purchaser or seller, as applicable, was unaware of any material non-public information and which contract, instruction or plan (i) meets all of the requirements of the affirmative defense provided by Rule 10b5-1 promulgated under the Securities Exchange Act of 1934, as amended (a “ 10b5-1 trading plan ”), (ii) was pre-cleared in advance pursuant to this Policy and (iii) has not been amended or modified in any respect after such initial pre-clearance without such amendment or modification being pre-cleared in advance pursuant to this Policy; or
- transactions between Insiders and the Company with respect to grants under its equity incentive plan (or, to the extent applicable, granted outside such plan), including the exercise of stock options for cash; the vesting of restricted stock or restricted stock units (“ RSUs ”) or the exercise of a tax withholding right pursuant to which a person has elected to have the Company withhold shares to satisfy tax withholding upon the exercise of stock options or the vesting of any restricted stock or RSUs.

Consequently, restrictions contained in this Policy would apply to the sale of Company Securities in the open market to pay the exercise price of an option and to the “cashless exercise” effected through a broker or “same day sale” of an option, which generally entail the sale of a portion of the underlying stock on the market to cover the costs of exercise or the resulting taxes.

In addition, any sale of the underlying securities acquired upon the exercise of an option or RSU is subject to the Policy.

VIII. Additional Procedures Applicable to Restricted Persons

Blackout Periods. All officers and directors of the Company, as well as certain key employees listed on Annex A hereto (as may be amended from time to time), as well as any family members or other persons that reside in the same household as those persons (all of the foregoing being “Restricted Persons”) are subject to additional restrictions on their ability to engage in purchase or sale transactions involving Company Securities. Restricted Persons are more likely to have access to Inside Information regarding the Company because of their positions or affiliations with the Company and, as a result, their trades in Company Securities are more likely to be subject to greater scrutiny. Accordingly, Restricted Persons are prohibited from trading in Company Securities during the period beginning seven days prior to the end of each calendar quarter and ending two business days following the public release of the quarterly or annual earnings, as applicable. Attached hereto as Annex B is a list of the blackout periods for the current and next fiscal year, which shall be updated from time to time.

Special Blackout Periods. In addition, from time to time, the Company may impose special blackout periods on Restricted Persons and other employees of the Company if, in the judgment of the Chief Compliance Officer, it is likely that such person or persons have become aware of significant corporate developments that have not yet been disclosed to the public, even when trading otherwise may be permitted. If certain Restricted Persons or other employees of the Company become subject to a special blackout period, such persons are prohibited from (i) trading in Company Securities and (ii) without the consent of the Company, disclosing to others the fact that they are subject to such special blackout period. These special blackout periods may vary in length and may or may not be broadly communicated to Insiders. Unless otherwise specified, the Company will re-open trading on the beginning of the second trading day following public disclosure of such significant corporate developments or after the termination of any pending development, if applicable. If, for example, the Company imposed a special blackout period on a Monday, the persons subject to such special blackout period should not trade in Company Securities until the pre-market on Thursday, unless otherwise specified by the Company.

Pre-Clearance Procedures. Restricted Persons must obtain prior clearance from the Chief Compliance Officer, or such person's designee, by submitting (in writing or via email) the information contained in the Request for Clearance to Trade as set forth on Annex B attached hereto, before such person makes any purchases, sales or gifts of Company Securities, regardless of whether a blackout period is then in effect. The Chief Compliance Officer is under no obligation to approve a transaction submitted for pre-clearance and may determine not to permit the transaction. If a person seeks pre-clearance and permission to engage in the transaction is denied, then he or she should refrain from initiating any transaction in Company Securities. Clearance of a transaction is valid for no more than the 5-business day period (or such shorter period as may be prescribed in the pre-clearance form) immediately following receipt by such person of such clearance. Restricted Persons do not need to receive pre-clearance for trades pursuant to an approved 10b5-1 trading plan, but must receive prior approval before implementing, terminating or amending such a plan by the Chief Compliance Officer, or such person's designee.

IX. Rule 10b5-1 Plans

The Company permits all directors, officers and other employees to adopt a 10b5-1 trading plan pursuant to the Company's procedure for adopting such a trading plan. All directors, officers and other employees must obtain pre-clearance prior to entering into, modifying or terminating a 10b5-1 trading plan. The restrictions on trading set forth in this Policy shall not apply to trades made pursuant to a 10b5-1 trading plan.

X. Consequences of Violations

The purchase or sale of Company Securities while aware of Inside Information, or the disclosure of Inside Information to others who then trade in Company Securities, is prohibited by federal and state securities laws. Insider trading violations are pursued vigorously by the SEC, U.S. Attorneys and state enforcement authorities, as well as the laws of foreign jurisdictions. Punishment for insider trading violations is severe and could include significant fines and imprisonment. While the regulatory authorities concentrate their efforts on the individuals who trade, or who tip inside information to others who trade, the federal securities laws also impose potential liability on companies and other "controlling persons" within the organization if they fail to take reasonable steps to prevent insider trading by company personnel.

In addition, an individual's failure to comply with this Policy may subject the individual to Company-imposed sanctions, including dismissal for cause, whether or not the employee's failure to comply results in a violation of law. A violation of law, or even an SEC investigation that does not result in prosecution, can tarnish a person's reputation and irreparably damage a career.

XI. Administration of the Policy

The Company's Chief Compliance Officer, and in such person's absence, an employee designated by the Chief Compliance Officer, in consultation with internal and external legal counsel, shall be responsible for administration of this Policy. All determinations and interpretations by the Chief Compliance Officer (or his or her designees) shall be final and not subject to further review.

Any person who has a question about this Policy or its application to any proposed transaction may obtain additional guidance from the Chief Compliance Officer.

XII. Certification

You must sign, date and return the Certification set forth on Annex C attached hereto (or such other certification as the Chief Compliance Officer may deem appropriate) stating that you have received, read, understand and agree to comply with this Policy. The Company may require you to sign such a Certification on an annual basis, which Certification may be in electronic format. Please note that you are bound by the Policy whether or not you sign the Certification.

Restricted Persons

Executive Officers:

Jeffrey Geygan

Carrie Cass

Ryan McGrath

Directors:

Jeffrey Geygan

Melvin Keating

Allen Harper

Steven Craig

Brian Quinn

Other Designated Individuals

Elizabeth Kerr

Jeremy Garcia

Quarterly Blackout Periods – 2024 and 2025

Fiscal Year 2024		
Quarter	Blackout Period Begins	Blackout Period Ends
2	Seven days prior to end the third quarter (August 24, 2023)	Two business days after Q2 earnings are publicly released
3	Seven days prior to end of the third quarter (November 23, 2023)	Two business days after Q3 earnings are publicly released
4	Seven days prior to the end of the fourth quarter (February 22, 2024)	Two business days after annual earnings are publicly released
Fiscal Year 2025		
Quarter	Blackout Period Begins	Blackout Period Ends
1	Seven days prior to the end of the first quarter (May 24, 2024)	Two business days after Q1 earnings are publicly released
2	Seven days prior to the end of the second quarter (August 24, 2024)	Two business days after Q2 earnings are publicly released
3	Seven days prior to the end of the third quarter (November 23, 2024)	Two business days after Q3 earnings are publicly released
4	Seven days prior to the end of the fourth quarter (February 21, 2025)	Two business days after annual earnings are publicly released

Request for Clearance to Trade

To: [] Attention: Chief Compliance Officer []

Phone Number: []

E-mail: []

Name: _____ Title: _____

I hereby request clearance for myself (or a member of my immediate family or household) to execute the following transaction relating to the securities of [_____]

Type of Transaction:

I wish to purchase shares of common stock. Number of shares of common stock to be purchased: _____

I wish to sell shares of common stock. Number of shares of common stock to be sold: _____

I wish to gift shares of common stock. Number of shares of common stock to be gifted: _____

Other: _____

Expiration Date for Transaction: _____

If the request is for a member of my immediate family or household:

Name of Person: _____ Relationship: _____

I hereby represent that I am not aware of any material non-public information concerning [] or its subsidiary at the time of submitting this request and I agree that should I become aware of any material non-public information concerning [] or its subsidiary prior to consummating the approved transaction, I will not consummate such transaction.

I understand that once approved, the authorization is valid on the date of approval and during the remaining term of the trading window in which it is approved. I further understand that the approval will lapse if, in the judgment of the Chief Compliance Officer, I am likely to be aware of material non-public information or at the expiration of the trading window in which approval is granted, whichever is the first to occur.

Date Signature
Approved by:

Chief Compliance Officer Date

Certification

I hereby certify that:

1. I have read and understand []'s (the " Company ") Insider Trading Policy (the " Policy "). I understand that the Chief Compliance Officer is available to answer any questions I have regarding the Policy.
2. Since I have been affiliated with the Company, I have complied with the Policy.
3. I will continue to comply with the Policy for as long as I am subject to the Policy.

Print name:

Signature: _____

Date: _____

SUBSIDIARIES OF THE REGISTRANT

Subsidiary	Jurisdiction of Incorporation
Rocky Mountain Chocolate Factory, Inc.	Colorado
U-Swirl, Inc.	Nevada

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements (Form S-8 Nos. 333-282331, 333-249485, 333-206534, 333-145986, 333-191729, and Form S-1 No. 333-281948) of our report dated June 20, 2025, with respect to the consolidated financial statements of Rocky Mountain Chocolate Factory, Inc. (the "Company") included in this Annual Report (Form 10-K) for the fiscal year ended February 28, 2025. Our audit report includes an explanatory paragraph related to the Company's ability to continue as a going concern.

/s/ CohnReznick LLP

Los Angeles, California
June 20, 2025

**CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jeffrey R. Geygan, certify that:

(1) I have reviewed this Annual Report on Form 10-K of Rocky Mountain Chocolate Factory, Inc.;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

(4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

(5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 20, 2025

By: /s/ Jeffrey R. Geygan
Jeffrey R. Geygan, Interim Chief Executive Officer
(Principal Executive Officer and Interim Chief Executive Officer)

**CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Carrie E. Cass, certify that:

(1) I have reviewed this Annual Report on Form 10-K of Rocky Mountain Chocolate Factory, Inc.;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

(4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

(5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 20, 2025

By: /s/ Carrie E. Cass
Carrie E. Cass, Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Rocky Mountain Chocolate Factory, Inc. (the "Company") on Form 10-K for the fiscal year ended February 28, 2025 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jeffrey R. Geygan, Interim Chief Executive Officer of the Company certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 20, 2025

By: /s/ Jeffrey R. Geygan
Jeffrey R. Geygan, Interim Chief Executive Officer (*Principal Executive Officer and Interim Chief Executive Officer*)

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. Section 1350 and is not being filed for purposes of Section 18 of the Exchange Act, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Rocky Mountain Chocolate Factory, Inc. (the "Company") on Form 10-K for the fiscal year ended February 28, 2025 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Carrie E. Cass, Chief Financial Officer of the Company certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 20, 2025

By: /s/ Carrie E. Cass
**Carrie E. Cass, Chief Financial Officer (Principal Financial Officer
and Principal Accounting Officer)**

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. Section 1350 and is not being filed for purposes of Section 18 of the Exchange Act, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC.

CLAWBACK POLICY

The Compensation Committee (the “Compensation Committee”) of the Board of Directors (the “Board”) of Rocky Mountain Chocolate Factory, Inc. (the “Company”) has adopted the following Clawback Policy (the “Policy”) on November 9, 2023, effective as of October 2, 2023 (the “Effective Date”).

1. Purpose. The purpose of this Policy is to provide for the recoupment of certain incentive compensation pursuant to Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, in the manner required by Section 10D of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), Rule 10D-1 promulgated thereunder, and the Applicable Listing Standards (as defined below) (collectively, the “Dodd-Frank Rules”).

2. Administration. This Policy shall be administered by the Compensation Committee. Any determinations made by the Compensation Committee shall be final and binding on all affected individuals.

3. Definitions. For purposes of this Policy, the following capitalized terms shall have the meanings set forth below.

(a) “**Accounting Restatement**” shall mean an accounting restatement of the Company’s financial statements due to the material noncompliance of the Company with any financial reporting requirement under the securities laws, including any required accounting restatement (i) to correct an error in previously issued financial statements that is material to the previously issued financial statements (*i.e.*, a “Big R” restatement), or (ii) that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period (*i.e.*, a “little r” restatement).

(b) “**Affiliate**” shall mean each entity that directly or indirectly controls, is controlled by, or is under common control with the Company.

(c) “**Applicable Exchange**” shall mean (i) The Nasdaq Stock Market, if the Company’s securities are listed on such national stock exchange, or (ii) the New York Stock Exchange, if the Company’s securities are listed on such national stock exchange.

(d) “**Applicable Listing Standards**” shall mean (i) Nasdaq Listing Rule 5608, if the Company’s securities are listed on The Nasdaq Stock Market, or (ii) Section 303A.14 of the New York Stock Exchange Listed Company Manual, if the Company’s securities are listed on the New York Stock Exchange.

(e) “**Clawback Eligible Incentive Compensation**” shall mean Incentive-Based Compensation Received by a Covered Executive (i) on or after the Effective Date, (ii) after beginning service as a Covered Executive, (iii) if such individual served as a Covered Executive at any time during the performance period for such Incentive-Based Compensation (irrespective of whether such individual continued to serve as a Covered Executive upon or following the Restatement Trigger Date), (iv) while the Company has a class of securities listed on a national

securities exchange or a national securities association, and (v) during the applicable Clawback Period. For the avoidance of doubt, Incentive-Based Compensation Received by a Covered Executive on or after the Effective Date could, by the terms of this Policy, include amounts approved, awarded, or granted prior to such date.

(f)“**Clawback Period**” shall mean, with respect to any Accounting Restatement, the three completed fiscal years of the Company immediately preceding the Restatement Trigger Date and any transition period (that results from a change in the Company’s fiscal year) within or immediately following those three completed fiscal years (except that a transition period between the last day of the Company’s previous fiscal year end and the first day of its new fiscal year that comprises a period of at least nine months shall count as a completed fiscal year).

(g)“**Company Group**” shall mean the Company and its Affiliates.

(h)“**Covered Executive**” shall mean any “executive officer” of the Company as defined under the Dodd-Frank Rules, and, for the avoidance of doubt, includes each individual identified as an executive officer of the Company in accordance with Item 401(b) of Regulation S-K under the Exchange Act.

(i)“**Erroneously Awarded Compensation**” shall mean the amount of Clawback Eligible Incentive Compensation that exceeds the amount of Incentive-Based Compensation that otherwise would have been Received had it been determined based on the restated amounts, computed without regard to any taxes paid. With respect to any compensation plan or program that takes into account Incentive-Based Compensation, the amount contributed to a notional account that exceeds the amount that otherwise would have been contributed had it been determined based on the restated amount, computed without regard to any taxes paid, shall be considered Erroneously Awarded Compensation, along with earnings accrued on that notional amount.

(j)“**Financial Reporting Measures**” shall mean measures that are determined and presented in accordance with the accounting principles used in preparing the Company’s financial statements, and all other measures that are derived wholly or in part from such measures. Stock price and total shareholder return (and any measures that are derived wholly or in part from stock price or total shareholder return) shall for purposes of this Policy be considered Financial Reporting Measures. For the avoidance of doubt, a measure need not be presented in the Company’s financial statements or included in a filing with the U.S. Securities and Exchange Commission (the “SEC”) in order to be considered a Financial Reporting Measure.

(k)“**Incentive-Based Compensation**” shall mean any compensation that is granted, earned or vested based wholly or in part upon the attainment of a Financial Reporting Measure.

(l)“**Received**” shall mean the deemed receipt of Incentive-Based Compensation. Incentive-Based Compensation shall be deemed received for this purpose in the Company’s fiscal period during which the Financial Reporting Measure specified in the applicable Incentive-Based Compensation award is attained, even if payment or grant of the Incentive-Based Compensation occurs after the end of that period.

(m)“**Restatement Trigger Date**” shall mean the earlier to occur of (i) the date the Board, a committee of the Board, or the officer(s) of the Company authorized to take such action

if Board action is not required, concludes, or reasonably should have concluded, that the Company is required to prepare an Accounting Restatement, or (ii) the date a court, regulator or other legally authorized body directs the Company to prepare an Accounting Restatement.

4. Recoupment of Erroneously Awarded Compensation . Upon the occurrence of a Restatement Trigger Date, the Company shall recoup Erroneously Awarded Compensation reasonably promptly, in the manner described below. For the avoidance of doubt, the Company's obligation to recover Erroneously Awarded Compensation under this Policy is not dependent on if or when restated financial statements are filed following the Restatement Trigger Date.

(a)**Process.** The Compensation Committee shall use the following process for recoupment:

(i) First, the Compensation Committee will determine the amount of any Erroneously Awarded Compensation for each Covered Executive in connection with such Accounting Restatement. For Incentive-Based Compensation based on (or derived from) stock price or total shareholder return where the amount of Erroneously Awarded Compensation is not subject to mathematical recalculation directly from the information in the applicable Accounting Restatement, the amount shall be determined by the Compensation Committee based on a reasonable estimate of the effect of the Accounting Restatement on the stock price or total shareholder return upon which the Incentive-Based Compensation was Received (in which case, the Company shall maintain documentation of such determination of that reasonable estimate and provide such documentation to the Applicable Exchange).

(ii) Second, the Compensation Committee will provide each affected Covered Executive with a written notice stating the amount of the Erroneously Awarded Compensation, a demand for recoupment, and the means of recoupment that the Company will accept.

(b) **Means of Recoupment.** The Compensation Committee shall have discretion to determine the appropriate means of recoupment of Erroneously Awarded Compensation, which may include without limitation: (i) recoupment of cash or shares of Company stock, (ii) forfeiture of unvested cash or equity awards (including those subject to service-based and/or performance-based vesting conditions), (iii) cancellation of outstanding vested cash or equity awards (including those for which service-based and/or performance-based vesting conditions have been satisfied), (iv) to the extent consistent with Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A"), offset of other amounts owed to the Covered Executive or forfeiture of deferred compensation, (v) reduction of future compensation, and (vi) any other remedial or recovery action permitted by law. Notwithstanding the foregoing, the Company Group makes no guarantee as to the treatment of such amounts under Section 409A and shall have no liability with respect thereto. For the avoidance of doubt, appropriate means of recoupment may include amounts approved, awarded, or granted prior to the Effective Date. Except as set forth in Section 4(d) below, in no event may the Company Group accept an amount that is less than the amount of Erroneously Awarded Compensation in satisfaction of a Covered Executive's obligations hereunder.

(c) **Failure to Repay.** To the extent that a Covered Executive fails to repay all Erroneously Awarded Compensation to the Company Group when due (as determined in

accordance with Section 4(a) above), the Company shall, or shall cause one or more other members of the Company Group to, take all actions reasonable and appropriate to recoup such Erroneously Awarded Compensation from the applicable Covered Executive. The applicable Covered Executive shall be required to reimburse the Company Group for any and all expenses reasonably incurred (including legal fees) by the Company Group in recouping such Erroneously Awarded Compensation.

(d) **Exceptions.** Notwithstanding anything herein to the contrary, the Company shall not be required to recoup Erroneously Awarded Compensation if one of the following conditions is met and the Compensation Committee determines that recoupment would be impracticable:

(i) The direct expense paid to a third party to assist in enforcing this Policy against a Covered Executive would exceed the amount to be recouped, after the Company has made a reasonable attempt to recoup the applicable Erroneously Awarded Compensation, documented such attempts, and provided such documentation to the Applicable Exchange;

(ii) Recoupment would violate home country law where that law was adopted prior to November 28, 2022, provided that, before determining that it would be impracticable to recoup any amount of Erroneously Awarded Compensation based on violation of home country law, the Company has obtained an opinion of home country counsel, acceptable to the Applicable Exchange, that recoupment would result in such a violation and a copy of the opinion is provided to the Applicable Exchange; or

(iii) Recoupment would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees, to fail to meet the requirements of 26 U.S.C. 401(a)(13) or 26 U.S.C. 411(a) and regulations thereunder.

5. Reporting and Disclosure. The Company shall file all disclosures with respect to this Policy in accordance with the requirements of the Dodd-Frank Rules.

6. Indemnification Prohibition. No member of the Company Group shall be permitted to indemnify any current or former Covered Executive against (i) the loss of any Erroneously Awarded Compensation that is recouped pursuant to the terms of this Policy, or (ii) any claims relating to the Company Group's enforcement of its rights under this Policy. The Company may not pay or reimburse any Covered Executive for the cost of third-party insurance purchased by a Covered Executive to fund potential recoupment obligations under this Policy.

7. Acknowledgment. To the extent required by the Compensation Committee, each Covered Executive shall be required to sign and return to the Company the acknowledgement form attached hereto as Exhibit A pursuant to which such Covered Executive will agree to be bound by the terms of, and comply with, this Policy. For the avoidance of doubt, each Covered Executive will be fully bound by, and must comply with, the Policy, whether or not such Covered Executive has executed and returned such acknowledgment form to the Company.

8. Interpretation. The Compensation Committee is authorized to interpret and construe this Policy and to make all determinations necessary, appropriate, or advisable for the administration of this Policy. The Compensation Committee intends that this Policy be interpreted consistent with the Dodd-Frank Rules.

9.Amendment; Termination. The Compensation Committee may amend or terminate this Policy from time to time in its discretion, including as and when it determines that it is legally required to do so by any federal securities laws, SEC rule or the rules of any national securities exchange or national securities association on which the Company's securities are listed.

10.Other Recoupment Rights. The Compensation Committee intends that this Policy be applied to the fullest extent of the law. The Compensation Committee may require that any employment agreement, equity award, cash incentive award, or any other agreement entered into be conditioned upon the Covered Executive's agreement to abide by the terms of this Policy. Any right of recoupment under this Policy is in addition to, and not in lieu of, any other remedies or rights of recoupment that may be available to the Company Group, whether arising under applicable law, regulation or rule, pursuant to the terms of any other policy of the Company Group, pursuant to any employment agreement, equity award, cash incentive award, or other agreement applicable to a Covered Executive, or otherwise (the "Separate Clawback Rights"). Notwithstanding the foregoing, there shall be no duplication of recovery of the same Erroneously Awarded Compensation under this Policy and the Separate Clawback Rights, unless required by applicable law.

11.Successors. This Policy shall be binding and enforceable against all Covered Executives and their beneficiaries, heirs, executors, administrators or other legal representatives.

Exhibit A

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC.

CLAWBACK POLICY

ACKNOWLEDGEMENT FORM

By signing below, the undersigned acknowledges and confirms that the undersigned has received and reviewed a copy of the Rocky Mountain Chocolate Factory, Inc. Clawback Policy (the “**Policy**”). Capitalized terms used but not otherwise defined in this Acknowledgement Form (this “**Acknowledgement Form**”) shall have the meanings ascribed to such terms in the Policy.

By signing this Acknowledgement Form, the undersigned acknowledges and agrees that the undersigned is and will continue to be subject to the Policy and that the Policy will apply both during and after the undersigned’s employment with the Company Group. Further, by signing below, the undersigned agrees to abide by the terms of the Policy, including, without limitation, by returning any Erroneously Awarded Compensation to the Company Group reasonably promptly to the extent required by, and in a manner permitted by, the Policy, as determined by the Compensation Committee of the Company’s Board of Directors in its sole discretion.

Sign: _____

Name: [Employee]

Date: _____

