

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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FILER

ROCKY MOUNTAIN CHOCOLATE FACTORY INC

CIK: **785815** | IRS No.: **840910696** | State of Incorpor.: **CO** | Fiscal Year End: **0228**
Type: **10-Q** | Act: **34** | File No.: **000-14749** | Film No.: **13528112**
SIC: **2060** Sugar & confectionery products

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 30, 2012

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

For the transition period from _____ to _____

Commission file number: 0-14749

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

Colorado
(State of incorporation)

84-0910696
(I.R.S. Employer Identification No.)

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

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

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

On January 1, 2013, the registrant had outstanding 6,050,279 shares of its common stock, \$.03 par value.

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARY

FORM 10-Q

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2012	2011	2012	2011
Revenues				
Sales	\$ 7,327,659	\$ 7,115,456	\$ 21,648,429	\$ 20,329,561
Franchise and royalty fees	1,308,145	1,164,454	4,375,405	4,164,061
Total revenues	8,635,804	8,279,910	26,023,834	24,493,622
Costs and Expenses				
Cost of sales, exclusive of depreciation and amortization expense of \$72,102, \$68,388, \$214,425 and \$206,953, respectively	4,769,166	4,681,398	13,460,977	12,892,284
Franchise costs	457,558	452,713	1,560,078	1,374,413
Sales and marketing	447,887	400,263	1,317,874	1,225,393
General and administrative	847,862	800,583	2,389,700	2,257,175
Retail operating	743,805	649,696	2,568,078	2,288,246
Depreciation and amortization	224,044	194,129	691,590	553,295
Impairment loss – Aspen Leaf Yogurt long-lived assets	1,978,216	-	1,978,216	-
Total costs and expenses	9,468,538	7,178,782	23,966,513	20,590,806
Income (Loss) from Operations	(832,734)	1,101,128	2,057,321	3,902,816
Interest Income	10,368	15,270	33,149	46,129
Income (Loss) Before Income Taxes	(822,366)	1,116,398	2,090,470	3,948,945
Income Tax Provision	(312,882)	391,430	708,843	1,392,765
Net Income (Loss)	\$ (509,484)	\$ 724,968	\$ 1,381,627	\$ 2,556,180
Basic Earnings (Loss) per Common Share	\$ (.08)	\$.12	\$.23	\$.42
Diluted Earnings (Loss) per Common Share	\$ (.08)	\$.12	\$.22	\$.41
Weighted Average Common Shares Outstanding	6,050,279	6,126,007	6,085,057	6,102,704
Dilutive Effect of Stock Options	130,577	159,445	145,731	194,136
Weighted Average Common Shares Outstanding, Assuming Dilution	6,180,856	6,285,452	6,230,788	6,296,840

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

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

	November 30, 2012 (unaudited)	February 29, 2012
Assets		
Current Assets		
Cash and cash equivalents	\$ 3,535,782	\$ 4,125,444
Accounts receivable, less allowance for doubtful accounts of \$709,548 and \$488,448, respectively	4,496,155	4,078,158
Notes receivable, current portion, less current portion of the valuation allowance of \$65,453 and \$0, respectively	192,777	283,225
Refundable income taxes	6,801	724,911
Inventories, less reserve for slow moving inventory of \$253,970 and \$247,199, respectively	4,391,324	4,119,073
Deferred income taxes	534,149	487,274
Other	335,811	281,282
Total current assets	13,492,799	14,099,367
Property and Equipment, Net	5,794,191	8,515,644
Other Assets		
Notes receivable, less current portion and valuation allowance of \$37,000 and \$74,900, respectively	295,109	344,474
Goodwill, net	1,046,944	1,046,944
Intangible assets, net	15,295	22,111
Other	135,313	134,430
Total other assets	1,492,661	1,547,959
Total assets	\$ 20,779,651	\$ 24,162,970
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	\$ 1,008,945	\$ 1,355,818
Accrued salaries and wages	530,181	653,276
Other accrued expenses	749,350	760,860
Dividend payable	665,531	616,239
Deferred income	139,930	156,000
Total current liabilities	3,093,937	3,542,193
Deferred Income Taxes	891,378	1,884,957
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock, \$.10 par value; 250,000 authorized; -0- shares issued and outstanding		
Series A Junior Participating Preferred Stock, authorized 50,000 shares	-	-
Undesignated series, authorized 200,000 shares	-	-
Common stock, \$.03 par value, 100,000,000 shares authorized, 6,050,279 and 6,162,389 issued and outstanding, respectively	181,508	184,872
Additional paid-in capital	7,399,788	8,712,743
Retained earnings	9,213,040	9,838,205

Total stockholders' equity	16,794,336	18,735,820
Total liabilities and stockholders' equity	\$ 20,779,651	\$ 24,162,970

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

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Nine Months Ended November 30,	
	2012	2011
Cash Flows From Operating activities		
Net income	\$ 1,381,627	\$ 2,556,180
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	691,590	553,295
Impairment loss – Aspen Leaf Yogurt long-lived assets	1,978,216	-
Provision for loss on accounts and notes receivable	245,000	237,000
Provision for obsolete inventory	45,000	45,000
Asset impairment and store closure losses	(17,000)	-
Loss (gain) on sale or acquisition of property and equipment	(24,957)	26,598
Expense recorded for stock compensation	324,767	356,490
Deferred income taxes	(322,344)	(165,338)
Changes in operating assets and liabilities:		
Accounts receivable	(656,248)	87,163
Inventories	9,150	(241,502)
Other current assets	(57,608)	(99,138)
Accounts payable	(542,793)	(11,119)
Deferred income	(16,070)	(77,910)
Accrued liabilities	(134,605)	100,931
Net cash provided by operating activities	2,903,725	3,367,650
Cash Flows From Investing Activities		
Addition to notes receivable	\$ (36,215)	\$ (101,810)
Proceeds received on notes receivable	169,279	165,929
Proceeds from sale or distribution of assets	669,300	52,800
Purchases of property and equipment	(691,493)	(1,861,708)
Increase in other assets	(5,672)	(32,895)
Net cash provided by (used in) investing activities	105,199	(1,777,684)
Cash Flows From Financing Activities		
Repurchase of common stock	\$ (1,715,352)	\$ -
Issuance of common stock	22,224	36,715
Tax benefit of stock awards	52,042	8,285
Dividends paid	(1,957,500)	(1,827,959)
Net cash used in financing activities	(3,598,586)	(1,782,959)
Net Increase (Decrease) in Cash and Cash Equivalents	(589,662)	(192,993)
Cash and Cash Equivalents, Beginning of Period	\$ 4,125,444	\$ 3,344,490
Cash and Cash Equivalents, End of Period	\$ 3,535,782	\$ 3,151,497

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

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

NOTE 1 – NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Nature of Operations

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

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

Aspen Leaf Yogurt, LLC (“ALY”) was incorporated in the state of Colorado as Aspen Leaf Yogurt, Inc. on September 30, 2010 and organized through conversion as Aspen Leaf Yogurt, LLC on October 14, 2010. ALY is a franchisor and retail operator of self-serve frozen yogurt retail units.

The Company’s revenues are currently derived from three principal sources: sales to franchisees and others of chocolates and other confectionery products manufactured by the Company; the collection of initial franchise fees and royalties from franchisees’ sales; and sales at Company-owned stores of chocolates, frozen yogurt, and other confectionery products. The following table summarizes the number of stores operating under RMCF and ALY at November 30, 2012:

	Sold, Not Yet		
	Open	Open	Total
Rocky Mountain Chocolate Factory			
Company-owned stores	-	7	7
Franchise stores – Domestic stores	3	227	230
Franchise stores – Domestic kiosks	-	8	8
Franchise units – International	-	64	64
Cold Stone Creamery – co-branded	1	55	56
Aspen Leaf Yogurt Stores			
Company-owned stores	-	8	8
Franchise stores – Domestic stores	4	8	12
Total	8	377	385

Basis of Presentation

The accompanying financial statements have been prepared by the Company, without audit, and reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial reporting and Securities and Exchange Commission regulations. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the financial statements reflect all adjustments (of a normal and recurring nature) which are necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. The results of operations for the three and nine months ended November 30, 2012 are not necessarily indicative of the results to be expected for the entire fiscal year.

These financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended February 29, 2012.

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

Subsequent Events

On January 14, 2013, Ulysses Asset Acquisition, LLC (“Newco”), a wholly-owned subsidiary of the Company formed in the State of Colorado on January 2, 2013, entered into an agreement to acquire substantially all of the assets of YHI, Inc. and Yogurtini International, LLC (collectively, “Yogurtini”), which are the franchisors of self-serve frozen yogurt retail units branded as “Yogurtini.” In addition, on January 14, 2013, the Company entered into two agreements to sell all of its membership interests in Newco and substantially all of its assets in ALY to U-Swirl, Inc., a publicly traded company (OTCQB: SWRL), in exchange for a 60% controlling equity interest in U-Swirl, Inc. Upon completion of these transactions, the Company expects to cease to operate any Company-owned Aspen Leaf Yogurt locations or sell and support franchise locations. For the three months ended November 30, 2012, the Company recorded an impairment to certain long-lived assets as discussed in Notes 11 and 12 to these financial statements. In addition to the impairment of assets, the Company expects to incur future restructuring costs of \$500,000-600,000 associated with this restructuring. As of November 30, 2012, approximately \$47,000 of expenses associated with this restructuring had been incurred and was recorded to general and administrative costs.

Stock-Based Compensation

At November 30, 2012, the Company had stock-based compensation plans for employees and non-employee directors which authorized the granting of stock awards.

The Company recognized \$94,867 and \$324,767 of stock-based compensation expense during the three and nine month periods ended November 30, 2012, respectively, compared to \$102,260 and \$356,490, during the three and nine month periods ended November 30, 2011, respectively. Compensation costs related to stock-based compensation are generally amortized over the vesting period.

The following table summarizes stock option transactions for common stock during the nine months ended November 30, 2012 and November 30, 2011:

	Nine Months Ended November 30,	
	2012	2011
Outstanding stock options as of February 28 or 29:	307,088	341,890
Granted	-	12,936
Exercised	(3,000)	(8,731)
Cancelled/forfeited	(14,952)	(1,575)
Outstanding stock options as of November 30:	289,136	344,520
Weighted average exercise price	\$ 10.67	\$ 10.11
Weighted average remaining contractual term (in years)	2.07	2.72

The following table summarizes non-vested restricted stock unit transactions for common stock during the nine months ended November 30, 2012 and November 30, 2011:

	Nine Months Ended November 30,	
	2012	2011
Outstanding non-vested restricted stock units as of February 28 or 29:	101,980	141,260
Granted	-	4,540
Vested	(44,190)	(43,300)
Cancelled/forfeited	(560)	-
Outstanding non-vested restricted stock units as of November 30:	57,230	102,500
Weighted average grant date fair value	\$ 9.22	\$ 9.19
Weighted average remaining vesting period (in years)	1.38	2.24

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

During the nine months ended November 30, 2012, the Company issued 4,000 fully-vested, unrestricted shares of stock to non-employee directors compared with 4,000 fully-vested, unrestricted shares of stock and 12,936 shares of stock options issued to non-employee directors in the nine months ended November 30, 2011. There were no unrestricted shares or stock options issued during the three-month periods ended November 30, 2012 or November 30, 2011. In connection with these non-employee director stock issuances, the Company recognized \$37,200 and \$52,886 of stock-based compensation expense during the nine-month periods ended November 30, 2012 and 2011, respectively.

During the three and nine month periods ended November 30, 2012, the Company recognized \$94,867 and \$287,567, respectively, of stock-based compensation expense related to non-vested, non-forfeited restricted stock unit grants. The restricted stock unit grants generally vest 20% annually over a period of five years. During the nine months ended November 30, 2012, 44,190 restricted stock units vested and were issued as common stock. Total unrecognized compensation expense of non-vested, non-forfeited shares granted as of November 30, 2012 was \$378,678, which is expected to be recognized over the weighted-average period of 1.4 years.

There were no options granted during the nine months ended November 30, 2012 and the weighted-average fair value of stock options granted during the nine months ended November 30, 2011 was \$0.89 per share.

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model utilizing the following weighted-average assumptions:

	Nine Months Ended November 30,	
	2012	2011
Expected dividend yield	n/a	3.87%
Expected stock price volatility	n/a	27%
Risk-free interest rate	n/a	2.0%
Expected life of options (years)	n/a	5

NOTE 2 - EARNINGS PER SHARE

Basic earnings per share is calculated using the weighted average number of common shares outstanding. Diluted earnings per share reflects the potential dilution that could occur from common shares issuable through stock options and restricted stock units. For the three months ended November 30, 2012 and 2011, 101,661 and 117,663 stock options, respectively, were excluded from the computation of earnings per share because their effect would have been anti-dilutive. For the nine months ended November 30, 2012 and 2011, 102,853 and 118,570 stock options, respectively, were excluded from the computation of earnings per share because their effect would have been anti-dilutive.

NOTE 3 – INVENTORIES

Inventories consist of the following:

	November 30, 2012	February 29, 2012
Ingredients and supplies	\$ 2,327,525	\$ 2,484,796
Finished candy	2,063,799	1,634,277
Total inventories	\$ 4,391,324	\$ 4,119,073

NOTE 4 - PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following:

	November 30, 2012	February 29, 2012
Land	\$ 513,618	\$ 513,618
Building	4,764,005	4,700,905
Machinery and equipment	8,784,810	8,580,960
Furniture and fixtures	1,452,570	1,614,484
Leasehold improvements	1,814,118	2,064,345
Transportation equipment	362,413	360,582
Impairment provision of long-lived assets	(1,989,216)	-
	\$ 15,702,318	\$ 17,834,894
Less accumulated depreciation	9,908,127	9,319,250
Property and equipment, net	\$ 5,794,191	\$ 8,515,644

NOTE 5 - STOCKHOLDERS' EQUITY

Cash Dividend

The Company paid a quarterly cash dividend of \$0.10 per share of common stock on March 16, 2012 to shareholders of record on March 2, 2012. The Company paid a quarterly cash dividend of \$0.11 per common share on June 8, 2012 to shareholders of record on May 24, 2012. The Company paid a quarterly cash dividend of \$0.11 per common share on September 14, 2012 to shareholders of record on September 4, 2012. The Company declared a quarterly cash dividend of \$0.11 per share of common stock on November 13, 2012 payable on December 14, 2012 to shareholders of record on November 30, 2012.

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

NOTE 6 – SUPPLEMENTAL CASH FLOW INFORMATION

	Nine Months Ended November 30,	
	2012	2011
Cash paid (received) for:		
Interest	\$ (33,659)	\$ (50,175)
Income taxes	979,145	1,425,551
Non-Cash Operating Activities Accrued Inventory	326,401	283,949
Non-Cash Financing Activities Dividend Payable	\$ 665,531	\$ 612,601

NOTE 7 - OPERATING SEGMENTS

The Company classifies its business interests into three reportable segments: Franchising, Manufacturing and Retail Stores. The accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 1 to these financial statements and Note 1 to the Company's financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended February 29, 2012. The Company evaluates performance and allocates resources based on operating contribution, which excludes unallocated corporate general and administrative costs and income tax expense or benefit. The Company's reportable segments are strategic businesses that utilize common merchandising, distribution, and marketing functions, as well as common information systems and corporate administration. All inter-segment sales prices are market based. Each segment is managed separately because of the differences in required infrastructure and the difference in products and services:

NOTE 7 - OPERATING SEGMENTS - CONTINUED

Three Months Ended November 30, 2012	Franchising	Manufacturing	Retail	Other	Total
Total revenues	\$ 1,308,146	\$ 6,799,847	\$ 1,089,431	\$ -	\$ 9,197,424
Intersegment revenues	-	(561,619)	-	-	(561,619)
Revenue from external customers	1,308,146	6,238,228	1,089,431	-	8,635,805
Segment profit (loss)	503,380	1,727,587	(2,131,270)	(922,062)	(822,365)
Total assets	1,316,002	11,499,337	2,422,986	5,541,326	20,779,651
Capital expenditures	-	85,058	12,357	76,665	174,080
Total depreciation & amortization	\$ 9,067	\$ 73,012	\$ 103,255	\$ 38,710	\$ 224,044

Three Months Ended November 30, 2011	Franchising	Manufacturing	Retail	Other	Total
Total revenues	\$ 1,164,453	\$ 6,738,048	\$ 966,515	\$ -	\$ 8,869,016
Intersegment revenues	-	(589,106)	-	-	(589,106)
Revenue from external customers	1,164,453	6,148,942	966,515	-	8,279,910
Segment profit (loss)	374,409	1,740,532	(179,408)	(819,135)	1,116,398
Total assets	1,328,594	11,488,435	3,982,890	5,371,335	22,171,254
Capital expenditures	10,171	22,783	622,587	15,811	671,352
Total depreciation & amortization	\$ 15,599	\$ 73,382	\$ 68,121	\$ 37,028	\$ 194,130

Nine Months Ended November 30, 2012	Franchising	Manufacturing	Retail	Other	Total
Total revenues	\$ 4,375,405	\$ 18,836,774	\$ 4,426,780	\$ -	\$ 27,638,959
Intersegment revenues	-	(1,615,125)	-	-	(1,615,125)
Revenue from external customers	4,375,405	17,221,649	4,426,780	-	26,023,834
Segment profit (loss)	1,800,330	4,890,384	(2,053,806)	(2,546,438)	2,090,470
Total assets	1,316,002	11,499,337	2,422,986	5,541,326	20,779,651
Capital expenditures	24,007	255,313	254,103	158,070	691,493
Total depreciation & amortization	\$ 30,160	\$ 217,189	\$ 329,083	\$ 115,158	\$ 691,590

Nine Months Ended November 30, 2011	Franchising	Manufacturing	Retail	Other	Total
Total revenues	\$ 4,164,061	\$ 18,092,103	\$ 3,911,213	\$ -	\$ 26,167,377
Intersegment revenues	-	(1,673,755)	-	-	(1,673,755)
Revenue from external customers	4,164,061	16,418,348	3,911,213	-	24,493,622
Segment profit (loss)	1,756,143	4,646,749	(161,254)	(2,292,693)	3,948,945
Total assets	1,328,594	11,488,435	3,982,890	5,371,335	22,171,254
Capital expenditures	11,613	133,441	1,525,439	191,215	1,861,708
Total depreciation & amortization	\$ 50,155	\$ 221,546	\$ 177,210	\$ 104,384	\$ 553,295

Revenue from one customer of the Company's Manufacturing segment represented approximately \$2.5 million of the Company's revenues from external customers during the nine months ended November 30, 2012 compared to \$2.4 million during the nine months ended November 30, 2011.

NOTE 8 – GOODWILL AND INTANGIBLE ASSETS

Intangible assets consist of the following:

	Amortization Period (Years)	November 30, 2012		February 29, 2012	
		Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Intangible assets subject to amortization					
Store design	10	\$ 205,777	\$ 204,300	\$ 205,777	\$ 200,445
Packaging licenses	3 -5	120,830	120,830	120,830	120,830
Packaging design	10	430,973	430,973	430,973	430,973
Aspen Leaf Yogurt Design	5	19,740	5,922	19,740	2,961
Total		777,320	762,025	777,320	755,209
Intangible assets not subject to amortization					
Franchising segment-					
Company stores goodwill		\$ 1,099,328	\$ 267,020	\$ 1,099,328	\$ 267,020
Franchising goodwill		295,000	197,682	295,000	197,682
Manufacturing segment-Goodwill		295,000	197,682	295,000	197,682
Trademark		20,000	-	20,000	-
Total Goodwill		1,709,328	662,384	1,709,328	662,384
Total intangible assets		\$ 2,486,648	\$ 1,424,409	\$ 2,486,648	\$ 1,417,593

Amortization expense related to intangible assets totaled \$6,817 and \$40,716 during the nine months ended November 30, 2012 and 2011, respectively. As of November 30, 2012, \$15,295 net intangible assets subject to amortization remained to be amortized through May 2016.

NOTE 9 – RELATED PARTY TRANSACTIONS

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

As of November 30, 2012, the Company had receivables of approximately \$1,900 due from such director associated with the director's ownership and operation of the two current ALY locations.

Our President and Chief Executive Officer has members of his immediate family with ownership interests in retail marketing businesses. These businesses have, on occasion, provided services to the Company and may provide services in the future. As of November 30, 2012, the Company had incurred expenses of \$11,150 and there was no amount recorded to accounts payable that related to these businesses. Transactions with these businesses have been immaterial to our results of operations.

NOTE 10 – FRANCHISE FEE REVENUE RECOGNITION

Franchise fee revenue is recognized upon the opening of a franchise location. During the six months ended August 31, 2011 four Aspen Leaf Yogurt franchise locations opened and \$78,500 of franchise fee revenue was recognized associated with these openings. During the three months ended November 30, 2011 the franchise fee for Aspen Leaf Yogurt was reduced and a decrease to revenue of \$54,500 was recorded associated with locations previously opened during the six months ended August 31, 2011. The change to ALY franchise fees was the result of the Company's continued evaluation of the self serve yogurt franchise environment and its desire to remain competitive among many franchise offerings. There was no change to the Rocky Mountain Chocolate Factory franchise fee or the Company's franchise fee revenue recognition policy.

NOTE 11 – IMPAIRMENT OF LONG-LIVED ASSETS

During the three months ended November 30, 2012, the Company began an initiative to sell substantially all long lived assets associated with continued operation of Aspen Leaf Yogurt Company-owned locations. This initiative caused the Company to perform an evaluation of the assets' fair value. An impairment loss for ALY operations was recognized in the amount of \$1,978,216 for certain long-lived assets related to all ALY Company-owned locations. The Company reviewed the machinery and equipment, furniture and fixtures, and leasehold improvements associated with each Company-owned ALY location, as well as ALY long-lived assets not allocated to a specific location. Current and historical operating and cash flow losses indicate that recorded asset values for these stores are not fully recoverable. Assets with net book value of \$2,893,549 were reduced to their estimated fair value based on prices of similar assets or estimated present value of future net cash flows expected to be generated from the assets.

The impairment of long-lived assets was recorded to the following segments:

Retail segment	\$ 1,929,453
Other segment	48,763
Total impairment provision	\$ 1,978,216

NOTE 12 – RECENT ACCOUNTING PRONOUNCEMENTS

In July 2012, the Financial Accounting Standards Board (FASB) issued ASU 2012-02, Intangibles-Goodwill and Other. The amendments permit an entity first to assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test in accordance with Subtopic 350-30, Intangibles-Goodwill and Other-General Intangibles Other than Goodwill. Determining that it is more likely than not that an indefinite-lived intangible asset is impaired will require quantitative impairment testing, otherwise, no further action will be required. This ASU is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The Company will adopt the amendments during its fiscal year ending February 28, 2014. The adoption is not expected to have an impact on the Company's Fiscal 2013 Consolidated Financial Statements.

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

Cautionary Note Regarding Forward-Looking Statements

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the unaudited financial statements and related notes of the Company included elsewhere in this report. The statements included in this report other than statements of historical fact, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, and include statements regarding our cash flow, dividends, operating income and future growth. Many of the forward-looking statements contained in this document may be identified by the use of forward-looking words such as "will," "believe," "expect," "anticipate," "estimate," and "potential," or similar expressions. Factors which could cause results to differ include, but are not limited to: changes in the confectionery business environment, seasonality, consumer interest in our products, general economic conditions, consumer and retail trends, costs and availability of raw materials, competition, the success of our co-branding agreement with Cold Stone Creamery Brands, the success of our international expansion efforts, the success of the Aspen Leaf Yogurt concept and the effect of government regulation. 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 "Risk Factors" contained in our Annual Report on Form 10-K for the fiscal year ended February 29, 2012 which can be viewed at the SEC's website at www.sec.gov or through our website at www.rmcf.com. These forward-looking statements apply only as of the date of this report. Readers are cautioned not to place undue reliance on the forward-looking statements in this report. Except as required by law, we are not obligated to release publicly any revisions to these forward-looking statements that might reflect events or circumstances occurring after the date of this report or those that might reflect the occurrence of unanticipated events.

Overview

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

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

Our ability to successfully achieve expansion of our Rocky Mountain Chocolate Factory franchise system depends on many factors not within our control, including the availability of suitable sites for new store establishment, the availability of adequate financing options and the availability of qualified franchisees to support such expansion.

Efforts to reverse the decline in same-store pounds purchased from the factory by franchised stores and to increase total factory sales depend on many factors, including new store openings, same-store sales, and the receptivity of our franchise system to our product introductions and promotional programs.

In April 2012, we entered into a Master Licensing Agreement for the development and franchising of new Rocky Mountain Chocolate Factory stores in Japan. The agreement requires at least ten new stores to open each year for the next ten years, for a total minimum of 100 stores to be opened in Japan by the expiration of the initial term of the agreement. We believe that international opportunities may create a favorable expansion strategy and reduce dependence on domestic franchise openings to achieve growth. As of November 30, 2012 five stores were operating under the agreement.

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

Results of Operations

Three Months Ended November 30, 2012 Compared to the Three Months Ended November 30, 2011

During the three months ended November 30, 2012, the Company began an initiative to sell substantially all long lived assets associated with continued operation of Aspen Leaf Yogurt Company-owned locations. This initiative caused the Company to perform an evaluation of the assets’ fair value. An impairment loss for ALY operations was recognized in the amount of \$1,978,216 for certain long-lived assets related to all ALY Company-owned locations.

Basic earnings per share decreased from \$.12 in the three months ended November 30, 2011 to a loss of \$.08 per share in the same period of the current year. Revenues increased 4.3% from \$8.3 million in the three months ended November 30, 2011 to \$8.6 million in the same period of the current year. Operating income decreased from \$1.1 million in the three months ended November 30, 2011 to an operating loss of \$833,000 in the same period of the current year. Net income decreased from \$725,000 in the three months ended November 30, 2011 to a net loss of \$509,000 in the same period of the current year. The decrease in operating income and net income for the three months ended November 30, 2012 compared to the same period in the prior year was due primarily to an impairment loss for ALY operations being recognized in the amount of \$1.98 million for long-lived assets related to eight underperforming Company-owned stores.

Revenues (\$'s in thousands)	Three Months Ended November 30,		\$ Change	% Change
	2012	2011		
Factory sales	\$ 6,323.4	\$ 6,185.5	\$ 137.9	2.2%
Retail sales	1,004.3	929.9	74.4	8.0%
Franchise fees	88.4	(21.6)	110.0	n/a
Royalty and Marketing fees	1,219.7	1,186.1	33.6	2.8%
Total	\$ 8,635.8	\$ 8,279.9	\$ 355.9	4.3%

Factory Sales

The increase in factory sales during the three months ended November 30, 2012 compared to the same period in the prior year was primarily due to a 5.4% increase in same-store pounds purchased by our network of franchised stores and an increase in sales to international and co-branded locations. These increases were partially offset by a 19.6% decrease in shipments to customers outside our system of franchised stores resulting from a shift in shipments to the fourth quarter of fiscal 2013 from November in the prior year.

Retail Sales

The increase in retail sales was primarily due to an increase in the average number of Company-owned stores in operation. The average number of Company owned units in operation increased from 12 during the three months ended November 30, 2011 to 15 units in the same period of the current year. The increase in average Company-owned units in operation and the resulting increase in retail sales was partially offset by a decrease in Company-owned same-store sales. Same-store sales at Company-owned stores decreased by 7.95% in the three months ended November 30, 2012 compared to the three months ended November 30, 2011. We believe the decline in same-store sales was primarily the result of the grand opening effect of Aspen Leaf Yogurt locations and the resulting revenues associated with these openings in the prior year.

Royalties, Marketing Fees and Franchise Fees

Royalties and marketing fees increased 2.8% in the three months ended November 30, 2012 compared with the same period of the prior year as a result of an increase in royalties based on the Company's purchase-based royalty structure and an increase in royalties from co-branded locations, partially offset by a decrease in domestic franchise units. Same store sales at franchise locations decreased 0.7% during the three months ended November 30, 2012 compared to the same period in the prior year. Average licensed locations in operation increased from 46 units in the three months ended November 30, 2011 to 54 units in the same period of the current year. The average number of domestic units in operation decreased from 250 in the three months ended November 30, 2011 to 241 in the same period of the current year. The increase in franchise fee revenue during the three months ended November 30, 2012, compared with the prior year period was primarily the result of a change in the franchise fee associated with Aspen Leaf Yogurt and a decrease in revenue recorded for the three months ended November 30, 2011 associated with locations opened during the nine months ended November 30, 2011. Additionally, domestic franchise and licensee openings increased from 4 openings in the three months ended November 30, 2011 to 8 openings in the same period of the current year.

Costs and Expenses (\$'s in thousands)	Three Months Ended November 30,		\$ Change	% Change
	2012	2011		
Cost of sales – factory adjusted	\$ 4,348.9	\$ 4,272.6	\$ 76.3	1.8%
Cost of sales - retail	420.3	408.8	11.5	2.8%
Franchise costs	457.6	452.7	4.9	1.1%
Sales and marketing	447.9	400.3	47.6	11.9%
General and administrative	847.9	800.6	47.3	5.9%
Retail operating	743.8	649.7	94.1	14.5%
Total	\$ 7,266.4	\$ 6,984.7	\$ 281.7	4.0%

Adjusted gross margin	Three Months Ended November 30,		\$ Change	% Change
	2012	2011		
(\$'s in thousands)				
Factory adjusted gross margin	\$ 1,974.5	\$ 1,912.9	\$ 61.6	3.2%
Retail	584.0	521.1	62.9	12.1%
Total	\$ 2,558.5	\$ 2,434.0	\$ 124.5	5.1%

(Percent)				
Factory adjusted gross margin	31.2%	30.9%	0.3%	1.0%
Retail	58.1%	56.0%	2.1%	3.8%
Total	34.9%	34.2%	0.7%	2.0%

Adjusted gross margin, a non-GAAP measure, is equal to the sum of our factory adjusted gross margin plus our retail gross margin calculated in accordance with GAAP. Factory adjusted gross margin is equal to factory gross margin minus depreciation and amortization expense. We believe adjusted gross margin is helpful in understanding our past performance as a supplement to gross margin and other performance measures calculated in conformity with accounting principles generally accepted in the United States ("GAAP"). We believe that adjusted gross margin is useful to investors because it provides a measure of operating performance and our ability to generate cash that is unaffected by non-cash accounting measures. Additionally, we use adjusted gross margin rather than gross margin to make incremental pricing decisions. Adjusted gross margin has limitations as an analytical tool because it excludes the impact of depreciation and amortization expense and you should not consider it in isolation or as a substitute for any measure reported under GAAP. Our use of capital assets makes depreciation and amortization expense a necessary element of our costs and our ability to generate income. Due to these limitations, we use adjusted gross margin as a measure of performance only in conjunction with GAAP measures of performance such as gross margin. The following table provides a reconciliation of factory adjusted gross margin to factory gross margin, the most comparable performance measure under GAAP:

(\$'s in thousands)	Three Months Ended November 30,	
	2012	2011
Factory adjusted gross margin	\$ 1,974.5	\$ 1,912.9
Less: Depreciation and Amortization	72.1	68.4
Factory GAAP gross margin	\$ 1,902.4	\$ 1,844.5

Cost of Sales and Gross Margin

Factory adjusted gross margin increased 30 basis points in the three months ended November 30, 2012 compared to the three months ended November 30, 2011 due primarily to an increase in the average selling price of products to domestic franchise units. The increase in Company-owned store margin is due primarily to a change in product mix.

Franchise Costs

Franchise costs were approximately unchanged in the three months ended November 30, 2012 compared with the same period of the prior year. As a percentage of total royalty and marketing fees and franchise fee revenue, franchise costs decreased to 35.0% in the three months ended November 30, 2012 from 38.9% in the three months ended November 30, 2011. This decrease as a percentage of royalty, marketing and franchise fees is primarily a result of a 12.3% increase in total royalty and marketing fees and franchise fee revenue.

Sales and Marketing

The increase in sales and marketing costs for the three months ended November 30, 2012 compared to the three months ended November 30, 2011 is primarily due to increased costs of marketing of franchise locations and marketing related compensation costs.

General and Administrative

General and administrative costs increased 5.9% for the three months ended November 30, 2012 compared to the three months ended November 30, 2011. This increase was primarily due to restructuring expenses associated with Aspen Leaf Yogurt as described above. As a percentage of total revenues, general and administrative expense increased to 9.8% in the three months ended November 30, 2012 compared to 9.7% in the same period of the prior year.

Retail Operating Expenses

The increase in retail operating expenses was primarily due to an increase in the average number of Company-owned stores in operation. The average number of Company owned units in operation increased from 12 during the three months ended November 30, 2011 to 15 units in the same period of the current year. Retail operating expenses, as a percentage of retail sales, increased from 69.9% in the three months ended November 30, 2011 to 74.1% in the three months ended November 30, 2012.

Depreciation and Amortization

Depreciation and amortization of \$224,000 in the three months ended November 30, 2012 increased 15.4% from \$194,000 incurred in the three months ended November 30, 2011 due to additional depreciable assets acquired by us as a result of an increase in the number of Company-owned stores in operation and the associated depreciation of those assets.

Interest Income

Interest income of \$10,400 realized in the three months ended November 30, 2012 represents a decrease of \$4,900 from the \$15,300 realized in the three months ended November 30, 2011.

Income Tax Expense

Our effective income tax rate in the three months ended November 30, 2012 was 38.0% which is an increase of 2.9% compared to 35.1% in the same period of the prior year. The increase was primarily the result of the effect of recording an impairment on certain long-lived assets and the associated tax benefit of that impairment.

Nine Months Ended November 30, 2012 Compared to the Nine Months Ended November 30, 2011

During the nine months ended November 30, 2012, the Company began an initiative to sell substantially all long lived assets associated with continued operation of Aspen Leaf Yogurt Company-owned locations. This initiative caused the Company to perform an evaluation of the assets' fair value. An impairment loss for ALY operations was recognized in the amount of \$1,978,216 for certain long-lived assets related to all ALY Company-owned locations.

Basic earnings per share decreased 45.2% from \$.42 for the nine months ended November 30, 2011 to \$.23 for the same period of the current year. Revenues increased 6.2% to \$26.0 million for the nine months ended November 30, 2012 compared to \$24.5 million in the nine months ended November 30, 2011. Operating income decreased 47.3% from \$3.9 million in the nine months ended November 30, 2011 to \$2.1 million in the nine months ended November 30, 2012. Net income decreased 45.9% from \$2.6 million in the nine months ended November 30, 2011 to \$1.4 million in the nine months ended November 30, 2012. The decrease in operating income and net income for the nine months ended November 30, 2012 compared to the same period in the prior year was due primarily to an impairment loss for ALY operations being recognized in the amount of \$1.98 million for long-lived assets related to eight underperforming Company-owned stores.

Revenues

(\$'s in thousands)	Nine Months Ended		\$	%
	2012	2011		
Factory sales	\$ 17,485.2	\$ 16,557.5	\$ 927.7	5.6%
Retail sales	4,163.2	3,772.0	391.2	10.4%
Franchise fees	247.5	228.2	19.3	8.5%
Royalty and marketing fees	4,127.9	3,935.9	192.0	4.9%

Total	\$	26,023.8	\$	24,493.6	\$	1,530.2	6.2%
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Factory Sales

The increase in factory sales for the nine months ended November 30, 2012 versus the nine months ended November 30, 2011 was primarily due to a 6.6% increase in sales to domestic and international franchised and licensed stores and a 1.5% increase in shipments of product to customers outside our network of franchised retail stores. Same-store pounds purchased by franchise locations was unchanged in the nine months ended November 30, 2012 compared with the same period in the prior year. These increases were partially offset by a 3.8% decrease in the average number of domestic Rocky Mountain Chocolate Factory franchised stores in operation.

Retail Sales

The increase in retail sales resulted primarily from an increase in the average number of Company-owned stores in operation from 13 in the nine months ended November 30, 2011 to 17 in the same period of the current year. The increase in average Company-owned units in operation and the resulting increase in retail sales was partially offset by a decrease in Company-owned same-store sales. Same-store retail sales at Company-owned locations decreased 1.0% in the nine months ended November 30, 2012 compared to the same period in the prior year.

Royalties, Marketing Fees and Franchise Fees

Royalties and marketing fees increased 4.9% in the nine months ended November 30, 2012 compared with the same period of the prior year as a result of an increase in royalties based on the Company's purchase based royalty structure, an increase in same store sales and an increase in royalties from co-branded locations, partially offset by a decrease in domestic franchise units. Same store sales at franchise locations increased 1.1% during the nine months ended November 30, 2012 compared to the same period in the prior year. Average licensed locations in operation increased from 44 units in nine months ended November 30, 2011 to 52 units in the same period of the current year. The average number of domestic units in operation decreased from 246 in the nine months ended November 30, 2011 to 237 in the same period of the current year. The increase in franchise fee revenue during the nine months ended November 30, 2012, compared with the prior year period was the result of an increase in international license fees partially offset by a decrease in domestic franchise openings from 11 during the nine months ended November 30, 2011 to 9 openings during the nine months ended November 30, 2012.

Costs and Expenses

(\$'s in thousands)	Nine Months Ended		\$	%
	November 30,			
	2012	2011	Change	Change
Cost of sales – factory adjusted	\$ 11,849.7	\$ 11,360.4	\$ 489.3	4.3%
Cost of sales - retail	1,611.3	1,531.9	79.4	5.2%
Franchise costs	1,560.1	1,374.4	185.7	13.5%
Sales and marketing	1,317.9	1,225.4	92.5	7.5%
General and administrative	2,389.7	2,257.2	132.5	5.9%
Retail operating	2,568.1	2,288.2	279.9	12.2%
Total	\$ 21,296.8	\$ 20,037.5	\$ 1,259.3	6.3%

Adjusted gross margin	Nine Months Ended		\$	%
	November 30,			
	2012	2011	Change	Change
(\$'s in thousands)				
Factory adjusted gross margin	\$ 5,635.5	\$ 5,197.1	\$ 438.4	8.4%
Retail	2,551.9	2,240.1	311.8	13.9%
Total	\$ 8,187.4	\$ 7,437.2	\$ 750.2	10.1%
(Percent)				
Factory adjusted gross margin	32.2%	31.4%	0.8%	2.5%
Retail	61.3%	59.4%	1.9%	3.2%
Total	37.8%	36.6%	1.2%	3.3%

Adjusted gross margin, a non-GAAP measure, is equal to the sum of our factory adjusted gross margin plus our retail gross margin calculated in accordance with GAAP. Factory adjusted gross margin is equal to factory gross margin minus depreciation and amortization expense. We believe adjusted gross margin is helpful in understanding our past performance as a supplement to gross margin and other performance measures calculated in conformity with accounting principles generally accepted in the United States ("GAAP"). We believe that adjusted gross margin is useful to investors because it provides a measure of operating performance and our ability to generate cash that is unaffected by non-cash accounting measures. Additionally, we use adjusted gross margin rather than gross margin to make incremental pricing decisions. Adjusted gross margin has limitations as an analytical tool because it excludes the impact of depreciation and amortization expense and you should not consider it in isolation or as a substitute for any measure reported under GAAP. Our use of capital assets makes depreciation and amortization expense a necessary element of our costs and our ability to generate income. Due to these limitations, we use adjusted gross margin as a measure of performance only in conjunction with GAAP measures of performance such as gross margin. The following table provides a reconciliation of factory adjusted gross margin to factory gross margin, the most comparable performance measure under GAAP:

(\$'s in thousands)	Nine Months Ended	
	November 30,	
	2012	2011
Factory adjusted gross margin	\$ 5,635.5	\$ 5,197.1
Less: Depreciation and Amortization	214.4	207.0
Factory GAAP gross margin	\$ 5,421.1	\$ 4,990.1

Cost of Sales and Gross Margin

Factory adjusted gross margin increased 80 basis points during the nine months ended November 30, 2012 compared to the same period in the prior year due primarily to an increase in the average selling price of products to domestic franchise units. The increase in Company-owned store margin is due primarily to lower costs associated with Aspen Leaf Yogurt grand openings, a change in the number of Company-owned stores in operation, and the associated change in product mix.

Franchise Costs

The increase in franchise costs for the nine months ended November 30, 2012 compared to the nine months ended November 30, 2011 is due primarily to an increase in travel and support costs associated with our international development initiative and an increase in franchise opportunity advertising costs. As a percentage of total royalty and marketing fees and franchise fee revenue, franchise costs increased to 35.7% in the nine months ended November 30, 2012 from 33.0% in the nine months ended November 30, 2011. This increase as a percentage of royalty, marketing and franchise fees is primarily a result of higher franchise costs relative to revenues, as discussed above.

Sales and Marketing

The increase in sales and marketing expense for the nine months ended November 30, 2012 compared to the same period in the prior year is due primarily to an increase in marketing-related compensation and benefit costs.

General and Administrative

The increase in general and administrative costs for the nine months ended November 30, 2012 compared to the nine months ended November 30, 2011 is due primarily to an increase in travel costs associated with our international development initiative and costs associated with restructuring of Aspen Leaf Yogurt. As a percentage of total revenues, general and administrative expenses were unchanged at 9.2% in the nine months ended November 30, 2012 and the same period of the prior year.

Retail Operating Expenses

The increase in retail operating expense was primarily due to an increase in the average number of Company-owned stores in operation during the nine months ended November 30, 2012 compared with the same period of the prior year. The average number of Company owned units in operation increased from 13 during the nine months ended November 30, 2011 to 17 units in the same period of the current year. Retail operating expenses, as a percentage of retail sales, increased from 60.7% in the nine months ended November 30, 2011 to 61.7% in the same period of the current year.

Depreciation and Amortization

Depreciation and amortization of \$692,000 in the nine months ended November 30, 2012 increased 25.0% from \$553,000 incurred in the nine months ended November 30, 2011 due to an increase in the number of Company-owned stores in operation and the associated depreciation of those assets.

Interest Income

Interest income of \$33,000 realized in the nine months ended November 30, 2012 represents a decrease of \$13,000 from the \$46,000 realized in the same period of the prior year due to lower balances of notes receivable.

Income Tax Expense

Our effective income tax rate in the nine months ended November 30 2012, was 33.9%, a decrease of 1.4% from the 35.3% during the same period in the prior fiscal year. The decrease was primarily the result of the effect of recording an impairment on certain long-lived assets and the associated tax benefit of that impairment

Liquidity and Capital Resources

As of November 30, 2012, working capital was \$10.4 million, compared with \$10.6 million as of February 29, 2012, a decrease of \$200,000. The decrease in working capital was primarily due to operating results less payments for dividends and the repurchase of common stock.

Cash and cash equivalents decreased from \$4.1 million as of February 29, 2012 to \$3.5 million as of November 30, 2012 as a result of cash flows provided by operating activities being less than cash flows used by financing. Our current ratio was 4.36 to 1 at November 30, 2012 compared to a current ratio of 3.98 to 1 at February 29, 2012. We monitor current and anticipated future levels of cash and cash equivalents in relation to anticipated operating, financing and investing requirements.

We have a \$5.0 million (\$5.0 million available as of November 30, 2012) working capital line of credit collateralized by substantially all of our assets with the exception of our retail store assets. The line is subject to renewal in July 2013. As of November 30, 2012, no amount was outstanding under this line of credit.

In November 2011, we executed a promissory note for \$2.5 million in order to establish a line of credit for the funding of the potential expansion of Company-owned Aspen Leaf Yogurt locations. The line of credit is guaranteed by us and is collateralized by our land, building and improvements. We may draw from the line of credit until November 1, 2013 to fund new Aspen Leaf Yogurt store openings. After November 1, 2013, any amount outstanding will be repaid over the 48 month period subsequent to November 1, 2013. Interest on borrowings is at 4.75% per annum. As of November 30, 2012, no amount was outstanding under this promissory note.

We believe cash flows generated by operating activities and available financing will be sufficient to fund our operations at least through the end of fiscal 2013.

Impact of Inflation

Inflationary factors such as increases in the costs of ingredients and labor directly affect our operations. Most of our leases provide for cost-of-living adjustments and require us to pay taxes, insurance and maintenance expenses, all of which are subject to inflation. Additionally our future lease costs for new facilities may include potentially escalating costs of real estate and construction. There is no assurance that we will be able to pass on increased costs to our customers.

Depreciation expense is based on the historical cost of our fixed assets, and is therefore potentially less than it would be if it were based on current replacement cost. While property and equipment acquired in prior years will ultimately have to be replaced at higher prices, it is expected that replacement will be a gradual process over many years.

Seasonality

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We do not engage in commodity futures trading or hedging activities and do not enter into derivative financial instrument transactions for trading or other speculative purposes. We also do not engage in transactions in foreign currencies or in interest rate swap transactions that could expose us to market risk. However, we are exposed to some commodity price and interest rate risks.

We frequently enter into purchase contracts of between six to eighteen months for chocolate and certain nuts. These contracts permit us 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, 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 and we are unable to renegotiate the terms of the contracts. As of November 30, 2012, based on future contractual obligations for chocolate products, we estimate that a 10.0% change in the price of cocoa would result in an \$85,000 favorable or unfavorable price benefit resulting from our contracts.

As of November 30, 2012, all of our long-term debt was paid in full. We also have a \$5.0 million bank line of credit that bears interest at a variable rate and a \$2.5 million promissory note that allows draws until November 1, 2013 and bears interest at 4.75% per annum. As of November 30, 2012, no amount was outstanding under the line of credit or the promissory note. We do not believe that we are exposed to any material interest rate risk related to these credit facilities.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) that are designed to ensure that material information relating to us is made known to the officers who certify as to our financial reports and to other members of senior management and the Board of Directors. These disclosure controls and procedures are designed to ensure that information required to be disclosed in our reports that are filed or submitted under the Exchange Act, are recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Management, with the participation of our CEO and CFO, has evaluated the effectiveness, as of November 30, 2012, of our disclosure controls and procedures. Based on that evaluation, our CEO and CFO have concluded that our disclosure controls and procedures were effective as of November 30, 2012.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended November 30, 2012, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are not currently involved in any material legal proceedings other than routine litigation incidental to our business.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part 1, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended February 29, 2012. There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the fiscal year ended February 29, 2012.

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

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

None

Item 6. Exhibits

- 3.1 Articles of Incorporation of the Registrant, as amended, incorporated by reference to Exhibit 3.1 to the Annual Report on Form 10-K of the Registrant for the year ended February 28, 2009
- 3.2 Articles of Amendment to Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K of the Registrant filed on May 22, 2009)
- 3.3 Amended and Restated By-laws (incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K of the Registrant filed on December 14, 2007)
- 10.1 *Promissory Note dated August 28, 2012 in the amount of \$5,000,000 between Wells Fargo Bank and the Registrant.
- 10.2 *Commercial Security Agreement dated August 28, 2012 between Wells Fargo Bank and the Registrant.
- 10.3 *Business Loan Agreement dated August 28, 2012 between Wells Fargo Bank and the Registrant.
- 31.1 *Certification Pursuant To Section 302 Of The Sarbanes-Oxley Act of 2002, Chief Executive Officer
- 31.2 *Certification Pursuant To Section 302 Of The Sarbanes-Oxley Act of 2002, Chief Financial Officer
- 32.1 **Certification Pursuant To Section 906 Of The Sarbanes-Oxley Act of 2002, Chief Executive Officer
- 32.2 **Certification Pursuant To Section 906 of The Sarbanes-Oxley Act of 2002, Chief Financial Officer
- 101.INS ***XBRL Instance Document
- 101.SCH ***XBRL Taxonomy Extension Schema Document
- 101.CAL ***XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF ***XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB ***XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE ***XBRL Taxonomy Extension Presentation Linkbase Document

*Filed herewith.

**Furnished herewith.

Furnished with this report. In accordance with Rule 406T of Regulation S-T, the XBRL-related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall be deemed “furnished” and not ***“filed” or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not “filed” for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

Signature

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

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC.
(Registrant)

Date: January 14, 2013

/s/ Bryan J. Merryman

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

PROMISSORY NOTE
(Continued)

Loan No: 7657418442-26

Page 1

PROMISSORY NOTE

Exhibit

10.1

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
\$5,000,000.00	08-28-2012	07-31-2013	7657418442-34		12080305548	K0096	

References in the shaded area are for Lender's use only and do not limit the applicability of this document to any particular loan or item.

Any item above containing "****" has been omitted due to text length limitations.

Borrower: Rocky Mountain Chocolate Factory, Inc.
265 Turner Drive
Durango, CO 81303

Lender: Wells Fargo Bank, National Association
Durango Main
200 West College Drive
Durango, CO 81301

Principal Amount: \$5,000,000.00

Date of Note: August 28, 2012

PROMISE TO PAY. Rocky Mountain Chocolate Factory, Inc. ("Borrower") promises to pay to Wells Fargo Bank, National Association ("Lender"), or order, in lawful money of the United States of America, the principal amount of Five Million & 00/100 Dollars (\$5,000,000.00) or so much as may be outstanding, together with interest on the unpaid outstanding principal balance of each advance. Interest shall be calculated from the date of each advance until repayment of each advance.

PAYMENT. Borrower will pay this loan in one payment of all outstanding principal plus all accrued unpaid interest on July 31, 2013. In addition, Borrower will pay regular monthly payments of all accrued unpaid interest due as of each payment date, beginning September 30, 2012, with all subsequent interest payments to be due on the last day of each month after that. Unless otherwise agreed or required by applicable law, payments will be applied first to any accrued unpaid interest; then to principal; and then to any late charges. Borrower will pay Lender at Lender's address shown above or at such other place as Lender may designate in writing.

VARIABLE INTEREST RATE. The interest rate on this Note is subject to change from time to time based on changes in an index which is the floating rate equal to the Prime Rate set from time to time by Lender that serves as the basis upon which effective rates of interest are calculated for those loans making reference thereto (the "Index"). The Index is not necessarily the lowest rate charged by Lender on its loans and is set by Lender in its sole discretion. If the Index becomes unavailable during the term of this loan, Lender may designate a substitute index after notifying Borrower. Lender will tell Borrower the current Index rate upon Borrower's request. The interest rate change will not occur more often than each time the Index changes. Interest will accrue on the outstanding principal balance of the Note at an interest rate equal to the sum of the Index and the Margin, subject to any floor or ceiling rate that may apply. Each change in the Index shall become effective on the date each Prime Rate change is announced within Lender. Lender may reamortize payments as described in the Note or from time to time in Lender's discretion to take into account changes in the interest rate. If payments are intended to amortize principal and interest, the reamortization may adjust the payment amount to an amount which would cause the Note to be fully paid over the intended amortization period of the Note in approximately equal successive payments. Reamortization will not change the Note maturity date. If Lender fails for any reason to timely or properly adjust the interest rate or payment amount, Borrower shall notify Lender of the oversight, and Lender may retroactively adjust the interest rate to correct the oversight and/or reamortize and adjust the payment amount at any subsequent time as may be necessary. In no event shall Lender's failure to properly adjust the interest rate or payment amount result in a forgiveness of any portion of the indebtedness. The "Index currently" stated below is the Index value (rounded to three decimal places) that existed at the time this agreement was prepared, and the "Initial Rate" stated herein is that Index value plus the Margin; they do not necessarily reflect the Index in effect on the date of this agreement. The actual rate applicable to the Note is the actual Index in effect each day plus the Margin, subject to any floor or ceiling rate, or any default rate, that may apply, with interest accrual calculated pursuant to the INTEREST CALCULATION METHOD paragraph. The "Margin" is the amount shown in the sentence below, stated as "<margin> percentage points over the Index". If the margin value is stated as "<margin> percentage points under the index", then the Margin is that value expressed as a negative

number. If the sentence states "using a rate equal to the Index", then the Margin is zero. Lender may round the Index value to five decimal places at Lender's discretion. Borrower understands that Lender may make loans based on other rates as well. **The Index currently is 3.250% per annum.** Interest on the unpaid principal balance of this Note will be calculated as described in the "INTEREST CALCULATION METHOD" paragraph using a rate of 0.500 percentage points under the Index, adjusted if necessary for any minimum and maximum rate limitations described below, resulting in an initial rate of 5.000%. NOTICE: Under no circumstances will the interest rate on this Note be less than 5.000% per annum or more than the maximum rate allowed by applicable law.

INTEREST CALCULATION METHOD. Interest on this Note is computed on a 365/360 basis; that is, by applying the ratio of the interest rate over a year of 360 days, multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding. All interest payable under this Note is computed using this method.

PREPAYMENT. Borrower may pay without penalty all or a portion of the amount owed earlier than it is due. Early payments will not, unless agreed to by Lender in writing, relieve Borrower of Borrower's obligation to continue to make payments of accrued unpaid interest. Rather, early payments will reduce the principal balance due. Borrower agrees not to send Lender payments marked "paid in full", "without recourse", or similar language. If Borrower sends such a payment, Lender may accept it without losing any of Lender's rights under this Note, and Borrower will remain obligated to pay any further amount owed to Lender. All written communications concerning disputed amounts, including any check or other payment instrument that indicates that the payment constitutes "payment in full" of the amount owed or that is tendered with other conditions or limitations or as full satisfaction of a disputed amount must be mailed or delivered to: Wells Fargo Bank, National Association, Attn: Commercial Loan Research Department, MAC # T7422-012, PO Box 659713 San Antonio, TX 78265.

LATE CHARGE. If a payment is 15 days or more late, Borrower will be charged **5.000% of the unpaid portion of the regularly scheduled payment or \$15.00, whichever is greater.**

INTEREST AFTER DEFAULT. Upon default, at Lender's option, and if permitted by applicable law, Lender may add any unpaid accrued interest to principal and such sum will bear interest therefrom until paid at the rate provided in this Note (including any increased rate). Upon default, the interest rate on this Note shall be increased by adding an additional 4.000 percentage point margin ("Default Rate Margin"). The Default Rate Margin shall also apply to each succeeding interest rate change that would have applied had there been no default. However, in no event will the interest rate exceed the maximum interest rate limitations under applicable law.

DEFAULT. Each of the following shall constitute an event of default ("Event of Default") under this Note:

Payment Default. Borrower fails to make any payment when due under this Note.

Other Defaults. Borrower fails to comply with or to perform any other term, obligation, covenant or condition contained in this Note or in any of the related documents or to comply with or to perform any term, obligation, covenant or condition contained in any other agreement between Lender and Borrower.

Default in Favor of Third Parties. Borrower or any Grantor defaults under any loan, extension of credit, security agreement, purchase or sales agreement, or any other agreement, in favor of any other creditor or person that may materially affect any of Borrowers property or Borrowers ability to repay this Note or perform Borrower's obligations under this Note or any of the related documents.

False Statements. Any warranty, representation or statement made or furnished to Lender by Borrower or on Borrower's behalf under this Note or the related documents is false or misleading in any material respect, either now or at the time made or furnished or becomes false or misleading at any time thereafter.

Insolvency. The dissolution or termination of Borrower's existence as a going business, the insolvency of Borrower, the appointment of a receiver for any part of Borrower's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Borrower.

Creditor or Forfeiture Proceedings. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Borrower or by any governmental agency against any collateral securing the loan. This includes a garnishment of any of Borrower's accounts, including deposit accounts, with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Borrower as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if Borrower gives Lender written notice of the creditor or forfeiture proceeding and deposits with Lender monies or a surety bond for the creditor or forfeiture proceeding, in an amount determined by Lender, in its sole discretion, as being an adequate reserve or bond for the dispute.

Events Affecting Guarantor. Any of the preceding events occurs with respect to any guarantor, endorser, surety, or accommodation party of any of the indebtedness or any guarantor, endorser, surety, or accommodation party dies or becomes incompetent, or revokes or disputes the validity of, or liability under, any guaranty of the indebtedness evidenced by this Note.

Change In Ownership. Any change in ownership of twenty-five percent (25%) or more of the common stock of Borrower.

Adverse Change. A material adverse change occurs in Borrower's financial condition, or Lender believes the prospect of payment or performance of this Note is impaired.

Insecurity. Lender in good faith believes itself insecure.

LENDER'S RIGHTS. Upon default, Lender may declare the entire unpaid principal balance under this Note and all accrued unpaid interest immediately due, and then Borrower will pay that amount.

ATTORNEYS' FEES; EXPENSES. Lender may hire or pay someone else to help collect this Note if Borrower does not pay. Borrower will pay Lender the reasonable costs of such collection. This includes, subject to any limits under applicable law, Lender's attorneys' fees and Lender's legal expenses, whether or not there is a lawsuit, including without limitation attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), and

appeals. If not prohibited by applicable law, Borrower also will pay any court costs, in addition to all other sums provided by law.

GOVERNING LAW. This Note will be governed by federal law applicable to Lender and, to the extent not preempted by federal law, the laws of the State of Colorado without regard to its conflicts of law provisions. This Note has been accepted by Lender in the State of Colorado.

RIGHT OF SETOFF. To the extent permitted by applicable law, Lender reserves a right of setoff in all Borrower's accounts with Lender (whether checking, savings, or some other account). This includes all accounts Borrower holds jointly with someone else and all accounts Borrower may open in the future. However, this does not include any IRA or Keogh accounts, or any trust accounts for which setoff would be prohibited by law. Borrower authorizes Lender, to the extent permitted by applicable law, to charge or setoff all sums owing on the indebtedness against any and all such accounts, and, at Lender's option, to administratively freeze all such accounts to allow Lender to protect Lender's charge and setoff rights provided in this paragraph.

LINE OF CREDIT. This Note evidences a revolving line of credit. Advances under this Note may be requested either orally or in writing by Borrower or by an authorized person. Lender may, but need not, require that all oral requests be confirmed in writing. All communications, instructions, or directions by telephone or otherwise to Lender are to be directed to Lender's office shown above. Borrower agrees to be liable for all sums either: (A) advanced in accordance with the instructions of an authorized person or (B) credited to any of Borrowers accounts with Lender. The unpaid principal balance owing on this Note at any time may be evidenced by endorsements on this Note or by Lender's internal records, including daily computer print-outs.

PAYMENT DUE DATE DEFERRAL. Payment invoices will be sent on a date (the "billing date") which is prior to each payment due date. If this Note is booked near or after the billing date for the first scheduled payment, Lender may, in its sole discretion, defer each scheduled payment date and/or the maturity date by one or more months.

FINANCIAL STATEMENTS. Borrower agrees to provide to Lender, upon request, financial statements prepared in a manner and form acceptable to Lender, and copies of such tax returns and other financial information and statements as may be requested by Lender. Each financial statement shall give a full and complete picture of Borrower's financial condition as of the statement's date, with ownership accurately reflected, and shall be signed and dated or otherwise authenticated to Lender's satisfaction. Borrower shall also furnish such information regarding Borrower or the Collateral or the use of loan proceeds as may be requested by Lender. Borrower warrants that all financial statements and information provided to Lender are and will be accurate, correct and complete. Borrower will permit Lender to examine or audit Borrower's books, accounts, and records, including any records in the possession of a third party, at any reasonable time upon request, at no cost to Lender. Such financial statements and other financial information shall be signed and dated by Borrower, and by any other party preparing such financial statements or otherwise authenticated to Lender's satisfaction.

PROMISSORY NOTE
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EXTENSION AND RENEWAL. Lender may, at Lender's discretion, renew or extend this Note by written notice to Borrower. Such renewal or extension will be effective as of the maturity date of this Note, and may be conditioned among other things on modification of Borrower's obligations hereunder, including but not limited to a decrease in the amount available under this Note, an increase in the interest rate applicable to this Note and/or payment of a fee for such renewal or extension. Borrower will be deemed to have accepted the terms of such extensions and renewals if Borrower does not deliver to Lender written rejection of such renewal or extension within 10 days following the date of the written notice of such changes, or if Borrower draws additional funds following receipt of such notice. After any renewal or extension of Borrower's obligations under this Note, the term "maturity date" as used in this Note will mean the new maturity date set forth in the written notice of extension or renewal of this Note. The Note may be modified, extended and renewed repeatedly in this manner.

LINE ADVANCES. Notwithstanding anything to the contrary, requests for advances communicated to any office of Lender by any person believed by Lender in good faith to be authorized to make the request, whether written, verbal, telephonic or electronic, may be acted upon by Lender, and Borrower will be liable for sums advanced by Lender pursuant to such request. Such requests for advances shall be deemed authorized by Borrower, and Lender shall not be liable for such advances made in good faith, and with respect to advances deposited to the credit of any deposit account of Borrower, such advances, when so deposited, shall be conclusively presumed to have been made to or for the benefit of Borrower regardless of the fact that persons other than those authorized to request advances may have authority to draw against such account. Borrower agrees to indemnify and hold Lender harmless from and against all damages, liabilities, costs and expenses (including attorney's fees) arising out of any claim by Borrower or any third party against Lender in connection with Lender's performance of transfers as described above.

CREDIT BUREAU INQUIRIES. The parties hereto, and each individual signing below in a representative capacity, agree that Lender may obtain business and/or personal credit reports and tax returns on each of them in their individual capacities.

APPLICATION OF PAYMENTS. Notwithstanding the application of payment provided in the Payment section of this Note, unless otherwise agreed, all sums received from Borrower may be applied to interest, fees, principal, or any other amounts due to Lender in any order at Lender's sole discretion. If a final payment amount is set out in the Payment section of this Note, Borrower understands that it is an estimate, and that the actual final payment amount will depend upon when payments are received and other factors.

DEFAULT RATE. At Lenders option and without prior notice, upon default or at any time during the pendency of any event of default under the Note or any related loan documents, Lender may impose a default rate of interest (the "Default Rate") equal to the pre-default interest rate plus four percent per annum, not to exceed the maximum lawful rate. If the pre-default rate is a floating or adjustable rate based upon an Index, it will continue to float or adjust on the same periodic schedule, and the Default Rate will be a variable rate per annum equal to the applicable Index plus the pre-default margin plus four percent, not to exceed the maximum lawful rate. The Default Rate shall remain in effect until the default has been cured and that fact has been communicated to and confirmed by Lender. Lender may, from time to time in its discretion, adjust or reamortize payments to take into account changes in the interest rate. Lender shall give written notice to Borrower of Lender's imposition of the Default Rate, except that if the Note is not paid at maturity, Lender may impose the Default Rate from the maturity date to the date paid in full without notice. Lender's imposition of the Default Rate shall not constitute an election of remedies or otherwise limit Lender's rights concerning other remedies available to Lender as a result of the occurrence of an event of default. In the event of a conflict between the provisions of this paragraph and any other provision of the Note or any related agreement, the provisions of this paragraph shall control. If a default rate is prohibited by applicable law, then the pre-default rate (including periodic rate adjustments for floating or adjustable rates) shall continue to apply after default or maturity.

FURTHER ASSURANCES. The undersigned agrees to (i) do all things deemed necessary by Lender in order to fully document the loan evidenced by the Note and any related agreements, and will fully cooperate concerning the execution and delivery of security agreements, stock powers, instructions and/or other documents pertaining to any collateral intended to secure the Indebtedness, (ii) assist in the cure of any defects in the execution, delivery or substance of the Note and related agreements, and in the creation and perfection of any liens, security interests or other collateral rights securing the Note, and (iii) pay Lender immediately upon demand the full amount of all charges, costs and expenses (to include fees paid to third parties) expended or

incurred by Lender to monitor Lender's interest in any real or personal property pledged as collateral for the Note, including without limitation all costs of appraisals.

CONSENT TO SELL LOAN. The parties hereto agree: (a) Lender may sell or transfer all or part of this loan to one or more purchasers, whether related or unrelated to Lender; (b) Lender may provide to any purchaser, or potential purchaser, any information or knowledge Lender may have about the parties or about any other matter relating to this loan obligation, and the parties waive any rights to privacy it may have with respect to such matters; (c) the purchaser of a loan will be considered its absolute owner and will have all the rights granted under the loan documents or agreements governing the sale of the loan; and (d) the purchaser of a loan may enforce its interests irrespective of any claims or defenses that the parties may have against Lender.

FACSIMILE AND COUNTERPART. This document may be signed in any number of separate copies, each of which shall be effective as an original, but all of which taken together shall constitute a single document. An electronic transmission or other facsimile of this document or any related document shall be deemed an original and shall be admissible as evidence of the document and the signer's execution.

DOCUMENT DELIVERY AND ELECTRONIC TRANSMISSION OF DOCUMENTS. Each party or person signing this agreement (referred to in this paragraph as "you") agrees that Lender may, in its sole discretion, rely upon any document, report, financial statement, tax return, agreement or other communication ("Document") physically delivered to Lender by mail, hand delivery or delivery service which Lender in good faith believed was sent by you or any of your representatives or employees. Similarly, Lender may, in its sole discretion, rely upon any Document sent by email, facsimile or other electronic means to Lender which Lender in good faith believed was sent by you or any of your representatives or employees. Lender may treat the Document as genuine and authorized to the same extent as if it was an original document validly executed or authenticated as genuine by you. Lender may from time to time in its sole discretion reject any such Document and require a signed original, or require you to provide acceptable authentication of any such Document before accepting or relying on same. You understand and acknowledge that there is a risk that Documents sent by electronic means may be viewed or received by unauthorized persons, and you agree that by sending Documents by electronic means, you shall be deemed to have accepted this risk and the consequences of any such unauthorized disclosure.

COMMUNITY PROPERTY. In addition to the rights of Lender under any applicable community property laws, any Borrower who has an interest in community property under applicable law acknowledges and agrees that his/her obligation as borrower is incurred in the interest of and to benefit the marital community (or domestic partnership, if applicable), and expressly agrees that recourse may be had against his or her separate property and his or her rights in community property and community assets for all of his or her obligations to Lender, in addition to any other property that may be subject to rights of Lender.

PROMISSORY NOTE
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SECURITY INTEREST AND RIGHT OF SETOFF. In addition to all liens upon and rights of setoff arising by law, Borrower pledges and grants to Lender as security for Borrower's indebtedness and obligations under the Note (excluding any consumer obligations subject to the Federal Truth In Lending Act) a security interest and lien upon all monies, securities, securities accounts, brokerage accounts, deposit accounts and other property of Borrower now or hereafter in the possession of or on deposit with Lender or any Wells Fargo affiliate, whether held in a general or special account or for safekeeping or otherwise, excluding however all IRA and Keogh accounts. No security interest, lien or right of setoff will be deemed to have been waived by any act or conduct on the part of Lender, or by any neglect to exercise such right, or by any delay in so doing, and every right of setoff, lien and security interest will continue in full force and effect until specifically waived or released by Lender in writing.

LOAN FEE AUTHORIZATION. Borrower shall pay to Lender any and all fees as specified in the "Disbursement Request and Authorization" executed by Borrower in connection with this Note. Such fees are non-refundable and shall be due and payable in full immediately upon Borrower's execution of this Note.

ADDITIONAL EVENTS OF DEFAULT. In addition to the Events of Default described herein, the following shall be an Event of Default if applicable: (i) Borrower, any Guarantor or any grantor of collateral fails to comply with any terms or conditions of any agreement with Lender or any Wells Fargo Affiliate; (ii) Borrower or any Guarantor revokes or disputes the validity of any of its liabilities or obligations under any Note, related agreement, or any other agreement with Lender or any Wells Fargo Affiliate; (iii) ~~any change in ownership of an aggregate of twenty-five percent (25%) or more of the common stock, members' equity or other ownership interest in Borrower or any general partner or borrower or any Guarantor~~ (iv) the withdrawal, resignation or expulsion of any one or more of the general partners in Borrower or any Guarantor with an aggregate ownership interest in Borrower or such Guarantor of twenty-five percent (25%) or more; or (v) Borrower or any Guarantor or chairman, CEO, CFO, president, manager or general partner of Borrower or any Guarantor, nor any officer, member, or shareholder with an ownership interest of 25% or more of Borrower or any Guarantor, is adjudicated a felon under any criminal law. For purposes of this provision Wells Fargo Affiliate shall mean Wells Fargo & Company and any present or future subsidiary of Wells Fargo & Company.

TRADE FINANCE SUBFEATURE. Borrower shall have available a Letter of Credit Subfeature and a Foreign Exchange Subfeature as described in this section, in a total amount not to exceed the available principal amount of the line of credit evidenced by this Note.

A. Letters of Credit Subfeature. As a subfeature of this Note, Lender may from time to time issue or cause to be issued by a Wells Fargo Affiliate (such Lender or Wells Fargo Affiliate being referred to herein as the "Issuer") for your account, commercial and/or standby letters of credit (each individually, a "Letter of Credit" and collectively "Letters of Credit"); provided however, that the form and substance of each Letter of Credit shall be subject to approval by the Issuer in its sole discretion. Each Letter of Credit shall be issued for a term designated by Borrower; provided however, that no Letter of Credit shall have an expiration subsequent to the maturity of the Note unless otherwise agreed to by Issuer and Lender. Each Letter of Credit shall be subject to the terms and conditions of a Letter of Credit Agreement and related documents, if any, required by Issuer in connection with the issuance of such Letter of Credit (each individually a "Letter of Credit Agreement" and collectively, the "Letter of Credit Agreements"). Each draft paid by Issuer under a Letter of Credit and reimbursed by Lender shall be paid with an advance under the Note and shall be repaid by Borrower in accordance with the terms and conditions of the Note applicable to such advances; provided however, that if advances under the Note are not available, for any reason whatsoever, at the time any amount is paid by Lender, then the full amount of such advance shall be immediately due and payable, together with interest thereon, from the date such amount is paid by Issuer or Lender to the date such amount is fully repaid by Borrower, at the rate of interest applicable to advances under the Note. In such event, Borrower agrees that Issuer or Lender, at Issuer's or Lender's sole discretion, may debit Borrower's deposit account(s) with Lender or a Wells Fargo Affiliate for the amount of any such draft. Upon the issuance of an amendment to a Letter of Credit, upon the reimbursement by Lender of a draft under any Letter of Credit, and otherwise as agreed by Borrower and Issuer pursuant to the Letter of Credit Agreements, Borrower shall pay to Issuer or Lender fees determined in accordance with Issuer's/Lender's standard fees and charges at such time.

B. Foreign Exchange Subfeature. As a subfeature of this Note, Lender or a Wells Fargo Affiliate (such Lender or Wells Fargo Affiliate being referred to herein as the "Exchanger") may, in its sole discretion, from time to time up to and including the maturity date of the Note, enter into foreign exchange transactions for the account of Borrower for the purchase and/or sale, or options

on the purchase and/or sale, by Borrower of the currency of the United States and of foreign countries. Each foreign exchange transaction entered into between the Exchanger and Borrower shall be subject to the terms and conditions of the foreign exchange master agreement, the form and substance of which must be acceptable to the Exchanger in all respects in its sole discretion. Notwithstanding the foregoing, the Exchanger is not obligated to enter into any foreign exchange transactions with Borrower.

C. Subfeature Limits. The amount available for drawing under all Letters of Credit, plus the amount drawn under the Letters of Credit but not yet reimbursed, plus 120% of the amount of all outstanding foreign exchange contracts, shall be reserved under the Note and shall not be available for Note advances. The amount available for drawing under all Letters of Credit, plus the amount drawn under such letters of credit but not yet reimbursed, plus 120% of the amount of all outstanding foreign exchange contracts, plus the principal amounts of any advances outstanding under the Note, shall not at any time exceed the principal amount of the Note, unless allowed by Lender at Lender's full discretion. Any excess amount shall be fully due and payable immediately without notice. As used herein, Wells Fargo Affiliate means any present or future subsidiary of Wells Fargo & Company, any subsidiary thereof, and any successors of such financial service companies.

ARBITRATION AGREEMENT. Arbitration - Binding Arbitration. Lender and each party to this agreement hereby agree, upon demand by any party, to submit any Dispute to binding arbitration in accordance with the terms of this Arbitration Program. Arbitration may be demanded before the institution of a judicial proceeding, or during a judicial proceeding, but not more than 60 days after service of a complaint, third party complaint, cross-claim, or any answer thereto, or any amendment to any of such pleadings. A "Dispute" shall include any dispute, claim or controversy of any kind, whether in contract or in tort, legal or equitable, now existing or hereafter arising, relating in any way to any aspect of this agreement, or any related note, instrument or agreement incorporating this Arbitration Program (the "Documents"), or any renewal, extension, modification or refinancing of any indebtedness or obligation relating thereto, including without limitation, their negotiation, execution, collateralization, administration, repayment, modification, extension, substitution, formation, inducement, enforcement, default or termination. This provision is a material inducement for the parties entering into the transactions relating to this Agreement. DISPUTES SUBMITTED TO ARBITRATION ARE NOT RESOLVED IN COURT BY A JUDGE OR JURY. TO THE EXTENT ALLOWED BY APPLICABLE LAW, THE PARTIES IRREVOCABLY AND VOLUNTARILY WAIVE ANY RIGHT THEY MAY HAVE TO A TRIAL BY JURY WITH RESPECT TO ANY DISPUTE ARBITRATED PURSUANT TO THIS ARBITRATION PROGRAM.

PROMISSORY NOTE
(Continued)

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A. Governing Rules. Any arbitration proceeding will (i) be governed by the Federal Arbitration Act (Title 9 of the United States Code), notwithstanding any conflicting choice of law provision in any of the documents between the parties; and (ii) be conducted by the American Arbitration Association ("AAA"), or such other administrator as the parties shall mutually agree upon, in accordance with the AAA's commercial dispute resolution procedures, unless the claim or counterclaim is at least \$1,000,000.00 exclusive of claimed interest, arbitration fees and costs, in which case the arbitration shall be conducted in accordance with the AAA's optional procedures for large, complex commercial disputes (the commercial dispute resolution procedures or the optional procedures for large, complex commercial disputes are referred to herein, as applicable, as the "Rules"). If there is any inconsistency between the terms hereof and the Rules, the terms and procedures set forth herein shall control. Arbitration proceedings hereunder shall be conducted at a location mutually agreeable to the parties, or if they cannot agree, then at a location selected by the AAA in the state of the applicable substantive law primarily governing the Note. Any party who fails or refuses to submit to arbitration following a demand by any other party shall bear all costs and expenses incurred by such other party in compelling arbitration of any Dispute. The arbitrator shall award all costs and expenses of the arbitration proceeding. Nothing contained herein shall be deemed to be a waiver by any party that is a bank of the protections afforded to it under 12 U.S.C. Section 91, as amended or replaced from time to time, or any similar applicable state law.

B. No Waiver of Provisional Remedies, Self-Help and Foreclosure. The arbitration requirement does not limit the right of any party to (i) foreclose against real or personal property collateral; (ii) exercise self-help remedies relating to collateral or proceeds of collateral such as setoff or repossession; or (iii) obtain provisional or ancillary remedies such as replevin, injunctive relief, attachment or the appointment of a receiver, before during or after the pendency of any arbitration proceeding. This exclusion does not constitute a waiver of the right or obligation of any party to submit any Dispute to arbitration or reference hereunder, including those arising from the exercise of the actions detailed in sections (i), (ii) and (iii) of this paragraph.

C. Arbitrator Qualifications and Powers. Any arbitration proceeding in which the amount in controversy is \$5,000,000.00 or less will be decided by a single arbitrator selected according to the Rules, and who shall not render an award of greater than \$5,000,000.00. Any Dispute in which the amount in controversy exceeds \$5,000,000.00 shall be decided by majority vote of a panel of three arbitrators; provided however, that all three arbitrators must actively participate in all hearings and deliberations. Every arbitrator must be a neutral practicing attorney or a retired member of the state or federal judiciary, in either case with a minimum of ten years experience in the substantive law applicable to the subject matter of the Dispute. The arbitrator will determine whether or not an issue is arbitratable and will give effect to the statutes of limitation in determining any claim. In any arbitration proceeding the arbitrator will decide (by documents only or with a hearing at the arbitrator's discretion) any pre-hearing motions which are similar to motions to dismiss for failure to state a claim or motions for summary adjudication. The arbitrator shall resolve all Disputes in accordance with the applicable substantive law and may grant any remedy or relief that a court of such state could order or grant within the scope hereof and such ancillary relief as is necessary to make effective any award. The arbitrator shall also have the power to award recovery of all costs and fees, to impose sanctions and to take such other action as the arbitrator deems necessary to the same extent a judge could pursuant to the Federal Rules of Civil Procedure, the applicable state rules of civil procedure, or other applicable law. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction. The institution and maintenance of an action for judicial relief or pursuit of a provisional or ancillary remedy shall not constitute a waiver of the right of any party, including the plaintiff, to submit the controversy or claim to arbitration if any other party contests such action for judicial relief.

D. Discovery. In any arbitration proceeding discovery will be permitted in accordance with the Rules. All discovery shall be expressly limited to matters directly relevant to the Dispute being arbitrated and must be completed no later than 20 days before the hearing date. Any requests for an extension of the discovery periods, or any discovery disputes, will be subject to final determination by the arbitrator upon a showing that the request for discovery is essential for the party's presentation and that no alternative means for obtaining information is available.

E. Class Proceedings and Consolidations. No party hereto shall be entitled to join or consolidate disputes by or against non-parties in any arbitration, or to include in any arbitration any dispute as a representative or member of a class, or to act in any arbitration in the interest of the general public or in a private attorney general capacity. As used herein, "non-parties" shall mean all persons and entities except Lender and the party(ies) executing this agreement or any related Document.

F. Real Property Collateral: Notwithstanding anything herein to the contrary, no Dispute shall be submitted to arbitration if the Dispute concerns indebtedness secured directly or indirectly, in whole or in part, by any real property and the Dispute is governed by the laws of California, Connecticut, Idaho, Kansas, Montana, Nevada, South Dakota, Virginia or Utah, unless any conditions for arbitration that may be set forth in the mortgage or deed of trust are satisfied; if any such Disputes are not referred to arbitration, then any provision in such mortgage or deed of trust providing for referral of Disputes to a referee or master under the laws of California, Connecticut, Idaho, Kansas, Montana, Nevada, South Dakota, Virginia or Utah shall be applicable to such Disputes.

G. State Specific Provisions.

If Delaware, Pennsylvania or Virginia law governs the Dispute, the following provision is applicable if there is a Confession of Judgment in the Note, any Guaranty, or Related Documents:

Confession of Judgment. Notwithstanding anything herein to the contrary, the arbitration requirement does not limit or preclude the right of Lender to confess judgment pursuant to a warrant of attorney provision set forth in the Note, any Guaranty, or Related Documents. No party shall have the right to demand binding arbitration of any claim, dispute or controversy seeking to (i) strike-off or open a judgment obtained by confession pursuant to a warrant of attorney contained in the Note, any Guaranty, or Related Documents, or (ii) challenge the waiver of a right to prior notice and a hearing before judgment is entered, or after judgment is entered, but before execution upon the judgment. Any claims, disputes or controversies challenging the confession of judgment shall be commenced and prosecuted in accordance with the procedures set forth, and in the forum specified by the applicable state rules of civil procedure or other applicable law.

If Maryland law governs the Dispute, the following provision is applicable if there is a Confession of Judgment in the Note, any Guaranty, or Related Documents:

Confession of Judgment. Notwithstanding anything herein to the contrary, the arbitration requirement does not limit or preclude the right of Lender to confess judgment, and no party shall have the right to demand binding arbitration of any claim, dispute or controversy seeking to open a judgment obtained by confession. Nothing herein, including the arbitration requirement, shall limit the right of any party to foreclose judicially or non-judicially against any real or personal property collateral, or exercise judicial or non-judicial power of sale rights. No provision regarding submission to a jurisdiction and/or venue in any court or the waiver of any right to trial by jury is intended or shall be construed to be in derogation of the provisions for arbitration of any dispute. Any claim or counterclaim or defense raised in connection with Lender's exercise of any rights set forth in the Note, any Guaranty, or Related Documents shall be subject to the arbitration requirement.

If South Carolina law governs the Dispute, the following provision is included:

WAIVER OF JURY TRIAL. NOTWITHSTANDING ANYTHING HEREIN TO THE CONTRARY, WITHOUT INTENDING IN ANY WAY TO LIMIT THE PARTIES' AGREEMENT TO ARBITRATE ANY DISPUTE AS SET FORTH IN THIS MORTGAGE, TO THE EXTENT ANY DISPUTE IS NOT SUBMITTED TO ARBITRATION OR IS DEEMED BY THE ARBITRATOR OR BY ANY COURT WITH JURISDICTION TO BE NOT ARBITRABLE OR NOT REQUIRED TO BE ARBITRATED, MORTGAGOR AND MORTGAGEE WAIVE TRIAL BY JURY IN RESPECT OF ANY SUCH DISPUTE AND ANY ACTION ON SUCH DISPUTE. THIS WAIVER IS KNOWINGLY, WILLINGLY AND VOLUNTARILY MADE BY MORTGAGOR AND MORTGAGEE, AND MORTGAGOR AND MORTGAGEE HEREBY REPRESENT THAT NO REPRESENTATIONS OF FACT OR OPINION HAVE BEEN MADE BY ANY PERSON OR ENTITY TO INDUCE THIS WAIVER OF TRIAL BY JURY OR TO IN ANY WAY MODIFY OR NULLIFY ITS EFFECT. THIS PROVISION IS A MATERIAL INDUCEMENT FOR THE PARTIES ENTERING INTO THE LOAN DOCUMENTS. MORTGAGOR AND MORTGAGEE ARE EACH HEREBY AUTHORIZED TO FILE A COPY OF THIS SECTION IN ANY PROCEEDING AS CONCLUSIVE EVIDENCE OF THIS WAIVER OF JURY TRIAL MORTGAGOR FURTHER REPRESENTS AND WARRANTS THAT IT HAS BEEN REPRESENTED IN THE SIGNING OF THIS MORTGAGE AND IN THE MAKING OF THIS WAIVER BY INDEPENDENT LEGAL COUNSEL, OR HAS HAD THE OPPORTUNITY TO BE REPRESENTED BY INDEPENDENT LEGAL COUNSEL SELECTED OF ITS OWN FREE WILL, AND THAT IT HAS HAD THE OPPORTUNITY TO DISCUSS THIS WAIVER WITH COUNSEL.

H. Miscellaneous. To the maximum extent practicable, the AAA, the arbitrators and the parties shall take all action required to conclude any arbitration proceeding within 180 days of the filing of the Dispute with the AAA. No arbitrator or other party to an arbitration proceeding may disclose the existence, content or results thereof, except for disclosures of information by a party required in the ordinary course of its business or by applicable law or regulation. If more than one agreement for arbitration by or between the parties potentially applies to a Dispute, the arbitration provision most directly related to the documents between the parties or the subject matter of the Dispute shall control. This arbitration provision shall survive the repayment of the Note and the termination, amendment or expiration of any of the Documents or any relationship between the parties.

FLOOR RATE - FINANCIAL DERIVATIVES. If Lender and Borrower enter into an interest rate swap transaction to hedge the interest rate of this loan without including a similar interest rate floor applicable to the Lender's floating rate leg in such swap transaction, then in lieu of amending this Note, the interest rate floor provision of this loan will automatically be deemed not to apply to the principal portion of this loan so hedged for the period of such swap transaction. The foregoing is limited to an interest rate swap transaction with the Lender and shall not apply to any other derivative, such as an interest rate cap.

PRIOR NOTE. This Note is given in renewal, extension and/or modification of, and not in satisfaction of, that certain promissory note("Note") dated August 4, 2011 in the original amount of \$5,000,000.00, and it is not a novation of the obligations of that note.

SUCCESSOR INTERESTS. The terms of this Note shall be binding upon Borrower, and upon Borrower's heirs, personal representatives, successors and assigns, and shall inure to the benefit of Lender and its successors and assigns.

GENERAL PROVISIONS. If any part of this Note cannot be enforced, this fact will not affect the rest of the Note. Lender may delay or forgo enforcing any of its rights or remedies under this Note without losing them. Borrower and any other person who signs, guarantees or endorses this Note, to the extent allowed by law, waive presentment, demand for payment, and notice of dishonor. Upon any change in the terms of this Note, and unless otherwise expressly stated in writing, no party who signs this Note, whether as maker, guarantor, accommodation maker or endorser, shall be released from liability. All such parties agree that Lender may renew or extend (repeatedly and for any length of time) this loan or release any party or guarantor or collateral; or impair, fail to realize upon or perfect Lender's security interest in the collateral; and take any other action deemed necessary by Lender without the consent of or notice to anyone. All such parties also agree that Lender may modify this loan without the consent of or notice to anyone other than the party with whom the modification is made. The obligations under this Note are joint and several.

PRIOR TO SIGNING THIS NOTE, BORROWER READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS NOTE, INCLUDING THE VARIABLE INTEREST RATE PROVISIONS. BORROWER AGREES TO THE TERMS OF THE NOTE.

BORROWER ACKNOWLEDGES RECEIPT OF A COMPLETED COPY OF THIS PROMISSORY NOTE

BORROWER:

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC.

**By: /s/ Bryan Merryman
Bryan Merryman, CFO/COO of Rocky Mountain
Chocolate Factory, Inc.**

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
\$5,000,000.00	08-28-2012	07-31-2013	7657418442-34		12080305548	K0096	
References in the shaded area are for Lender's use only and do not limit the applicability of this document to any particular loan or item.							
Any item above containing "***" has been omitted due to text length limitations.							

Borrower: Rocky Mountain Chocolate Factory, Inc.
265 Turner Drive
Durango, CO 81303

Lender: Wells Fargo Bank, National Association
Durango Main
200 West College Drive
Durango, CO 81301

THIS COMMERCIAL SECURITY AGREEMENT dated August 28, 2012, is made and executed between Rocky Mountain Chocolate Factory, Inc. ("Grantor") and Wells Fargo Bank, National Association ("Lender").

GRANT OF SECURITY INTEREST. For valuable consideration, Grantor grants to Lender a security interest in the Collateral to secure the Indebtedness and agrees that Lender shall have the rights stated in this Agreement with respect to the Collateral, in addition to all other rights which Lender may have by law.

COLLATERAL DESCRIPTION. The word "Collateral" as used in this Agreement means the following described property, whether now owned or hereafter acquired, whether now existing or hereafter arising, and wherever located, in which Grantor is giving to Lender a security interest for the payment of the Indebtedness and performance of all other obligations under the Note and this Agreement:

All Inventory, Chattel Paper, Accounts and General Intangibles

In addition, the word "Collateral" also includes all the following, whether now owned or hereafter acquired, whether now existing or hereafter arising, and wherever located:

- (A) All accessions, attachments, accessories, tools, parts, supplies, replacements of and additions to any of the collateral described herein, whether added now or later.
- (B) All products and produce of any of the property described in this Collateral section.
- (C) All accounts, general intangibles, instruments, rents, monies, payments, and all other rights, arising out of a sale, lease, consignment or other disposition of any of the property described in this Collateral section.
- (D) All proceeds (including insurance proceeds) from the sale, destruction, loss, or other disposition of any of the property described in this Collateral section, and sums due from a third party who has damaged or destroyed the Collateral or from that party's insurer, whether due to judgment, settlement or other process.
- (E) All records and data relating to any of the property described in this Collateral section, whether in the form of a writing, photograph, microfilm, microfiche, or electronic media, together with all of Grantor's right, title, and interest in and to all computer software required to utilize, create, maintain, and process any such records or data on electronic media.

CROSS-COLLATERALIZATION. In addition to the Note, this Agreement secures all obligations, debts and liabilities, plus interest thereon, of Grantor to Lender, or any one or more of them, as well as all claims by Lender against Grantor or any one or more of them, whether now existing or hereafter arising, whether related or unrelated to the purpose of the Note, whether voluntary or otherwise, whether due or not due, direct or indirect, determined or undetermined, absolute or contingent, liquidated or unliquidated, whether Grantor may be liable individually or jointly with others, whether obligated as guarantor, surety, accommodation party or otherwise, and whether recovery upon such amounts may be or hereafter may become barred by any statute of limitations, and whether the obligation to repay such amounts may be or hereafter may become otherwise unenforceable.

FUTURE ADVANCES. In addition to the Note, this Agreement secures all future advances made by Lender to Grantor regardless of whether the advances are made a) pursuant to a commitment or b) for the same purposes.

RIGHT OF SETOFF. To the extent permitted by applicable law, Lender reserves a right of setoff in all Grantor's accounts with Lender (whether checking, savings, or some other account). This includes all accounts Grantor holds jointly with someone else and all accounts Grantor may open in the future. However, this does not include any IRA or Keogh accounts, or any trust accounts for which setoff would be prohibited by law. Grantor authorizes Lender, to the extent permitted by applicable law, to charge or setoff all sums owing on the Indebtedness against any and all such accounts, and, at Lender's option, to administratively freeze all such accounts to allow Lender to protect Lenders charge and setoff rights provided in this paragraph.

GRANTOR'S REPRESENTATIONS AND WARRANTIES WITH RESPECT TO THE COLLATERAL. With respect to the Collateral, Grantor represents and promises to Lender that:

Perfection of Security Interest. Grantor agrees to take whatever actions are requested by Lender to perfect and continue Lender's security interest in the Collateral. Upon request of Lender, Grantor will deliver to Lender any and all of the documents evidencing or constituting the Collateral, and Grantor will note Lenders interest upon any and all chattel paper and instruments if not delivered to Lender for possession by Lender. **This is a continuing Security Agreement and will continue in effect even though all or any part of the Indebtedness is paid in full and even though for a period of time Grantor may not be indebted to Lender.**

Notices to Lender. Grantor will promptly notify Lender in writing at Lender's address shown above (or such other addresses as Lender may designate from time to time) prior to any (1) change in Grantor's name; (2) change in Grantor's assumed business name(s); (3) change in the management of the Corporation Grantor; (4) change in the authorized signer(s); (5) change in Grantor's principal office address; (6) change in Grantor's state of organization; (7) conversion of Grantor to a new or different type of business entity; or (8) change in any other aspect of Grantor that directly or indirectly relates to any agreements between Grantor and Lender. No change in Grantor's name or state of organization will take effect until after Lender has received notice.

COMMERCIAL SECURITY AGREEMENT
(Continued)

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No Violation. The execution and delivery of this Agreement will not violate any law or agreement governing Grantor or to which Grantor is a party, and its certificate or articles of incorporation and bylaws do not prohibit any term or condition of this Agreement.

Enforceability of Collateral. To the extent the Collateral consists of accounts, chattel paper, or general intangibles, as defined by the Uniform Commercial Code, the Collateral is enforceable in accordance with its terms, is genuine, and fully complies with all applicable laws and regulations concerning form, content and manner of preparation and execution, and all persons appearing to be obligated on the Collateral have authority and capacity to contract and are in fact obligated as they appear to be on the Collateral. At the time any account becomes subject to a security interest in favor of Lender, the account shall be a good and valid account representing an undisputed, bona fide indebtedness incurred by the account debtor, for merchandise held subject to delivery instructions or previously shipped or delivered pursuant to a contract of sale, or for services previously performed by Grantor with or for the account debtor. So long as this Agreement remains in effect, Grantor shall not, without Lender's prior written consent, compromise, settle, adjust, or extend payment under or with regard to any such Accounts. There shall be no setoffs or counterclaims against any of the Collateral, and no agreement shall have been made under which any deductions or discounts may be claimed concerning the Collateral except those disclosed to Lender in writing.

Location of the Collateral. Except in the ordinary course of Grantor's business, Grantor agrees to keep the Collateral (or to the extent the Collateral consists of intangible property such as accounts or general intangibles, the records concerning the Collateral) at Grantor's address shown above or at such other locations as are acceptable to Lender. Upon Lender's request, Grantor will deliver to Lender in form satisfactory to Lender a schedule of real properties and Collateral locations relating to Grantor's operations, including without limitation the following: (1) all real property Grantor owns or is purchasing; (2) all real property Grantor is renting or leasing; (3) all storage facilities Grantor owns, rents, leases, or uses; and (4) all other properties where Collateral is or may be located.

Removal of the Collateral. Except in the ordinary course of Grantor's business, including the sales of inventory, Grantor shall not remove the Collateral from its existing location without Lender's prior written consent. To the extent that the Collateral consists of vehicles, or other titled property, Grantor shall not take or permit any action which would require application for certificates of title for the vehicles outside the State of Colorado, without Lender's prior written consent. Grantor shall, whenever requested, advise Lender of the exact location of the Collateral.

Transactions Involving Collateral. Except for inventory sold or accounts collected in the ordinary course of Grantor's business, or as otherwise provided for in this Agreement, Grantor shall not sell, offer to sell, or otherwise transfer or dispose of the Collateral. While Grantor is not in default under this Agreement, Grantor may sell inventory, but only in the ordinary course of its business and only to buyers who qualify as a buyer in the ordinary course of business. A sale in the ordinary course of Grantor's business does not include a transfer in partial or total satisfaction of a debt or any bulk sale. Grantor shall not pledge, mortgage, encumber or otherwise permit the Collateral to be subject to any lien, security interest, encumbrance, or charge, other than the security interest provided for in this Agreement, without the prior written consent of Lender. This includes security interests even if junior in right to the security interests granted under this Agreement. Unless waived by Lender, all proceeds from any disposition of the Collateral (for whatever reason) shall be held in trust for Lender and shall not be commingled with any other funds; provided however, this requirement shall not constitute consent by Lender to any sale or other disposition. Upon receipt, Grantor shall immediately deliver any such proceeds to Lender.

Title. Grantor represents and warrants to Lender that Grantor holds good and marketable title to the Collateral, free and clear of all liens and encumbrances except for the lien of this Agreement. No financing statement covering any of the Collateral is on file in any public office other than those which reflect the security interest created by this Agreement or to which Lender has specifically consented. Grantor shall defend Lender's rights in the Collateral against the claims and demands of all other persons.

Repairs and Maintenance. Grantor agrees to keep and maintain, and to cause others to keep and maintain, the Collateral in good order, repair and condition at all times while this Agreement remains in effect. Grantor further agrees to pay when due

all claims for work done on, or services rendered or material furnished in connection with the Collateral so that no lien or encumbrance may ever attach to or be filed against the Collateral.

Inspection of Collateral. Lender and Lender's designated representatives and agents shall have the right at all reasonable times to examine and inspect the Collateral wherever located.

Taxes, Assessments and Liens. Grantor will pay when due all taxes, assessments and liens upon the Collateral, its use or operation, upon this Agreement, upon any promissory note or notes evidencing the Indebtedness, or upon any of the other Related Documents. Grantor may withhold any such payment or may elect to contest any lien if Grantor is in good faith conducting an appropriate proceeding to contest the obligation to pay and so long as Lender's interest in the Collateral is not jeopardized in Lender's sole opinion. If the Collateral is subjected to a lien which is not discharged within fifteen (15) days, Grantor shall deposit with Lender cash, a sufficient corporate surety bond or other security satisfactory to Lender in an amount adequate to provide for the discharge of the lien plus any interest, costs, attorneys' fees or other charges that could accrue as a result of foreclosure or sale of the Collateral. In any contest Grantor shall defend itself and Lender and shall satisfy any final adverse judgment before enforcement against the Collateral. Grantor shall name Lender as an additional obligee under any surety bond furnished in the contest proceedings. Grantor further agrees to furnish Lender with evidence that such taxes, assessments, and governmental and other charges have been paid in full and in a timely manner. Grantor may withhold any such payment or may elect to contest any lien if Grantor is in good faith conducting an appropriate proceeding to contest the obligation to pay and so long as Lender's interest in the Collateral is not jeopardized.

Compliance with Governmental Requirements. Grantor shall comply promptly with all laws, ordinances, rules and regulations of all governmental authorities, now or hereafter in effect, applicable to the ownership, production, disposition, or use of the Collateral, including all laws or regulations relating to the undue erosion of highly-erodible land or relating to the conversion of wetlands for the production of an agricultural product or commodity. Grantor may contest in good faith any such law, ordinance or regulation and withhold compliance during any proceeding, including appropriate appeals, so long as Lender's interest in the Collateral, in Lender's opinion, is not jeopardized.

Hazardous Substances. Grantor represents and warrants that the Collateral never has been, and never will be so long as this Agreement remains a lien on the Collateral, used in violation of any Environmental Laws or for the generation, manufacture, storage, transportation, treatment, disposal, release or threatened release of any Hazardous Substance. The representations and warranties contained herein are based on Grantor's due diligence in investigating the Collateral for Hazardous Substances. Grantor hereby (1) releases and waives any future claims against Lender for indemnity or contribution in the event Grantor becomes liable for cleanup or other costs under any Environmental Laws, and (2) agrees to indemnify, defend, and hold harmless Lender against any and all claims and losses resulting from a breach of this provision of this Agreement. This obligation to indemnify and defend shall survive the payment of the Indebtedness and the satisfaction of this Agreement.

Maintenance of Casualty Insurance. Grantor shall procure and maintain all risks insurance, including without limitation fire, theft and liability coverage together with such other insurance as Lender may require with respect to the Collateral, in form, amounts, coverages and basis reasonably acceptable to Lender and issued by a company or companies reasonably acceptable to Lender. Grantor, upon request of Lender, will deliver to Lender from time to time the policies or certificates of insurance in form satisfactory to Lender, including stipulations that coverages will not be cancelled or diminished without at least thirty (30) days' prior written notice to Lender and not including any disclaimer of the insurer's liability for failure to give such a notice. Each insurance policy also shall include an endorsement providing that coverage in favor of Lender will not be impaired in any way by any act, omission or default of Grantor or any other person. In connection with all policies covering assets in which Lender holds or is offered a security interest, Grantor will provide Lender with such loss payable or other endorsements as Lender may require. If Grantor at any time fails to obtain or maintain any insurance as required under this Agreement, Lender may (but shall not be obligated to) obtain such insurance as Lender deems appropriate, including if Lender so chooses "single interest insurance," which will cover only Lenders interest in the Collateral.

Application of Insurance Proceeds. Grantor shall promptly notify Lender of any loss or damage to the Collateral exceeding \$50,000.00, whether or not such casualty or loss is covered by insurance. Lender may make proof of loss if Grantor fails to do so within fifteen (15) days of the casualty. All proceeds of any insurance on the Collateral, including accrued proceeds thereon, shall be held by Lender as part of the Collateral. If Lender consents to repair or replacement of the damaged or destroyed Collateral, Lender shall, upon satisfactory proof of expenditure, pay or reimburse Grantor from the proceeds for the reasonable cost of repair or restoration. If Lender does not consent to repair or replacement of the Collateral, Lender shall retain a sufficient amount of the proceeds to pay all of the Indebtedness, and shall pay the balance to Grantor. Any proceeds which have not been disbursed within six (6) months after their receipt and which Grantor has not committed to the repair or restoration of the Collateral shall be used to prepay the Indebtedness.

Insurance Reserves. Lender may require Grantor to maintain with Lender reserves for payment of insurance premiums, which reserves shall be created by monthly payments from Grantor of a sum estimated by Lender to be sufficient to produce, at least fifteen (15) days before the premium due date, amounts at least equal to the insurance premiums to be paid. If fifteen (15) days before payment is due, the reserve funds are insufficient, Grantor shall upon demand pay any deficiency to Lender. The reserve funds shall be held by Lender as a general deposit and shall constitute a non-interest-bearing account which Lender may satisfy by payment of the insurance premiums required to be paid by Grantor as they become due. Lender does not hold the reserve funds in trust for Grantor, and Lender is not the agent of Grantor for payment of the insurance premiums required to be paid by Grantor. The responsibility for the payment of premiums shall remain Grantor's sole responsibility.

Insurance Reports. Grantor, upon request of Lender, shall furnish to Lender reports on each existing policy of insurance showing such information as Lender may reasonably request including the following: (1) the name of the insurer; (2) the risks insured; (3) the amount of the policy; (4) the property insured; (5) the then current value on the basis of which insurance has been obtained and the manner of determining that value; and (6) the expiration date of the policy. In addition, Grantor shall upon request by Lender (however not more often than annually) have an independent appraiser satisfactory to Lender determine, as applicable, the cash value or replacement cost of the Collateral.

Financing Statements. Grantor authorizes Lender to file a UCC financing statement, or alternatively, a copy of this Agreement to perfect Lender's security interest. At Lenders request, Grantor additionally agrees to sign all other documents that are necessary to perfect, protect, and continue Lenders security interest in the Property. Grantor will pay all filing fees, title transfer fees, and other fees and costs involved unless prohibited by law or unless Lender is required by law to pay such fees and costs. Grantor irrevocably appoints Lender to execute documents necessary to transfer title if there is a default. Lender may file a copy of this Agreement as a financing statement. If Grantor changes Grantor's name or address, or the name or address of any person granting a security interest under this Agreement changes, Grantor will promptly notify the Lender of such change.

GRANTOR'S RIGHT TO POSSESSION AND TO COLLECT ACCOUNTS. Until default and except as otherwise provided below with respect to accounts, Grantor may have possession of the tangible personal property and beneficial use of all the Collateral and may use it in any lawful manner not inconsistent with this Agreement or the Related Documents, provided that Grantor's right to possession and beneficial use shall not apply to any Collateral where possession of the Collateral by Lender is

required by law to perfect Lender's security interest in such Collateral. Until otherwise notified by Lender, Grantor may collect any of the Collateral consisting of accounts. At any time and even though no Event of Default exists, Lender may exercise its rights to collect the accounts and to notify account debtors to make payments directly to Lender for application to the Indebtedness. If Lender at any time has possession of any Collateral, whether before or after an Event of Default, Lender shall be deemed to have exercised reasonable care in the custody and preservation of the Collateral if Lender takes such action for that purpose as Grantor shall request or as Lender, in Lender's sole discretion, shall deem appropriate under the circumstances, but failure to honor any request by Grantor shall not of itself be deemed to be a failure to exercise reasonable care. Lender shall not be required to take any steps necessary to preserve any rights in the Collateral against prior parties, nor to protect, preserve or maintain any security interest given to secure the Indebtedness.

LENDER'S EXPENDITURES. If any action or proceeding is commenced that would materially affect Lender's interest in the Collateral or if Grantor fails to comply with any provision of this Agreement or any Related Documents, including but not limited to Grantor's failure to discharge or pay when due any amounts Grantor is required to discharge or pay under this Agreement or any Related Documents, Lender on Grantor's behalf may (but shall not be obligated to) take any action that Lender deems appropriate, including but not limited to discharging or paying all taxes, liens, security interests, encumbrances and other claims, at any time levied or placed on the Collateral and paying all costs for insuring, maintaining and preserving the Collateral. All such expenditures incurred or paid by Lender for such purposes will then bear interest at the rate charged under the Note from the date incurred or paid by Lender to the date of repayment by Grantor. All such expenses will become a part of the Indebtedness and, at Lender's option, will (A) be payable on demand; (B) be added to the balance of the Note and be apportioned among and be payable with any installment payments to become due during either (1) the term of any applicable insurance policy; or (2) the remaining term of the Note; or (C) be treated as a balloon payment which will be due and payable at the Note's maturity. The Agreement also will secure payment of these amounts. Such right shall be in addition to all other rights and remedies to which Lender may be entitled upon Default.

DEFAULT. Each of the following shall constitute an Event of Default under this Agreement:

Payment Default. Grantor fails to make any payment when due under the Indebtedness.

Other Defaults. Grantor fails to comply with or to perform any other term, obligation, covenant or condition contained in this Agreement or in any of the Related Documents or to comply with or to perform any term, obligation, covenant or condition contained in any other agreement between Lender and Grantor.

Default in Favor of Third Parties. Grantor defaults under any loan, extension of credit, security agreement, purchase or sales agreement, or any other agreement, in favor of any other creditor or person that may materially affect any of Grantor's property or ability to perform Grantor's obligations under this Agreement or any of the Related Documents.

False Statements. Any warranty, representation or statement made or furnished to Lender by Grantor or on Grantor's behalf under this Agreement or the Related Documents is false or misleading in any material respect, either now or at the time made or furnished or becomes false or misleading at any time thereafter.

Defective Collateralization. This Agreement or any of the Related Documents ceases to be in full force and effect (including failure of any collateral document to create a valid and perfected security interest or lien) at any time and for any reason.

Insolvency. The dissolution or termination of Grantors existence as a going business, the insolvency of Grantor, the appointment of a receiver for any part of Grantor's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Grantor.

Creditor or Forfeiture Proceedings. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Grantor or by any governmental agency against any collateral securing the Indebtedness. This includes a garnishment of any of Grantor's accounts, including deposit accounts, with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Grantor as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if Grantor gives Lender written notice of the creditor or forfeiture proceeding and deposits with Lender monies or a surety bond for the creditor or forfeiture proceeding, in an amount determined by Lender, in its sole discretion, as being an adequate reserve or bond for the dispute.

Events Affecting Guarantor. Any of the preceding events occurs with respect to any guarantor, endorser, surety, or accommodation party of any of the Indebtedness or guarantor, endorser, surety, or accommodation party dies or becomes incompetent or revokes or disputes the validity of, or liability under, any Guaranty of the Indebtedness.

Adverse Change. A material adverse change occurs in Grantor's financial condition, or Lender believes the prospect of payment or performance of the Indebtedness is impaired.

Insecurity. Lender in good faith believes itself insecure.

RIGHTS AND REMEDIES ON DEFAULT. If an Event of Default occurs under this Agreement, at any time thereafter, Lender shall have all the rights of a secured party under the Colorado Uniform Commercial Code. In addition and without limitation, Lender may exercise any one or more of the following rights and remedies:

Accelerate Indebtedness. Lender may declare the entire Indebtedness, including any prepayment penalty which Grantor would be required to pay, immediately due and payable, without notice of any kind to Grantor.

Assemble Collateral. Lender may require Grantor to deliver to Lender all or any portion of the Collateral and any and all certificates of title and other documents relating to the Collateral. Lender may require Grantor to assemble the Collateral

and make it available to Lender at a place to be designated by Lender. Lender also shall have full power to enter upon the property of Grantor to take possession of and remove the Collateral. If the Collateral contains other goods not covered by this Agreement at the time of repossession, Grantor agrees Lender may take such other goods, provided that Lender makes reasonable efforts to return them to Grantor after repossession.

Sell the Collateral. Lender shall have full power to sell, lease, transfer, or otherwise deal with the Collateral or proceeds thereof in Lender's own name or that of Grantor. Lender may sell the Collateral at public auction or private sale. Unless the Collateral threatens to decline speedily in value or is of a type customarily sold on a recognized market, Lender will give Grantor, and other persons as required by law, reasonable notice of the time and place of any public sale, or the time after which any private sale or any other disposition of the Collateral is to be made. However, no notice need be provided to any person who, after Event of Default occurs, enters into and authenticates an agreement waiving that person's right to notification of sale. The requirements of reasonable notice shall be met if such notice is given at least ten (10) days before the time of the sale or disposition. All expenses relating to the disposition of the Collateral, including without limitation the expenses of retaking, holding, insuring, preparing for sale and selling the Collateral, shall become a part of the Indebtedness secured by this Agreement and shall be payable on demand, with interest at the Note rate from date of expenditure until repaid.

Appoint Receiver. Lender shall have the right to have a receiver appointed to take possession of all or any part of the Collateral, with the power to protect and preserve the Collateral, to operate the Collateral preceding foreclosure or sale, and to collect the Rents from the Collateral and apply the proceeds, over and above the cost of the receivership, against the Indebtedness. The receiver may serve without bond if permitted by law. Lenders right to the appointment of a receiver shall exist whether or not the apparent value of the Collateral exceeds the Indebtedness by a substantial amount. Employment by Lender shall not disqualify a person from serving as a receiver. Receiver may be appointed by a court of competent jurisdiction upon ex parte application and without notice, notice being expressly waived.

Collect Revenues, Apply Accounts. Lender, either itself or through a receiver, may collect the payments, rents, income, and revenues from the Collateral. Lender may at any time in Lenders discretion transfer any Collateral into Lender's own name or that of Lender's nominee and receive the payments, rents, income, and revenues therefrom and hold the same as security for the Indebtedness or apply it to payment of the Indebtedness in such order of preference as Lender may determine. Insofar as the Collateral consists of accounts, general intangibles, insurance policies, instruments, chattel paper, choses in action, or similar property, Lender may demand, collect, receipt for, settle, compromise, adjust, sue for, foreclose, or realize on the Collateral as Lender may determine, whether or not Indebtedness or Collateral is then due. For these purposes, Lender may, on behalf of and in the name of Grantor, receive, open and dispose of mail addressed to Grantor; change any address to which mail and payments are to be sent; and endorse notes, checks, drafts, money orders, documents of title, instruments and items pertaining to payment, shipment, or storage of any Collateral. To facilitate collection, Lender may notify account debtors and obligors on any Collateral to make payments directly to Lender.

Obtain Deficiency. If Lender chooses to sell any or all of the Collateral, Lender may obtain a judgment against Grantor for any deficiency remaining on the Indebtedness due to Lender after application of all amounts received from the exercise of the rights provided in this Agreement. Grantor shall be liable for a deficiency even if the transaction described in this subsection is a sale of accounts or chattel paper.

Other Rights and Remedies. Lender shall have all the rights and remedies of a secured creditor under the provisions of the Uniform Commercial Code, as may be amended from time to time. In addition, Lender shall have and may exercise any or all other rights and remedies it may have available at law, in equity, or otherwise.

Election of Remedies. Except as may be prohibited by applicable law, all of Lender's rights and remedies, whether evidenced by this Agreement, the Related Documents, or by any other writing, shall be cumulative and may be exercised singularly or concurrently. Election by Lender to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or to take action to perform an obligation of Grantor under this Agreement, after Grantor's failure to perform, shall not affect Lender's right to declare a default and exercise its remedies.

FURTHER ASSURANCES. The undersigned agrees to (i) do all things deemed necessary by Lender in order to fully document the loan evidenced by the Note and any related agreements, and will fully cooperate concerning the execution and delivery of security agreements, stock powers, instructions and/or other documents pertaining to any collateral intended to secure the Indebtedness, (ii) assist in the cure of any defects in the execution, delivery or substance of the Note and related agreements, and in the creation and perfection of any liens, security interests or other collateral rights securing the Note, and (iii) pay Lender immediately upon demand the full amount of all charges, costs and expenses (to include fees paid to third parties) expended or incurred by Lender to monitor Lender's interest in any real or personal property pledged as collateral for the Note, including without limitation all costs of appraisals.

CONSENT TO SELL LOAN. The parties hereto agree: (a) Lender may sell or transfer all or part of this loan to one or more purchasers, whether related or unrelated to Lender; (b) Lender may provide to any purchaser, or potential purchaser, any information or knowledge Lender may have about the parties or about any other matter relating to this loan obligation, and the parties waive any rights to privacy it may have with respect to such matters; (c) the purchaser of a loan will be considered its absolute owner and will have all the rights granted under the loan documents or agreements governing the sale of the loan; and (d) the purchaser of a loan may enforce its interests irrespective of any claims or defenses that the parties may have against Lender.

FACSIMILE AND COUNTERPART. This document may be signed in any number of separate copies, each of which shall be effective as an original, but all of which taken together shall constitute a single document. An electronic transmission or other facsimile of this document or any related document shall be deemed an original and shall be admissible as evidence of the document and the signer's execution.

SUPPLEMENT TO DEFINITION OF INDEBTEDNESS. The definition of "Indebtedness" herein includes, without limitation, all liability of Borrower whether liquidated or unliquidated, defined, contingent, conditional or of any other nature whatsoever, and performance of all other obligations, including but not limited to: (i) those obligations arising under or in connection with any "swap agreement" (as defined in 11 U.S.C. Section 101) between Borrower and Lender, or any affiliate of Lender; and (ii) those obligations, arising under any commercial card or other similar transaction or arrangement (howsoever described or defined), and whether Borrower or such other party may be liable individually or jointly with others, or whether recovery upon such Indebtedness may be or hereafter becomes unenforceable.

ARBITRATION AGREEMENT. Arbitration - Binding Arbitration. Lender and each party to this agreement hereby agree, upon demand by any party, to submit any Dispute to binding arbitration in accordance with the terms of this Arbitration Program. Arbitration may be demanded before the institution of a judicial proceeding, or during a judicial proceeding, but not more than 60 days after service of a complaint, third party complaint, cross-claim, or any answer thereto, or any amendment to any of such pleadings. A "Dispute" shall include any dispute, claim or controversy of any kind, whether in contract or in tort, legal or equitable, now existing or hereafter arising, relating in any way to any aspect of this agreement, or any related note, instrument or agreement incorporating this Arbitration Program (the "Documents"), or any renewal, extension, modification

or refinancing of any indebtedness or obligation relating thereto, including without limitation, their negotiation, execution, collateralization, administration, repayment, modification, extension, substitution, formation, inducement, enforcement, default or termination. This provision is a material inducement for the parties entering into the transactions relating to this Agreement. DISPUTES SUBMITTED TO ARBITRATION ARE NOT RESOLVED IN COURT BY A JUDGE OR JURY. TO THE EXTENT ALLOWED BY APPLICABLE LAW, THE PARTIES IRREVOCABLY AND VOLUNTARILY WAIVE ANY RIGHT THEY MAY HAVE TO A TRIAL BY JURY WITH RESPECT TO ANY DISPUTE ARBITRATED PURSUANT TO THIS ARBITRATION PROGRAM.

A. Governing Rules. Any arbitration proceeding will (i) be governed by the Federal Arbitration Act (Title 9 of the United States Code), notwithstanding any conflicting choice of law provision in any of the documents between the parties; and (ii) be conducted by the American Arbitration Association ("AAA"), or such other administrator as the parties shall mutually agree upon, in accordance with the AAA's commercial dispute resolution procedures, unless the claim or counterclaim is at least \$1,000,000.00 exclusive of claimed interest, arbitration fees and costs, in which case the arbitration shall be conducted in accordance with the AAA's optional procedures for large, complex commercial disputes (the commercial dispute resolution procedures or the optional procedures for large, complex commercial disputes are referred to herein, as applicable, as the "Rules"). If there is any inconsistency between the terms hereof and the Rules, the terms and procedures set forth herein shall control. Arbitration proceedings hereunder shall be conducted at a location mutually agreeable to the parties, or if they cannot agree, then at a location selected by the AAA in the state of the applicable substantive law primarily governing the Note. Any party who fails or refuses to submit to arbitration following a demand by any other party shall bear all costs and expenses incurred by such other party in compelling arbitration of any Dispute. The arbitrator shall award all costs and expenses of the arbitration proceeding. Nothing contained herein shall be deemed to be a waiver by any party that is a bank of the protections afforded to it under 12 U.S.C. Section 91, as amended or replaced from time to time, or any similar applicable state law.

B. No Waiver of Provisional Remedies. Self-Help and Foreclosure. The arbitration requirement does not limit the right of any party to (i) foreclose against real or personal property collateral; (ii) exercise self-help remedies relating to collateral or proceeds of collateral such as setoff or repossession; or (iii) obtain provisional or ancillary remedies such as replevin, injunctive relief, attachment or the appointment of a receiver, before during or after the pendency of any arbitration proceeding. This exclusion does not constitute a waiver of the right or obligation of any party to submit any Dispute to arbitration or reference hereunder, including those arising from the exercise of the actions detailed in sections (i), (ii) and (iii) of this paragraph.

C. Arbitrator Qualifications and Powers. Any arbitration proceeding in which the amount in controversy is \$5,000,000.00 or less will be decided by a single arbitrator selected according to the Rules, and who shall not render an award of greater than \$5,000,000.00. Any Dispute in which the amount in controversy exceeds \$5,000,000.00 shall be decided by majority vote of a panel of three arbitrators; provided however, that all three arbitrators must actively participate in all hearings and deliberations. Every arbitrator must be a neutral practicing attorney or a retired member of the state or federal judiciary, in either case with a minimum of ten years experience in the substantive law applicable to the subject matter of the Dispute. The arbitrator will determine whether or not an issue is arbitratable and will give effect to the statutes of limitation in determining any claim. In any arbitration proceeding the arbitrator will decide (by documents only or with a hearing at the arbitrators discretion) any pre-hearing motions which are similar to motions to dismiss for failure to state a claim or motions for summary adjudication. The arbitrator shall resolve all Disputes in accordance with the applicable substantive law and may grant any remedy or relief that a court of such state could order or grant within the scope hereof and such ancillary relief as is necessary to make effective any award. The arbitrator shall also have the power to award recovery of all costs and fees, to impose sanctions and to take such other action as the arbitrator deems necessary to the same extent a judge could pursuant to the Federal Rules of Civil Procedure, the applicable state rules of civil procedure, or other applicable law. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction. The institution and maintenance of an action for judicial relief or pursuit of a provisional or ancillary remedy shall not constitute a waiver of the right of any party, including the plaintiff, to submit the controversy or claim to arbitration if any other party contests such action for judicial relief.

D. Discovery. In any arbitration proceeding discovery will be permitted in accordance with the Rules. All discovery shall be expressly limited to matters directly relevant to the Dispute being arbitrated and must be completed no later than 20 days before the hearing date. Any requests for an extension of the discovery periods, or any discovery disputes, will be subject to final determination by the arbitrator upon a showing that the request for discovery is essential for the party's presentation and that no alternative means for obtaining information is available.

E. Class Proceedings and Consolidations. No party hereto shall be entitled to join or consolidate disputes by or against non-parties in any arbitration, or to include in any arbitration any dispute as a representative or member of a class, or to act in any arbitration in the interest of the general public or in a private attorney general capacity. As used herein, "non-parties" shall mean all persons and entities except Lender and the party(ies) executing this agreement or any related Document.

F. Real Property Collateral. Notwithstanding anything herein to the contrary, no Dispute shall be submitted to arbitration if the Dispute concerns indebtedness secured directly or indirectly, in whole or in part, by any real property and the Dispute is governed by the laws of California, Connecticut, Idaho, Kansas, Montana, Nevada, South Dakota, Virginia or Utah, unless any conditions for arbitration that may be set forth in the mortgage or deed of trust are satisfied; if any such Disputes are not referred to arbitration, then any provision in such mortgage or deed of trust providing for referral of Disputes to a referee or master under the laws of California, Connecticut, Idaho, Kansas, Montana, Nevada, South Dakota, Virginia or Utah shall be applicable to such Disputes.

G. State Specific Provisions.

If Delaware, Pennsylvania or Virginia law governs the Dispute, the following provision is applicable if there is a Confession of Judgment in the Note, any Guaranty, or Related Documents:

Confession of Judgment. Notwithstanding anything herein to the contrary, the arbitration requirement does not limit or preclude the right of Lender to confess judgment pursuant to a warrant of attorney provision set forth in the Note, any Guaranty, or Related Documents. No party shall have the right to demand binding arbitration of any claim, dispute or controversy seeking to (i) strike-off or open a judgment obtained by confession pursuant to a warrant of attorney contained in the Note, any Guaranty, or Related Documents, or (ii) challenge the waiver of a right to prior notice and a hearing before judgment is entered, or after judgment is entered, but before execution upon the judgment. Any claims, disputes or controversies challenging the confession of judgment shall be commenced and prosecuted in accordance with the procedures set forth, and in the forum specified by the applicable state rules of civil procedure or other applicable law.

If Maryland law governs the Dispute, the following provision is applicable if there is a Confession of Judgment in the Note, any Guaranty, or Related Documents:

Confession of Judgment. Notwithstanding anything herein to the contrary, the arbitration requirement does not limit or preclude the right of Lender to confess judgment, and no party shall have the right to demand binding arbitration of any claim, dispute or controversy seeking to open a judgment obtained by confession. Nothing herein, including the arbitration requirement, shall limit the right of any party to foreclose judicially or non-judicially against any real or personal property collateral, or exercise judicial or non-judicial power of sale rights. No provision regarding submission to a jurisdiction and/or venue in any court or the waiver of any right to trial by jury is intended or shall be construed to be in derogation of the provisions for arbitration of any dispute. Any claim or counterclaim or defense raised in connection with Lender's exercise of any rights set forth in the Note, any Guaranty, or Related Documents shall be subject to the arbitration requirement.

If South Carolina law governs the Dispute, the following provision is Included:

WAIVER OF JURY TRIAL. NOTWITHSTANDING ANYTHING HEREIN TO THE CONTRARY, WITHOUT INTENDING IN ANY WAY TO LIMIT THE PARTIES' AGREEMENT TO ARBITRATE ANY DISPUTE AS SET FORTH IN THIS MORTGAGE, TO THE EXTENT ANY DISPUTE IS NOT SUBMITTED TO ARBITRATION OR IS DEEMED BY THE ARBITRATOR OR BY ANY COURT WITH JURISDICTION TO BE NOT ARBITRABLE OR NOT REQUIRED TO BE ARBITRATED, MORTGAGOR AND MORTGAGEE WAIVE TRIAL BY JURY IN RESPECT OF ANY SUCH DISPUTE AND ANY ACTION ON SUCH DISPUTE. THIS WAIVER IS KNOWINGLY, WILLINGLY AND VOLUNTARILY MADE BY MORTGAGOR AND MORTGAGEE, AND MORTGAGOR AND MORTGAGEE HEREBY REPRESENT THAT NO REPRESENTATIONS OF FACT OR OPINION HAVE BEEN MADE BY ANY PERSON OR ENTITY TO INDUCE THIS WAIVER OF TRIAL BY JURY OR TO IN ANY WAY MODIFY OR NULLIFY ITS EFFECT. THIS PROVISION IS A MATERIAL INDUCEMENT FOR THE PARTIES ENTERING INTO THE LOAN DOCUMENTS. MORTGAGOR AND MORTGAGEE ARE EACH HEREBY AUTHORIZED TO FILE A COPY OF THIS SECTION IN ANY PROCEEDING AS CONCLUSIVE EVIDENCE OF THIS WAIVER OF JURY TRIAL. MORTGAGOR FURTHER REPRESENTS AND WARRANTS THAT IT HAS BEEN REPRESENTED IN THE SIGNING OF THIS MORTGAGE AND IN THE MAKING OF THIS WAIVER BY INDEPENDENT LEGAL COUNSEL, OR HAS HAD THE OPPORTUNITY TO BE REPRESENTED BY INDEPENDENT LEGAL COUNSEL SELECTED OF ITS OWN FREE WILL, AND THAT IT HAS HAD THE OPPORTUNITY TO DISCUSS THIS WAIVER WITH COUNSEL.

H. Miscellaneous. To the maximum extent practicable, the AAA, the arbitrators and the parties shall take all action required to conclude any arbitration proceeding within 180 days of the filing of the Dispute with the AAA. No arbitrator or other party to an arbitration proceeding may disclose the existence, content or results thereof, except for disclosures of information by a party required in the ordinary course of its business or by applicable law or regulation. If more than one agreement for arbitration by or between the parties potentially applies to a Dispute, the arbitration provision most directly related to the documents between the parties or the subject matter of the Dispute shall control. This arbitration provision shall survive the repayment of the Note and the termination, amendment or expiration of any of the Documents or any relationship between the parties.

MISCELLANEOUS PROVISIONS. The following miscellaneous provisions are a part of this Agreement:

Amendments. This Agreement, together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Agreement. No alteration of or amendment to this Agreement shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

Attorneys' Fees; Expenses. Grantor agrees to pay upon demand all of Lender's reasonable costs and expenses, including Lender's attorneys' fees and Lender's legal expenses, incurred in connection with the enforcement of this Agreement. Lender may hire or pay someone else to help enforce this Agreement, and Grantor shall pay the reasonable costs and expenses of such enforcement. Costs and expenses include Lender's attorneys' fees and legal expenses whether or not there is a lawsuit, including attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Grantor also shall pay all court costs and such additional fees as may be directed by the court.

Caption Headings. Caption headings in this Agreement are for convenience purposes only and are not to be used to interpret or define the provisions of this Agreement.

Governing Law. This Agreement will be governed by federal law applicable to Lender and, to the extent not preempted by federal law, the laws of the State of Colorado without regard to its conflicts of law provisions. This Agreement has been accepted by Lender in the State of Colorado.

No Waiver by Lender. Lender shall not be deemed to have waived any rights under this Agreement unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Agreement shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Agreement. No prior waiver by Lender, nor any course of dealing between Lender and Grantor, shall constitute a waiver of any of Lender's rights or of any of Grantor's obligations as to any future transactions. Whenever the consent of Lender is required under this Agreement, the granting of such consent by Lender in any instance shall not constitute continuing consent to subsequent instances where such consent is required and in all cases such consent may be granted or withheld in the sole discretion of Lender.

Notices. Any notice required to be given under this Agreement shall be given in writing, and shall be effective when actually delivered, when actually received by telefacsimile (unless otherwise required by law), when deposited with a nationally recognized overnight courier, or, if mailed, when deposited in the United States mail, as first class, certified or registered mail postage prepaid, directed to the addresses shown near the beginning of this Agreement. Any party may change its address for notices under this Agreement by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. For notice purposes, Grantor agrees to keep Lender informed at all times of Grantor's current address. Unless otherwise provided or required by law, if there is more than one Grantor, any notice given by Lender to any Grantor is deemed to be notice given to all Grantors.

Power of Attorney. Grantor hereby appoints Lender as Grantor's irrevocable attorney-in-fact for the purpose of executing any documents necessary to perfect, amend, or to continue the security interest granted in this Agreement or to demand termination of filings of other secured parties. Lender may at any time, and without further authorization from Grantor, file a carbon, photographic or other reproduction of any financing statement or of this Agreement for use as a financing statement. Grantor will reimburse Lender for all expenses for the perfection and the continuation of the perfection of Lender's security interest in the Collateral.

Severability. If a court of competent jurisdiction finds any provision of this Agreement to be illegal, invalid, or unenforceable as to any circumstance, that finding shall not make the offending provision illegal, invalid, or unenforceable as to any other circumstance. If feasible, the offending provision shall be considered modified so that it becomes legal, valid and enforceable. If the offending provision cannot be so modified, it shall be considered deleted from this Agreement.

Unless otherwise required by law, the illegality, invalidity, or unenforceability of any provision of this Agreement shall not affect the legality, validity or enforceability of any other provision of this Agreement.

Successors and Assigns. Subject to any limitations stated in this Agreement on transfer of Grantor's interest, this Agreement shall be binding upon and inure to the benefit of the parties, their successors and assigns. If ownership of the Collateral becomes vested in a person other than Grantor, Lender, without notice to Grantor, may deal with Grantor's successors with reference to this Agreement and the Indebtedness by way of forbearance or extension without releasing Grantor from the obligations of this Agreement or liability under the Indebtedness.

Survival of Representations and Warranties. All representations, warranties, and agreements made by Grantor in this Agreement shall survive the execution and delivery of this Agreement, shall be continuing in nature, and shall remain in full force and effect until such time as Grantor's Indebtedness shall be paid in full.

Time is of the Essence. Time is of the essence in the performance of this Agreement.

DEFINITIONS. The following capitalized words and terms shall have the following meanings when used in this Agreement. Unless specifically stated to the contrary, all references to dollar amounts shall mean amounts in lawful money of the United States of America. Words and terms used in the singular shall include the plural, and the plural shall include the singular, as the context may require. Words and terms not otherwise defined in this Agreement shall have the meanings attributed to such terms in the Uniform Commercial Code:

Agreement. The word "Agreement" means this Commercial Security Agreement, as this Commercial Security Agreement may be amended or modified from time to time, together with all exhibits and schedules attached to this Commercial Security Agreement from time to time.

Borrower. The word "Borrower" means Rocky Mountain Chocolate Factory, Inc. and includes all co-signers and co-makers signing the Note and all their successors and assigns.

Collateral. The word "Collateral" means all of Grantor's right, title and interest in and to all the Collateral as described in the Collateral Description section of this Agreement.

Default. The word "Default" means the Default set forth in this Agreement in the section titled "Default".

Environmental Laws. The words "Environmental Laws" mean any and all state, federal and local statutes, regulations and ordinances relating to the protection of human health or the environment, including without limitation the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, 42 U.S.C. Section 9601, et seq. ("CERCLA"), the Superfund Amendments and Reauthorization Act of 1986, Pub. L. No. 99-499 ("SARA"), the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901, et seq., or other applicable state or federal laws, rules, or regulations adopted pursuant thereto.

Event of Default. The words "Event of Default" mean any of the events of default set forth in this Agreement in the default section of this Agreement.

Grantor. The word "Grantor" means Rocky Mountain Chocolate Factory, Inc..

Guaranty. The word "Guaranty" means the guaranty from guarantor, endorser, surety, or accommodation party to Lender, including without limitation a guaranty of all or part of the Note.

Hazardous Substances. The words "Hazardous Substances" mean materials that, because of their quantity, concentration or physical, chemical or infectious characteristics, may cause or pose a present or potential hazard to human health or the environment when improperly used, treated, stored, disposed of, generated, manufactured, transported or otherwise handled. The words "Hazardous Substances" are used in their very broadest sense and include without limitation any and all hazardous or toxic substances, materials or waste as defined by or listed under the Environmental Laws. The term "Hazardous Substances" also includes, without limitation, petroleum and petroleum by-products or any fraction thereof and asbestos.

Indebtedness. The word "Indebtedness" means the indebtedness evidenced by the Note or Related Documents, including all principal and interest together with all other indebtedness and costs and expenses for which Grantor is responsible under this Agreement or under any of the Related Documents. Specifically, without limitation, Indebtedness includes the future advances set forth in the Future Advances provision, together with all interest thereon and all amounts that may be indirectly secured by the Cross-Collateralization provision of this Agreement.

Lender. The word "Lender" means Wells Fargo Bank, National Association, its successors and assigns.

Note. The word "Note" means the Note dated August 28, 2012 and executed by Rocky Mountain Chocolate Factory, Inc. in the principal amount of \$5,000,000.00, together with all renewals of, extensions of, modifications of, refinancings of, consolidations of, and substitutions for the note or credit agreement.

Property. The word "Property" means all of Grantor's right, title and interest in and to all the Property as described in the "Collateral Description" section of this Agreement.

Related Documents. The words "Related Documents" mean all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, security deeds, collateral mortgages, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Indebtedness.

GRANTOR HAS READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS COMMERCIAL SECURITY AGREEMENT AND AGREES TO ITS TERMS. THIS AGREEMENT IS DATED AUGUST 28, 2012.

GRANTOR:

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC.

**By: /s/ Bryan Merryman
Bryan Merryman, CFO/COO of Rocky Mountain
Chocolate Factory, Inc.**

BUSINESS LOAN AGREEMENT

Exhibit 10.3

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
\$5,000,000.00	08-28-2012	07-31-2013	7657418442-34		12080305548	K0096	
References in the shaded area are for Lender's use only and do not limit the applicability of this document to any particular loan or item.							
Any item above containing "****" has been omitted due to text length limitations.							

Borrower: Rocky Mountain Chocolate Factory, Inc.
265 Turner Drive
Durango, CO 81303

Lender: Wells Fargo Bank, National Association
Durango Main
200 West College Drive
Durango, CO 81301

THIS BUSINESS LOAN AGREEMENT dated August 28, 2012, is made and executed between Rocky Mountain Chocolate Factory, Inc. ("Borrower") and Wells Fargo Bank, National Association ("Lender") on the following terms and conditions. Borrower has received prior commercial loans from Lender or has applied to Lender for a commercial loan or loans or other financial accommodations, including those which may be described on any exhibit or schedule attached to this Agreement. Borrower understands and agrees that: (A) in granting, renewing, or extending any Loan, Lender is relying upon Borrower's representations, warranties, and agreements as set forth in this Agreement; (B) the granting, renewing, or extending of any Loan by Lender at all times shall be subject to Lender's sole judgment and discretion; and (C) all such Loans shall be and remain subject to the terms and conditions of this Agreement.

TERM. This Agreement shall be effective as of August 28, 2012, and shall continue in full force and effect until such time as all of Borrower's Loans in favor of Lender have been paid in full, including principal, interest, costs, expenses, attorneys' fees, and other fees and charges, or until such time as the parties may agree in writing to terminate this Agreement.

CONDITIONS PRECEDENT TO EACH ADVANCE. Lender's obligation to make the initial Advance and each subsequent Advance under this Agreement shall be subject to the fulfillment to Lender's satisfaction of all of the conditions set forth in this Agreement and in the Related Documents.

Loan Documents. Borrower shall provide to Lender the following documents for the Loan: (1) the Note; (2) Security Agreements granting to Lender security interests in the Collateral; (3) financing statements and all other documents perfecting Lender's Security Interests; (4) evidence of insurance as required below; (5) together with all such Related Documents as Lender may require for the Loan; all in form and substance satisfactory to Lender and Lender's counsel.

Borrower's Authorization. Borrower shall have provided in form and substance satisfactory to Lender properly certified resolutions, duly authorizing the execution and delivery of this Agreement, the Note and the Related Documents. In addition, Borrower shall have provided such other resolutions, authorizations, documents and instruments as Lender or its counsel, may require.

Payment of Fees and Expenses. Borrower shall have paid to Lender all fees, charges, and other expenses which are then due and payable as specified in this Agreement or any Related Document.

Representations and Warranties. The representations and warranties set forth in this Agreement, in the Related Documents, and in any document or certificate delivered to Lender under this Agreement are true and correct.

No Event of Default. There shall not exist at the time of any Advance a condition which would constitute an Event of Default under this Agreement or under any Related Document.

REPRESENTATIONS AND WARRANTIES. Borrower represents and warrants to Lender, as of the date of this Agreement, as of the date of each disbursement of loan proceeds, as of the date of any renewal, extension or modification of any Loan, and at all times any Indebtedness exists:

Organization. Borrower is a corporation for profit which is, and at all times shall be, duly organized, validly existing, and in good standing under and by virtue of the laws of the State of Colorado. Borrower is duly authorized to transact business in all other states in which Borrower is doing business, having obtained all necessary filings, governmental licenses and approvals for each state in which Borrower is doing business. Borrower maintains an office at 265 Turner Drive, Durango, CO 81303. Unless Borrower has designated otherwise in writing, the principal office is the office at which Borrower keeps its books and records including its records concerning the Collateral. Borrower will notify Lender prior to any change in the location of Borrower's state of organization or any change in Borrower's name.

Assumed Business Names. Borrower has filed or recorded all documents or filings required by law relating to all assumed business names used by Borrower. Excluding the name of Borrower, the following is a complete list of all assumed business names under which Borrower does business: **None.**

Authorization. Borrower's execution, delivery, and performance of this Agreement and all the Related Documents have been duly authorized by all necessary action by Borrower and do not conflict with, result in a violation of, or constitute a default under (1) any provision of (a) Borrower's articles of incorporation or organization, or bylaws, or (b) any agreement or other instrument binding upon Borrower or (2) any law, governmental regulation, court decree, or order applicable to Borrower or to Borrower's properties.

Properties. Except as contemplated by this Agreement or as previously disclosed in Borrower's financial statements or in writing to Lender and as accepted by Lender, and except for property tax liens for taxes not presently due and payable, Borrower owns and has good title to all of Borrower's properties free and clear of all liens and security interests, and has not executed any security documents or financing statements relating to such properties. All of Borrower's properties are titled in Borrower's legal name, and Borrower has not used or filed a financing statement under any other name for at least the last five (5) years.

AFFIRMATIVE COVENANTS. Borrower covenants and agrees with Lender that, so long as this Agreement remains in effect, Borrower will:

Notices of Claims and Litigation. Promptly inform Lender in writing of (1) all material adverse changes in Borrower's financial condition, and (2) all existing and all threatened litigation, claims, investigations, administrative proceedings or similar actions affecting Borrower or any Guarantor which could materially affect the financial condition of Borrower or the financial condition of any Guarantor.

Financial Records. Maintain its books and records in accordance with accounting principles acceptable to Lender, applied on a consistent basis, and permit Lender to examine and audit Borrower's books and records at all reasonable times.

Financial Statements. Furnish Lender with such financial statements and other related information at such frequencies and in such detail as Lender may reasonably request.

Loan Proceeds. Use all Loan proceeds solely for Borrower's business operations, unless specifically consented to the contrary by Lender in writing.

Taxes, Charges and Liens. Pay and discharge when due all of its indebtedness and obligations, including without limitation all assessments, taxes, governmental charges, levies and liens, of every kind and nature, imposed upon Borrower or its properties, income, or profits, prior to the date on which penalties would attach, and all lawful claims that, if unpaid, might become a lien or charge upon any of Borrower's properties, income, or profits. Provided however, Borrower will not be required to pay and discharge any such assessment, tax, charge, levy, lien or claim so long as (1) the legality of the same shall be contested in good faith by appropriate proceedings, and (2) Borrower shall have established on Borrower's books adequate reserves with respect to such contested assessment, tax, charge, levy, lien, or claim in accordance with GAAP.

Performance. Perform and comply, in a timely manner, with all terms, conditions, and provisions set forth in this Agreement, in the Related Documents, and in all other instruments and agreements between Borrower and Lender. Borrower shall notify Lender immediately in writing of any default in connection with any agreement.

Operations. Maintain executive and management personnel with substantially the same qualifications and experience as the present executive and management personnel; provide written notice to Lender of any change in executive and management personnel; conduct its business affairs in a reasonable and prudent manner.

Compliance with Governmental Requirements. Comply with all laws, ordinances, and regulations, now or hereafter in effect, of all governmental authorities applicable to the conduct of Borrower's properties, businesses and operations, and to the use or occupancy of the Collateral, including without limitation, the Americans With Disabilities Act. Borrower may contest in good faith any such law, ordinance, or regulation and withhold compliance during any proceeding, including appropriate appeals, so long as Borrower has notified Lender in writing prior to doing so and so long as, in Lender's sole opinion, Lender's interests in the Collateral are not jeopardized. Lender may require Borrower to post adequate security or a surety bond, reasonably satisfactory to Lender, to protect Lender's interest.

Inspection. Permit employees or agents of Lender at any reasonable time to inspect any and all Collateral for the Loan or Loans and Borrower's other properties and to examine or audit Borrower's books, accounts, and records and to make copies and memoranda of Borrower's books, accounts, and records. If Borrower now or at any time hereafter maintains any records (including without limitation computer generated records and computer software programs for the generation of such records) in the possession of a third party, Borrower, upon request of Lender, shall notify such party to permit Lender free access to such records at all reasonable times and to provide Lender with copies of any records it may request, all at Borrower's expense.

LENDER'S EXPENDITURES. If any action or proceeding is commenced that would materially affect Lender's interest in the Collateral or if Borrower fails to comply with any provision of this Agreement or any Related Documents, including but not limited to Borrower's failure to discharge or pay when due any amounts Borrower is required to discharge or pay under this Agreement or any Related Documents, Lender on Borrower's behalf may (but shall not be obligated to) take any action that Lender deems appropriate on any Collateral and paying all costs for insuring, maintaining and preserving any Collateral. All such expenditures incurred or paid by Lender for such purposes will then bear interest at the rate charged under the Note from the date incurred or paid by Lender to the date of repayment by Borrower. All such expenses will become a part of the Indebtedness and, at Lender's option, will (A) be payable on demand; (B) be added to the balance of the Note and be apportioned among and be payable with any installment payments to become due during either (1) the term of any applicable insurance policy; or (2) the remaining term of the Note; or (C) be treated as a balloon payment which will be due and payable at the Note's maturity.

NEGATIVE COVENANTS. Borrower covenants and agrees with Lender that while this Agreement is in effect, Borrower shall not, without the prior written consent of Lender:

Continuity of Operations. (1) Engage in any business activities substantially different than those in which Borrower is presently engaged, (2) cease operations, liquidate, merge, transfer, acquire or consolidate with any other entity, change its name, dissolve or transfer or sell Collateral out of the ordinary course of business, or (3) pay any dividends on Borrower's stock (other than dividends payable in its stock), provided, however that notwithstanding the foregoing, but only so long as no Event of Default has occurred and is continuing or would result from the payment of dividends, if Borrower is a "Subchapter S Corporation" (as defined in the Internal Revenue Code of 1986, as amended), Borrower may pay cash dividends on its stock to its shareholders from time to time in amounts necessary to enable the shareholders to pay income taxes and make estimated income tax payments to satisfy their liabilities under federal and state law which arise solely from their status as Shareholders of a Subchapter S Corporation because of their ownership of shares of Borrower's stock, or purchase or retire any of Borrower's outstanding shares or alter or amend Borrower's capital structure.

Agreements. Enter into any agreement containing any provisions which would be violated or breached by the performance of Borrower's obligations under this Agreement or in connection herewith.

CESSATION OF ADVANCES. If Lender has made any commitment to make any Loan to Borrower, whether under this Agreement or under any other agreement, Lender shall have no obligation to make Loan advances or to disburse Loan proceeds if: (A) Borrower or any guarantor is in default under the terms of this Agreement or any other agreement that Borrower or any guarantor has with Lender; (B) Borrower or any guarantor dies, becomes incompetent or becomes insolvent, files a petition in bankruptcy or similar proceedings, or is adjudged a bankrupt; (C) there occurs a material adverse change in Borrower's financial condition, in the financial condition of any guarantor, or in the value of any collateral securing any Loan; or (D) any guarantor seeks, claims or otherwise attempts to limit, modify or revoke such guarantor's guaranty of the Loan or any other loan with Lender; or (E) Lender in good faith deems itself insecure, even though no Event of Default shall have occurred.

RIGHT OF SETOFF. To the extent permitted by applicable law, Lender reserves a right of setoff in all Borrower's accounts with Lender (whether checking, savings, or some other account). This includes all accounts Borrower holds jointly with someone else and all accounts Borrower may open in the future. However, this does not include any IRA or Keogh accounts, or any trust accounts for which setoff would be prohibited by law. Borrower authorizes Lender, to the extent permitted by applicable law, to charge or setoff all sums owing on the Indebtedness against any and all such accounts, and, at Lender's option, to administratively freeze all such accounts to allow Lender to protect Lender's charge and setoff rights provided in this paragraph.

DEFAULT. Each of the following shall constitute an Event of Default under this Agreement:

Payment Default. Borrower fails to make any payment when due under the Loan.

Other Default. Borrower fails to comply with any other term, obligation, covenant or condition contained in this Agreement or in any of the Related Documents.

Default in Favor of Third Parties. Borrower defaults under any loan, extension of credit, security agreement, purchase or sales agreement, or any other agreement, in favor of any other creditor or person that may materially affect any of Borrower's property or Borrower's ability to repay the Loans or perform Borrower's obligations under this Agreement or any related document.

False Statements. Any representation or statement made by Borrower to Lender is false in any material respect.

Insolvency. The dissolution or termination of Borrower's existence as a going business, the insolvency of Borrower, the appointment of a receiver for any part of Borrowers property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Borrower.

Creditor or Forfeiture Proceedings. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Borrower or by any governmental agency against any collateral securing the Loan.

Events Affecting Guarantor. Any of the preceding events occurs with respect to any Guarantor of any of the Indebtedness or any Guarantor dies or becomes incompetent, or revokes or disputes the validity of, or liability under, any Guaranty of the Indebtedness.

Change in Ownership. Any change in ownership of twenty-five percent (25%) or more of the common stock of Borrower.

Insecurity. Lender in good faith believes itself insecure.

EFFECT OF AN EVENT OF DEFAULT. If any Event of Default shall occur, except where otherwise provided in this Agreement or the Related Documents, all commitments and obligations of Lender under this Agreement immediately will terminate (including any obligation to make further Loan Advances or disbursements), and, at Lender's option, all Indebtedness immediately will become due and payable, all without notice of any kind to Borrower, except that in the case of an Event of Default of the type described in the "Insolvency" subsection above, such acceleration shall be automatic and not optional. In addition, Lender shall have all the rights and remedies provided in the Related Documents or available at law, in equity, or otherwise. Except as may be prohibited by applicable law, all of Lenders rights and remedies shall be cumulative and may be exercised singularly or concurrently. Election by Lender to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or to take action to perform an obligation of Borrower or of any Grantor shall not affect Lender's right to declare a default and to exercise its rights and remedies.

FACSIMILE AND COUNTERPART. This document may be signed in any number of separate copies, each of which shall be effective as an original, but all of which taken together shall constitute a single document. An electronic transmission or other facsimile of this document or any related document shall be deemed an original and shall be admissible as evidence of the document and the signer's execution.

SECURITY INTEREST AND RIGHT OF SETOFF. In addition to all liens upon and rights of setoff arising by law, Borrower pledges and grants to Lender as security for Borrower's indebtedness and obligations under the Note (excluding any consumer obligations subject to the Federal Truth In Lending Act) a security interest and lien upon all monies, securities, securities accounts, brokerage accounts, deposit accounts and other property of Borrower now or hereafter in the possession of or on deposit with Lender or any Wells Fargo affiliate, whether held in a general or special account or for safekeeping or otherwise, excluding however all IRA and Keogh accounts. No security interest, lien or right of setoff will be deemed to have been waived by any act or conduct on the part of Lender, or by any neglect to exercise such right, or by any delay in so doing, and every right of setoff, lien and security interest will continue in full force and effect until specifically waived or released by Lender in writing.

INSURANCE. Borrower shall assure that insurance is maintained pursuant to any insurance requirements set forth in the Agreement to Provide Insurance and any Related Documents or other related agreements, if applicable.

ADDITIONAL EVENTS OF DEFAULT. In addition to the Events of Default described herein, the following shall be an Event of Default if applicable: (i) Borrower, any Guarantor or any grantor of collateral fails to comply with any terms or conditions of any agreement with Lender or any Wells Fargo Affiliate; (ii) Borrower or any Guarantor revokes or disputes the validity of any of its liabilities or obligations under any Note, related agreement, or any other agreement with Lender or any Wells Fargo Affiliate; (iii) ~~any change in ownership of an aggregate of twenty-five percent (25%) or more of the common stock, members' equity or other ownership interest in borrower or any partner of Borrower or any Guarantor,~~ (iv) the withdrawal, resignation or expulsion of any one or more of the general partners in Borrower or any Guarantor with an aggregate ownership interest in Borrower or such Guarantor of twenty-five percent (25%) or more; or (v) Borrower or any Guarantor or any chairman, CEO, CFO, president, manager or general partner of Borrower or any Guarantor, nor any officer, member, or shareholder with an ownership interest of 25% or more of Borrower or any Guarantor, is adjudicated a felon under any criminal law. For purposes of this provision Wells Fargo Affiliate shall mean Wells Fargo & Company and any present or future subsidiary of Wells Fargo & Company.

ARBITRATION AGREEMENT. Arbitration - Binding Arbitration. Lender and each party to this agreement hereby agree, upon demand by any party, to submit any Dispute to binding arbitration in accordance with the terms of this Arbitration Program. Arbitration may be demanded before the institution of a judicial proceeding, or during a judicial proceeding, but not more than 60 days after service of a complaint, third party complaint, cross-claim, or any answer thereto, or any amendment to any of such pleadings. A "Dispute" shall include any dispute, claim or controversy of any kind, whether in contract or in tort, legal or equitable, now existing or hereafter arising, relating in any way to any aspect of this agreement, or any related note, instrument or agreement incorporating this Arbitration Program (the "Documents"), or any renewal, extension, modification or refinancing of any indebtedness or obligation relating thereto, including without limitation, their negotiation, execution, collateralization, administration, repayment, modification, extension, substitution, formation, inducement, enforcement, default or termination. This provision is a material inducement for the parties entering into the transactions relating to this Agreement. DISPUTES SUBMITTED TO ARBITRATION ARE NOT RESOLVED IN COURT BY A JUDGE OR JURY. TO THE EXTENT ALLOWED BY APPLICABLE LAW, THE PARTIES IRREVOCABLY AND VOLUNTARILY WAIVE ANY RIGHT THEY MAY HAVE TO A TRIAL BY JURY WITH RESPECT TO ANY DISPUTE ARBITRATED PURSUANT TO THIS ARBITRATION PROGRAM.

A. Governing Rules. Any arbitration proceeding will (i) be governed by the Federal Arbitration Act (Title 9 of the United States Code), notwithstanding any conflicting choice of law provision in any of the documents between the parties; and (ii) be conducted by the American Arbitration Association ("AAA"), or such other administrator as the parties shall mutually agree upon, in accordance with the AAA's commercial dispute resolution procedures, unless the claim or counterclaim is at least \$1,000,000.00 exclusive of claimed interest, arbitration fees and costs, in which case the arbitration shall be conducted in accordance with the AAA's optional procedures for large, complex commercial disputes (the commercial dispute resolution procedures or the optional procedures for large, complex commercial disputes are referred to herein, as applicable, as the "Rules"). If there is any inconsistency between the terms hereof and the Rules, the terms and procedures set forth herein shall control. Arbitration proceedings hereunder shall be conducted at a location mutually agreeable to the parties, or if they cannot agree, then at a location selected by the AAA in the state of the applicable substantive law primarily governing the Note. Any party who fails or refuses to submit to arbitration following a demand by any other party shall bear all costs and expenses incurred by such other party in compelling arbitration of any Dispute. The arbitrator shall award all costs and expenses of the arbitration proceeding. Nothing contained herein shall be deemed to be a waiver by any party that is a bank of the protections afforded to it under 12 U.S.C. Section 91, as amended or replaced from time to time, or any similar applicable state law.

B. No Waiver of Provisional Remedies, Self-Help and Foreclosure. The arbitration requirement does not limit the right of any party to (i) foreclose against real or personal property collateral; (ii) exercise self-help remedies relating to collateral or proceeds of collateral such as setoff or repossession; or (iii) obtain provisional or ancillary remedies such as replevin, injunctive relief, attachment or the appointment of a receiver, before during or after the pendency of any arbitration proceeding. This exclusion does not constitute a waiver of the right or obligation of any party to submit any Dispute to arbitration or reference hereunder, including those arising from the exercise of the actions detailed in sections (i), (ii) and (iii) of this paragraph.

C. Arbitrator Qualifications and Powers Any arbitration proceeding in which the amount in controversy is \$5,000,000.00 or less will be decided by a single arbitrator selected according to the Rules, and who shall not render an award of greater than \$5,000,000.00. Any Dispute in which the amount in controversy exceeds \$5,000,000.00 shall be decided by majority vote of a panel of three arbitrators; provided however, that all three arbitrators must actively participate in all hearings and deliberations. Every arbitrator must be a neutral practicing attorney or a retired member of the state or federal judiciary, in either case with a minimum of ten years experience in the substantive law applicable to the subject matter of the Dispute. The arbitrator will determine whether or not an issue is arbitratable and will give effect to the statutes of limitation in determining any claim. In any arbitration proceeding the arbitrator will decide (by documents only or with a hearing at the arbitrators discretion) any pre-hearing motions which are similar to motions to dismiss for failure to state a claim or motions for summary adjudication. The arbitrator shall resolve all Disputes in accordance with the applicable substantive law and may grant any remedy or relief that a court of such state could order or grant within the scope hereof and such ancillary relief as is necessary to make effective any award. The arbitrator shall also have the power to award recovery of all costs and fees, to impose sanctions and to take such other action as the arbitrator deems necessary to the same extent a judge could pursuant to the Federal Rules of Civil Procedure, the applicable state rules of civil procedure, or other applicable law. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction. The institution and maintenance of an action for judicial relief or pursuit of a provisional or ancillary remedy shall not constitute a waiver of the right of any party, including the plaintiff, to submit the controversy or claim to arbitration if any other party contests such action for judicial relief.

D. Discovery. In any arbitration proceeding discovery will be permitted in accordance with the Rules. All discovery shall be expressly limited to matters directly relevant to the Dispute being arbitrated and must be completed no later than 20 days before the hearing date. Any requests for an extension of the discovery periods, or any discovery disputes, will be subject to final determination by the arbitrator upon a showing that the request for discovery is essential for the party's presentation and that no alternative means for obtaining information is available.

E. Class Proceedings and Consolidations. No party hereto shall be entitled to join or consolidate disputes by or against non-parties in any arbitration, or to include in any arbitration any dispute as a representative or member of a class, or to act in any arbitration in the interest of the general public or in a private attorney general capacity. As used herein, "non-parties" shall mean all persons and entities except Lender and the party(ies) executing this agreement or any related Document.

E. Real Property Collateral: Notwithstanding anything herein to the contrary, no Dispute shall be submitted to arbitration if the Dispute concerns indebtedness secured directly or indirectly, in whole or in part, by any real property and the Dispute is governed by the laws of California, Connecticut, Idaho, Kansas, Montana, Nevada, South Dakota, Virginia or Utah, unless any conditions for arbitration that may be set forth in the mortgage or deed of trust are satisfied; if any such Disputes are not referred to arbitration, then any provision in such mortgage or deed of trust providing for referral of Disputes to a referee or master under the laws of California, Connecticut, Idaho, Kansas, Montana, Nevada, South Dakota, Virginia or Utah shall be applicable to such Disputes.

G. State Specific Provisions.

If Delaware, Pennsylvania or Virginia law governs the Dispute, the following provision is applicable if there is a Confession of Judgment in the Note, any Guaranty, or Related Documents:

Confession of Judgment. Notwithstanding anything herein to the contrary, the arbitration requirement does not limit or preclude the right of Lender to confess judgment pursuant to a warrant of attorney provision set forth in the Note, any Guaranty, or Related Documents. No party shall have the right to demand binding arbitration of any claim, dispute or controversy seeking to (i) strike-off or open a judgment obtained by confession pursuant to a warrant of attorney contained in the Note, any Guaranty, or Related Documents, or (ii) challenge the waiver of a right to prior notice and a hearing before judgment is entered, or after judgment is entered, but before execution upon the judgment. Any claims, disputes or controversies challenging the confession of judgment shall be commenced and prosecuted in accordance with the procedures set forth, and in the forum specified by the applicable state rules of civil procedure or other applicable law.

If Maryland law governs the Dispute, the following provision is applicable if there is a Confession of Judgment in the Note, any Guaranty, or Related Documents:

Confession of Judgment. Notwithstanding anything herein to the contrary, the arbitration requirement does not limit or preclude the right of Lender to confess judgment, and no party shall have the right to demand binding arbitration of any claim, dispute or controversy seeking to open a judgment obtained by confession. Nothing herein, including the arbitration requirement, shall limit the right of any party to foreclose judicially or non-judicially against any real or personal property collateral, or exercise judicial or non-judicial power of sale rights. No provision regarding submission to a jurisdiction and/or venue in any court or the waiver of any right to trial by jury is intended or shall be construed to be in derogation of the provisions for arbitration of any dispute. Any claim or counterclaim or defense raised in connection with Lender's exercise of any rights set forth in the Note, any Guaranty, or Related Documents shall be subject to the arbitration requirement.

If South Carolina law governs the Dispute, the following provision is included:

WAIVER OF JURY TRIAL. NOTWITHSTANDING ANYTHING HEREIN TO THE CONTRARY, WITHOUT INTENDING IN ANY WAY TO LIMIT THE PARTIES' AGREEMENT TO ARBITRATE ANY DISPUTE AS SET FORTH IN THIS MORTGAGE, TO THE EXTENT ANY DISPUTE IS NOT SUBMITTED TO ARBITRATION OR IS DEEMED BY THE ARBITRATOR OR BY ANY COURT WITH JURISDICTION TO BE NOT ARBITRABLE OR NOT REQUIRED TO BE ARBITRATED, MORTGAGOR AND MORTGAGEE WAIVE TRIAL BY JURY IN RESPECT OF ANY SUCH DISPUTE AND ANY ACTION ON SUCH DISPUTE. THIS WAIVER IS KNOWINGLY, WILLINGLY AND VOLUNTARILY MADE BY MORTGAGOR AND MORTGAGEE, AND MORTGAGOR AND MORTGAGEE HEREBY REPRESENT THAT NO REPRESENTATIONS OF FACT OR OPINION HAVE BEEN MADE BY ANY PERSON OR ENTITY TO INDUCE THIS WAIVER OF TRIAL BY JURY OR TO IN ANY WAY MODIFY OR NULLIFY ITS EFFECT. THIS PROVISION IS A MATERIAL INDUCEMENT FOR THE PARTIES ENTERING INTO THE LOAN DOCUMENTS. MORTGAGOR AND MORTGAGEE ARE EACH HEREBY AUTHORIZED TO FILE A COPY OF THIS SECTION IN ANY PROCEEDING AS CONCLUSIVE EVIDENCE OF THIS WAIVER OF JURY TRIAL. MORTGAGOR FURTHER REPRESENTS AND WARRANTS THAT IT HAS BEEN REPRESENTED IN THE SIGNING OF THIS MORTGAGE AND IN THE MAKING OF THIS WAIVER BY INDEPENDENT LEGAL COUNSEL, OR HAS HAD THE OPPORTUNITY TO BE REPRESENTED BY INDEPENDENT LEGAL COUNSEL SELECTED OF ITS OWN FREE WILL, AND THAT IT HAS HAD THE OPPORTUNITY TO DISCUSS THIS WAIVER WITH COUNSEL.

H. Miscellaneous. To the maximum extent practicable, the AAA, the arbitrators and the parties shall take all action required to conclude any arbitration proceeding within 180 days of the filing of the Dispute with the AAA. No arbitrator or other party to an arbitration proceeding may disclose the existence, content or results thereof, except for disclosures of information by a party required in the ordinary course of its business or by applicable law or regulation. If more than one agreement for arbitration by or between the parties potentially applies to a Dispute, the arbitration provision most directly related to the documents between the parties or the subject matter of the Dispute shall control. This arbitration provision shall survive the repayment of the Note and the termination, amendment or expiration of any of the Documents or any relationship between the parties.

LOAN AGREEMENT PROVISION (MASTER LOAN AGREEMENT). The following covenants apply to the loan evidenced by the Note and to all other loans or other credit accommodations from Lender to Borrower now existing or subsequently arising under any future confirmation letter, agreement or promissory note, excluding any loans or financial accommodations which are not serviced by the Wells Fargo Business Banking Group, or its successors ("Excluded Loans"). These covenants supersede and replace any prior financial reporting and condition covenants and shall survive the payoff of the Note, but shall not affect any Excluded Loans or covenants which by their nature relate only to a specific credit transaction. Further, with respect to any prior agreements between Lender and Borrower which were not executed in connection with any Excluded Loans, if any term or provision of any such prior agreement conflicts with any term or provision of this Agreement, then to the extent of such conflict, the terms and provisions of this Agreement will control.

FINANCIAL CONDITION / GAAP COVENANT . Borrower shall maintain its financial condition as follows using generally accepted accounting principles consistently applied and used consistently with prior practices (except to the extent modified by the definitions herein):

Definitions:

"Cash Flow" means the sum of net income after taxes, plus depreciation expense, amortization expense and interest expense, less the sum of dividends and distributions.

"Current Liabilities" means the aggregate amount of Borrower's items properly shown as current liabilities on its balance sheet less any portion of such current liabilities that constitute Subordinated Debt.

"EBITDA" means net income before tax plus interest expense (net of capitalized interest expense), depreciation expense and amortization expense.

"Net Worth" means total owner's equity.

"Subordinated Debt" means debt that is expressly subordinated to Lender in a writing acceptable to Lender. "Tangible Net Worth" means Net Worth less any intangible assets.

"Total Liabilities" means the aggregate amount of Borrower's items properly shown as liabilities on its balance sheet.

Current Ratio as of the end of each month not less than 1.500 to 1.0, with "Current Ratio" defined as current assets divided by Current Liabilities.

Working Capital as of the end of each month not less than \$3,750,000.00, with "Working Capital" defined as current assets minus Current Liabilities.

Tangible Net Worth as of the end of each month not less than \$9,000,000.00.

Total Liabilities divided by Tangible Net Worth as of the end of each quarter not greater than 1.60 to 1.0.

Debt Coverage Ratio on a rolling four-quarter basis not less than 1.250 to 1.0, with "Debt Coverage Ratio" defined as the ratio of Cash Flow to the sum of the prior period current maturities of long term debt plus interest expense.

INTERIM FINANCIAL STATEMENTS (BORROWER) . Borrower shall provide to Lender interim financial statements not later than 50 days after and as of the end of each month, prepared by Borrower, to include (but not limited to), a balance sheet as of the end of each such period, and an income statement and a statement of changes to owner's equity, from the beginning of the then fiscal year to the end of such period. If Borrower has subsidiaries, all financial statements shall be provided on a consolidated and consolidating basis. Such financial statements shall be in form and detail satisfactory to Lender, and signed and dated by Borrower, and by any other party preparing such financial statements or otherwise authenticated to Lenders satisfaction.

NEGATIVE COVENANTS . Borrower further covenants that so long as Lender remains committed to extend credit to Borrower pursuant hereto, or any liabilities (whether direct or contingent, liquidated or un-liquidated) of Borrower to Lender under any of the loan documents remain outstanding, and until payment in full of all obligations of Borrower subject hereto, Borrower will not without Lenders prior written consent:

CAPITAL EXPENDITURES. Make any additional investment in fixed assets in any fiscal year in excess of an aggregate of \$5,000,000.00.

DIVIDENDS, DISTRIBUTIONS (CORPORATION). ~~Declare or pay any dividends or distributions, or redeem, retire, repurchase or otherwise acquire any shares of any class of Borrower's stock now, or hereafter outstanding~~ except that Borrower may do the following: (1) Borrower may declare and pay dividends and distributions to its shareholders in a total amount not to exceed \$4,000,000.00 in the aggregate in any fiscal year, either in cash, stock or any other property, and in addition, (2) if Borrower is an S corporation, Borrower may declare and pay cash dividends or distributions to its shareholders in any fiscal year in a total amount not to exceed the minimum amount required for each such shareholder to cover the federal and state income tax liability of such shareholder for the immediately preceding fiscal year arising as a direct result of Borrower's reported income for said fiscal year, and shall provide to Lender, upon request, any documentation required by Lender to substantiate the appropriateness of amounts paid or to be paid.

OTHER-ADDITIONAL PROVISIONS. Quarterly 10Q Report, within 90 days of quarter end.

Fiscal Business Plan, within 150 days of fiscal year end.

Annual 10K Report, within 120 days of year end.

No outside management fee.

No change in corporate headquarters, management or management ownership without 30 day notice.

Notification to bank of franchisee uncured defaults, litigation against company or intent to acquire additional factory facilities and or other business operations.

Borrower to give bank opportunity to consider all new borrowed funds requests.

LINE REST REQUIREMENT . Borrower shall maintain a zero balance on the line of credit governed by this Agreement for a minimum of 30 consecutive days during the first twelve months of the line of credit, and during each successive twelve-month period.

ACCOUNTS RECEIVABLE [AND INVENTORY] ADVANCE RATES . Limitation on Advances. Amounts outstanding under any line of credit governed by this Agreement, to a maximum of the principal remaining available, shall not exceed an amount (the "Borrowing Base") equal to 75% of Borrowers **Eligible Accounts Receivable** as determined by Lender ("Borrowing Base"). The Borrowing Base shall be determined by Lender upon receipt and review of all collateral reports and borrowing base certificates required hereunder and such other documents, collateral information and inspections as Lender may from time to time require. In the event for any reason Lender permits the amount of any line of credit to exceed the applicable percentage of the Borrowing Base, it shall not constitute a modification or waiver of the terms of this Agreement or Lenders rights and remedies. If at any time the amount outstanding exceeds the applicable percentage of the Borrowing Base, Lender in its sole discretion may require Borrower to immediately make a principal reduction to the balance of the line of credit sufficient to restore compliance with the Borrowing Base limitation stated herein.

As used herein, "Eligible Accounts Receivable" shall consist solely of trade accounts created in the ordinary course of Borrowers business, upon which Borrowers right to receive payment is absolute and not contingent upon the fulfillment of any condition whatsoever, and in which Lender has a perfected security interest of first priority, and shall not include:

- a. any account which has not been fully paid within 90 days of its invoice date, or within three times the length of Borrower's normal selling terms, whichever is less, except with respect to any account for which Borrower has provided extended payment terms acceptable to the Lender, not to exceed 120 days from invoice date, any such account which is more than 30 days past due;
- b. that portion of any account which constitutes a pre-billing or a "bill and hold", or a credit memo balance, service charge or finance charge, or for which there exists any right of setoff, defense, discount allowance (except regular discounts allowed in the ordinary course of business to promote prompt payment) or for which any defense or counterclaim has been asserted;
- c. any account which represents an obligation of any state or municipal government or of the United States government, any political subdivision thereof, or a Native American Sovereign Nation or any political subdivision thereof (except accounts which represent obligations of the United States government and for which the assignment provisions of the Federal Assignment of Claims Act, as amended or re-codified from time to time, have been complied with to Bank's satisfaction);
- d. any account which represents an obligation of an account debtor located in a foreign country, except to the extent any such account, in Lender's determination, is supported by a letter of credit or insured under a policy of foreign credit insurance, in each case in form, substance and issued by a party acceptable to Lender;
- e. any account which arises from the sale or lease to or performance of services for, or represents an obligation of, an employee, affiliate, partner, member, parent or subsidiary of Borrower;
- f. that portion of any account, which represents interim or progress billings on the part of the account debtor, and any accounts subject to rights under third-party payment or performance bonds;

g. that portion of any account, which represents retention rights on the part of the account debtor, and any account subject to rights under third-party payment or performance bonds;

h. any account which represents an obligation of any account debtor when ten percent (10%) or more of Borrower's accounts from such account debtor have not been fully paid within 90 days of invoice date or within three times the length of Borrower's normal selling terms, whichever is less, excluding accounts with extended payment terms acceptable to Lender which are not more than 30 days past due;

j. any account deemed ineligible by Lender when Lender, in its sole discretion, deems the creditworthiness or financial condition of the account debtor, or the industry in which the account debtor is engaged, to be unsatisfactory.

Inventory Component of the Borrowing Base. In addition to the foregoing Accounts Receivable component of the Borrowing Base, the Borrowing Base shall include 50% of the value of Borrower's Eligible Inventory as determined by Lender

"Eligible Inventory" shall mean goods that in Lender's determination have broad, well-defined markets and for which grading and valuation are standardized, excluding:

a. goods with limited liquidation value, including but not limited to, work in process, and goods that are obsolete, unsaleable, damaged, slow moving, custom, private labeled, proprietary or perishable, packaging materials, supplies, samples, demos, prototypes or cost capitalized to inventory for tax purposes;

b. goods over which Borrower has limited control, including but not limited to, goods consigned to others, goods not on Borrower's premises and goods in transit; and goods at public warehouses for which proper protective documentation has not been executed; or

c. goods for which Lender does not hold a first priority perfected security interest, goods subject to legal restrictions, including but not limited to, goods consigned to Borrower by others, goods located in foreign nations, U.S. territories or possessions, bill and hold inventory, goods subject to a vendor's purchase money security interest or other lien, goods in which there are questions of title or for which an assignment of license has not been perfected, and in the case of agricultural commodities, goods associated with unsubordinated grower payables.

Eligible Inventory shall be valued at the lower of cost or market value, as determined by Lender upon receipt and review of collateral reports and documents as Lender may require.]

ACCOUNTS RECEIVABLE AND OTHER REPORTS . Borrower shall provide the following reports to Lender, all in a form satisfactory to Lender:

a. not later than 50 days following, and as of the end of each month, a Borrowing Base certificate.

DEFINITIONS. The following capitalized words and terms shall have the following meanings when used in this Agreement. Unless specifically stated to the contrary, all references to dollar amounts shall mean amounts in lawful money of the United States of America. Words and terms used in the singular shall include the plural, and the plural shall include the singular, as the context may require. Words and terms not otherwise defined in this Agreement shall have the meanings attributed to such terms in the Uniform Commercial Code. Accounting words and terms not otherwise defined in this Agreement shall have the meanings assigned to them in accordance with generally accepted accounting principles as in effect on the date of this Agreement:

Advance. The word "Advance" means a disbursement of Loan funds made, or to be made, to Borrower or on Borrower's behalf on a line of credit or multiple advance basis under the terms and conditions of this Agreement.

Agreement. The word "Agreement" means this Business Loan Agreement, as this Business Loan Agreement may be amended or modified from time to time, together with all exhibits and schedules attached to this Business Loan Agreement from time to time.

Borrower. The word "Borrower" means Rocky Mountain Chocolate Factory, Inc. and includes all co-signers and co-makers signing the Note and all their successors and assigns.

Collateral. The word "Collateral" means all property and assets granted as collateral security for a Loan, whether real or personal property, whether granted directly or indirectly, whether granted now or in the future, and whether granted in the form of a security interest, mortgage, collateral mortgage, deed of trust, assignment, pledge, crop pledge, chattel mortgage, collateral chattel mortgage, chattel trust, factor's lien, equipment trust, conditional sale, trust receipt, lien, charge, lien or title retention contract, lease or consignment intended as a security device, or any other security or lien interest whatsoever, whether created by law, contract, or otherwise.

Event of Default. The words "Event of Default" mean any of the events of default set forth in this Agreement in the default section of this Agreement.

GAAP. The word "GAAP" means generally accepted accounting principles.

Grantor. The word "Grantor" means each and all of the persons or entities granting a Security Interest in any Collateral for the Loan, including without limitation all Borrowers granting such a Security Interest.

Guarantor. The word "Guarantor" means any guarantor, surety, or accommodation party of any or all of the Loan.

Guaranty. The word "Guaranty" means the guaranty from Guarantor to Lender, including without limitation a guaranty of all or part of the Note.

Indebtedness. The word "Indebtedness" means the indebtedness evidenced by the Note or Related Documents, including all principal and interest together with all other indebtedness and costs and expenses for which Borrower is responsible under this Agreement or under any of the Related Documents.

Lender. The word "Lender" means Wells Fargo Bank, National Association, its successors and assigns.

Loan. The word "Loan" means any and all loans and financial accommodations from Lender to Borrower whether now or hereafter existing, and however evidenced, including without limitation those loans and financial accommodations described herein or described on any exhibit or schedule attached to this Agreement from time to time.

Note. The word "Note" means the Note dated August 28, 2012 and executed by Rocky Mountain Chocolate Factory, Inc. in the principal amount of \$5,000,000.00, together with all renewals of, extensions of, modifications of, refinancings of, consolidations of, and substitutions for the note or credit agreement.

Related Documents. The words "Related Documents" mean all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, security deeds, collateral mortgages, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Loan.

Security Agreement. The words "Security Agreement" mean and include without limitation any agreements, promises, covenants, arrangements, understandings or other agreements, whether created by law, contract, or otherwise, evidencing, governing, representing, or creating a Security Interest.

Security Interest. The words "Security Interest" mean, without limitation, any and all types of collateral security, present and future, whether in the form of a lien, charge, encumbrance, mortgage, deed of trust, security deed, assignment, pledge, crop pledge, chattel mortgage, collateral chattel mortgage, chattel trust, factor's lien, equipment trust, conditional sale, trust receipt, lien or title retention contract, lease or consignment intended as a security device, or any other security or lien interest whatsoever whether created by law, contract, or otherwise.

BORROWER ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS BUSINESS LOAN AGREEMENT AND BORROWER AGREES TO ITS TERMS. THIS BUSINESS LOAN AGREEMENT IS DATED AUGUST 28, 2012.

BORROWER:

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC.

By: /s/ Bryan Merryman

**Bryan Merryman, CFO/COO of Rocky Mountain
Chocolate Factory, Inc.**

LENDER:

WELLS FARGO BANK, NATIONAL ASSOCIATION

By: /s/ Mike Field

Authorized Signer

ADDENDUM TO BUSINESS LOAN AGREEMENT

THIS ADDENDUM is attached to and made a part of that certain Business Loan Agreement (the "Agreement") dated 8/28/12, executed by Rocky Mountain Chocolate Factory, Inc. ("Borrower") in favor of Wells Fargo Bank, National Association ("Bank"), executed in connection with that certain Note in the principal amount of \$ 5,000,000.00. This Addendum may be attached to and shall be considered a part of the Loan Agreement, and shall supplement the Loan Agreement. Capitalized terms not defined herein shall have the meanings defined for them in the Agreements.

The following provisions are hereby amended in the Agreement:

1. Loan Proceeds on Page 2 of the Agreement is amended to now read:

"Loan Proceeds. Use all Loan proceeds solely for Borrower's business operations to include stock repurchase, unless specifically consented to the contrary by Lender in writing."

2. The third sentence under RIGHT OF SETOFF on Page 2 of the Agreement is amended to now read:

"However, this does not include any IRA or Keogh accounts, 401(k)'s, or any trust accounts for which setoff would be prohibited by law."

3. SECURITY INTEREST AND RIGHT OF SETOFF on Page 3 of the Agreement should also exclude 401(k)'s.

4. CONTINUITY OF OPERATIONS on page 2 of the Agreement, the following is added: Borrower may declare and pay dividends and distributions to its shareholders in a total amount not to exceed \$4,000,000.00 in the aggregate in any fiscal year, either in cash, stock or any other property.

IN WITNESS WHEREOF, this Addendum has been executed this 28th day of August, 2011, to be effective as of the same date as the Agreement.

Wells Fargo Bank, National Association

By: /s/ Mike Field
Mike Field
Sr. Business Relationship Manager

Rocky Mountain Chocolate Factory, Inc.

By: /s/ Bryan Merryman
Bryan Merryman
CFO/COO

Certification Pursuant To Section 302 Of The Sarbanes-Oxley Act of 2002

I, Franklin E. Crail, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Rocky Mountain Chocolate Factory, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 14, 2013

/s/ Franklin E. Crail

Franklin E. Crail, President, Chief Executive Officer and Chairman of the Board of Directors

Certification Pursuant To Section 302 Of The Sarbanes-Oxley Act of 2002

I, Bryan J. Merryman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Rocky Mountain Chocolate Factory, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 14, 2013

/s/ Bryan J. Merryman

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

Certification of Chief Executive Officer

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

In connection with the Quarterly Report of Rocky Mountain Chocolate Factory, Inc. (the "Company") on Form 10-Q for the quarterly period ended November 30, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company certifies, in his capacity as such, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: January 14, 2013

/s/ Franklin E. Crail

Franklin E. Crail, President, Chief Executive Officer and Chairman of the Board of Directors

Certification of Chief Financial Officer

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

In connection with the Quarterly Report of Rocky Mountain Chocolate Factory, Inc. (the "Company") on Form 10-Q for the quarterly period ended November 30, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company certifies, in his capacity as such, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: January 14, 2013

/s/ Bryan J. Merryman

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

Note 8 - Goodwill and Intangible Assets (Detail) - Intangible assets (USD \$)	9 Months Ended	
	Nov. 30, 2012	Feb. 29, 2012
Intangible assets subject to amortization, Gross Carrying Value	\$ 777,320	\$ 777,320
Intangible assets subject to amortization, Accumulated Amortization	762,025	755,209
Franchising segment-		
Intangible assets not subject to amortization, Gross Carrying Value	1,709,328	1,709,328
Intangible assets not subject to amortization, Accumulated Amortization	662,384	662,384
Total intangible assets	2,486,648	2,486,648
Total intangible assets	1,424,409	1,417,593
Company Stores Goodwill [Member]		
Franchising segment-		
Intangible assets not subject to amortization, Gross Carrying Value	1,099,328	1,099,328
Intangible assets not subject to amortization, Accumulated Amortization	267,020	267,020
Franchising Goodwill [Member]		
Franchising segment-		
Intangible assets not subject to amortization, Gross Carrying Value	295,000	295,000
Intangible assets not subject to amortization, Accumulated Amortization	197,682	197,682
Manufacturing Segment-Goodwill [Member]		
Franchising segment-		
Intangible assets not subject to amortization, Gross Carrying Value	295,000	295,000
Intangible assets not subject to amortization, Accumulated Amortization	197,682	197,682
Trademarks [Member]		
Franchising segment-		
Intangible assets not subject to amortization, Gross Carrying Value	20,000	20,000
Minimum [Member] Packaging Licenses [Member]		
Intangible assets subject to amortization, Amortization Period (years)	3 years	
Maximum [Member] Packaging Licenses [Member]		
Intangible assets subject to amortization, Amortization Period (years)	5 years	
Store Design [Member]		
Intangible assets subject to amortization, Amortization Period (years)	10 years	
Intangible assets subject to amortization, Gross Carrying Value	205,777	205,777
Intangible assets subject to amortization, Accumulated Amortization	204,300	200,445
Packaging Licenses [Member]		
Intangible assets subject to amortization, Gross Carrying Value	120,830	120,830
Intangible assets subject to amortization, Accumulated Amortization	120,830	120,830
Packaging Design [Member]		
Intangible assets subject to amortization, Amortization Period (years)	10 years	
Intangible assets subject to amortization, Gross Carrying Value	430,973	430,973
Intangible assets subject to amortization, Accumulated Amortization	430,973	430,973
Aspen Leaf Yogurt Design [Member]		
Intangible assets subject to amortization, Amortization Period (years)	5 years	
Intangible assets subject to amortization, Gross Carrying Value	19,740	19,740

<u>Intangible assets subject to amortization, Accumulated Amortization</u>	\$ 5,922	\$ 2,961
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**Note 4 - Property and
Equipment, Net (Detail) -
Property and equipment
(USD \$)**

Nov. 30, 2012 Feb. 29, 2012

<u>Land</u>	\$ 513,618	\$ 513,618
<u>Building</u>	4,764,005	4,700,905
<u>Machinery and equipment</u>	8,784,810	8,580,960
<u>Furniture and fixtures</u>	1,452,570	1,614,484
<u>Leasehold improvements</u>	1,814,118	2,064,345
<u>Transportation equipment</u>	362,413	360,582
<u>Impairment provision of long-lived assets</u>	(1,989,216)	
	15,702,318	17,834,894
<u>Less accumulated depreciation</u>	9,908,127	9,319,250
<u>Property and equipment, net</u>	\$ 5,794,191	\$ 8,515,644

**Note 11 - Impairment of
Long-lived Assets (Tables)**

**9 Months Ended
Nov. 30, 2012**

[Details of Impairment of Long-Lived Assets Held and Used by Asset \[Table Text Block\]](#)

Retail segment	\$1,929,453
Other segment	48,763
Total impairment provision	\$1,978,216

Note 11 - Impairment of Long-lived Assets (Detail) (USD \$)	3 Months Ended 9 Months Ended	
	Nov. 30, 2012	Nov. 30, 2012
Asset Impairment Charges	\$ 1,978,216	\$ 1,978,216
Assets Held-for-sale, at Carrying Value	\$ 2,893,549	\$ 2,893,549

Note 7 - Operating Segments (Detail) - Segment Information (USD \$)	3 Months Ended		9 Months Ended		
	Nov. 30, 2012	Nov. 30, 2011	Nov. 30, 2012	Nov. 30, 2011	Feb. 29, 2012
<u>Total revenues</u>	\$ 9,197,424	\$ 8,869,016	\$ 27,638,959	\$ 26,167,377	
<u>Intersegment revenues</u>	(561,619)	(589,106)	(1,615,125)	(1,673,755)	
<u>Revenue from external customers</u>	8,635,805	8,279,910	26,023,834	24,493,622	
<u>Segment profit (loss)</u>	(822,365)	1,116,398	2,090,470	3,948,945	
<u>Total assets</u>	20,779,651	22,171,254	20,779,651	22,171,254	24,162,970
<u>Capital expenditures</u>	174,080	671,352	691,493	1,861,708	
<u>Total depreciation & amortization</u>	224,044	194,129	691,590	553,295	
Franchising [Member]					
<u>Total revenues</u>	1,308,146	1,164,453	4,375,405	4,164,061	
<u>Revenue from external customers</u>	1,308,146	1,164,453	4,375,405	4,164,061	
<u>Segment profit (loss)</u>	503,380	374,409	1,800,330	1,756,143	
<u>Total assets</u>	1,316,002	1,328,594	1,316,002	1,328,594	
<u>Capital expenditures</u>		10,171	24,007	11,613	
<u>Total depreciation & amortization</u>	9,067	15,599	30,160	50,155	
Manufacturing [Member]					
<u>Total revenues</u>	6,799,847	6,738,048	18,836,774	18,092,103	
<u>Intersegment revenues</u>	(561,619)	(589,106)	(1,615,125)	(1,673,755)	
<u>Revenue from external customers</u>	6,238,228	6,148,942	17,221,649	16,418,348	
<u>Segment profit (loss)</u>	1,727,587	1,740,532	4,890,384	4,646,749	
<u>Total assets</u>	11,499,337	11,488,435	11,499,337	11,488,435	
<u>Capital expenditures</u>	85,058	22,783	255,313	133,441	
<u>Total depreciation & amortization</u>	73,012	73,382	217,189	221,546	
Retail [Member]					
<u>Total revenues</u>	1,089,431	966,515	4,426,780	3,911,213	
<u>Revenue from external customers</u>	1,089,431	966,515	4,426,780	3,911,213	
<u>Segment profit (loss)</u>	(2,131,270)	(179,408)	(2,053,806)	(161,254)	
<u>Total assets</u>	2,422,986	3,982,890	2,422,986	3,982,890	
<u>Capital expenditures</u>	12,357	622,587	254,103	1,525,439	
<u>Total depreciation & amortization</u>	103,255	68,121	329,083	177,210	
All Other Segments [Member]					
<u>Segment profit (loss)</u>	(922,062)	(819,135)	(2,546,438)	(2,292,693)	
<u>Total assets</u>	5,541,326	5,371,335	5,541,326	5,371,335	
<u>Capital expenditures</u>	76,665	15,811	158,070	191,215	
<u>Total depreciation & amortization</u>	\$ 38,710	\$ 37,028	\$ 115,158	\$ 104,384	

Note 3 - Inventories

**9 Months Ended
Nov. 30, 2012**

[Inventory Disclosure \[Text Block\]](#) NOTE 3 – INVENTORIES

Inventories consist of the following:

	November 30, 2012	February 29, 2012
Ingredients and supplies	\$2,327,525	\$2,484,796
Finished candy	2,063,799	1,634,277
Total inventories	\$4,391,324	\$4,119,073

Note 11 - Impairment of Long-lived Assets (Detail) - Impairment of long-lived assets (USD \$)

	3 Months Ended	9 Months Ended
	Nov. 30, 2012	Nov. 30, 2012
<u>Total impairment provision</u>	\$ 1,978,216	\$ 1,978,216
Retail [Member]		
<u>Total impairment provision</u>		1,929,453
All Other Segments [Member]		
<u>Total impairment provision</u>		\$ 48,763

**Note 1 - Nature of
Operations and Basis of
Presentation (Detail) - Non-
vested restricted stock unit
transactions (USD \$)**

9 Months Ended

Nov. 30, 2012 Nov. 30, 2011

<u>Outstanding non-vested restricted stock units as of February 28 or 29:</u>	101,980	141,260
<u>Outstanding non-vested restricted stock units as of November 30:</u>	57,230	102,500
<u>Weighted average grant date fair value (in Dollars per share)</u>	\$ 9.22	\$ 9.19
<u>Weighted average remaining vesting period (in years)</u>	1 year 146 days	2 years 87 days
<u>Granted</u>		4,540
<u>Vested</u>	(44,190)	(43,300)
<u>Cancelled/forfeited</u>	(560)	

**Note 1 - Nature of
Operations and Basis of
Presentation (Detail) - Stock
option transactions (USD \$)**

9 Months Ended

Nov. 30, 2012 Nov. 30, 2011

<u>Outstanding stock options as of February 28 or 29:</u>	307,088	341,890
<u>Outstanding stock options as of November 30:</u>	289,136	344,520
<u>Weighted average exercise price (in Dollars per share)</u>	\$ 10.67	\$ 10.11
<u>Weighted average remaining contractual term (in years)</u>	2 years 25 days	2 years 262 days
<u>Granted</u>		12,936
<u>Exercised</u>	(3,000)	(8,731)
<u>Cancelled/forfeited</u>	(14,952)	(1,575)

Note 1 - Nature of Operations and Basis of Presentation (Detail) - Stock Options Valuation

9 Months Ended

Nov. 30, 2011

Assumptions

Expected dividend yield	3.87%
Expected stock price volatility	27.00%
Risk-free interest rate	2.00%
Expected life of options (years)	5 years

**Note 2 - Earnings per Share
(Detail)**

	3 Months Ended		9 Months Ended	
	Nov. 30, 2012	Nov. 30, 2011	Nov. 30, 2012	Nov. 30, 2011
<u>Antidilutive Securities Excluded from Computation of Earnings Per Share, Amount</u>	101,661	117,663	102,853	118,570

Note 2 - Earnings per Share

**9 Months Ended
Nov. 30, 2012**

[Earnings Per Share \[Text
Block\]](#)

NOTE 2 - EARNINGS PER SHARE

Basic earnings per share is calculated using the weighted average number of common shares outstanding. Diluted earnings per share reflects the potential dilution that could occur from common shares issuable through stock options and restricted stock units. For the three months ended November 30, 2012 and 2011, 101,661 and 117,663 stock options, respectively, were excluded from the computation of earnings per share because their effect would have been anti-dilutive. For the nine months ended November 30, 2012 and 2011, 102,853 and 118,570 stock options, respectively, were excluded from the computation of earnings per share because their effect would have been anti-dilutive.

Note 3 - Inventories (Detail) - Nov. 30, 2012 Feb. 29, 2012
Inventories (USD \$)

<u>Ingredients and supplies</u>	\$ 2,327,525	\$ 2,484,796
<u>Finished candy</u>	2,063,799	1,634,277
<u>Total inventories</u>	\$ 4,391,324	\$ 4,119,073

**Note 9 - Related Party
Transactions (Detail) (USD
\$)**

**9 Months Ended
Nov. 30, 2012**

<u>Accounts Receivable, Related Parties</u>	\$ 1,900
<u>Related Party Transaction, Expenses from Transactions with Related Party</u>	\$ 11,150

**Consolidated Statements of
Operations (unaudited)
(USD \$)**

**3 Months Ended 9 Months Ended
Nov. 30, Nov. 30, Nov. 30, Nov. 30,
2012 2011 2012 2011**

Revenues

Sales

\$ \$ \$ \$
7,327,659 7,115,456 21,648,429 20,329,561

Franchise and royalty fees

1,308,145 1,164,454 4,375,405 4,164,061

Total revenues

8,635,804 8,279,910 26,023,834 24,493,622

Costs and Expenses

Cost of sales, exclusive of depreciation and amortization expense of \$72,102, \$68,388, \$214,425 and \$206,953, respectively

4,769,166 4,681,398 13,460,977 12,892,284

Franchise costs

457,558 452,713 1,560,078 1,374,413

Sales and marketing

447,887 400,263 1,317,874 1,225,393

General and administrative

847,862 800,583 2,389,700 2,257,175

Retail operating

743,805 649,696 2,568,078 2,288,246

Depreciation and amortization

224,044 194,129 691,590 553,295

Impairment loss – Aspen Leaf Yogurt long-lived assets

1,978,216 1,978,216

Total costs and expenses

9,468,538 7,178,782 23,966,513 20,590,806

Income (Loss) from Operations

(832,734) 1,101,128 2,057,321 3,902,816

Interest Income

10,368 15,270 33,149 46,129

Income (Loss) Before Income Taxes

(822,366) 1,116,398 2,090,470 3,948,945

Income Tax Provision

(312,882) 391,430 708,843 1,392,765

Net Income (Loss)

\$ \$ \$ \$
(509,484) \$ 724,968 1,381,627 2,556,180

Basic Earnings (Loss) per Common Share (in Dollars per share)

\$ (0.08) \$ 0.12 \$ 0.23 \$ 0.42

Diluted Earnings (Loss) per Common Share (in Dollars per share)

\$ (0.08) \$ 0.12 \$ 0.22 \$ 0.41

Weighted Average Common Shares Outstanding (in Shares)

6,050,279 6,126,007 6,085,057 6,102,704

Dilutive Effect of Stock Options (in Shares)

130,577 159,445 145,731 194,136

Weighted Average Common Shares Outstanding, Assuming Dilution (in Shares)

6,180,856 6,285,452 6,230,788 6,296,840

**Consolidated Statements of
Cash Flows (unaudited)
(USD \$)**

**9 Months Ended
Nov. 30, Nov. 30,
2012 2011**

Cash Flows From Operating activities

Net income \$ 1,381,627 \$ 2,556,180

Adjustments to reconcile net income to net cash provided by operating activities:

Depreciation and amortization 691,590 553,295

Impairment loss – Aspen Leaf Yogurt long-lived assets 1,978,216

Provision for loss on accounts and notes receivable 245,000 237,000

Provision for obsolete inventory 45,000 45,000

Asset impairment and store closure losses (17,000)

Loss (gain) on sale or acquisition of property and equipment (24,957) 26,598

Expense recorded for stock compensation 324,767 356,490

Deferred income taxes (322,344) (165,338)

Changes in operating assets and liabilities:

Accounts receivable (656,248) 87,163

Inventories 9,150 (241,502)

Other current assets (57,608) (99,138)

Accounts payable (542,793) (11,119)

Deferred income (16,070) (77,910)

Accrued liabilities (134,605) 100,931

Net cash provided by operating activities 2,903,725 3,367,650

Cash Flows From Investing Activities

Addition to notes receivable (36,215) (101,810)

Proceeds received on notes receivable 169,279 165,929

Proceeds from sale or distribution of assets 669,300 52,800

Purchases of property and equipment (691,493) (1,861,708)

Increase in other assets (5,672) (32,895)

Net cash provided by (used in) investing activities 105,199 (1,777,684)

Cash Flows From Financing Activities

Repurchase of common stock (1,715,352)

Issuance of common stock 22,224 36,715

Tax benefit of stock awards 52,042 8,285

Dividends paid (1,957,500) (1,827,959)

Net cash used in financing activities (3,598,586) (1,782,959)

Net Increase (Decrease) in Cash and Cash Equivalents (589,662) (192,993)

Cash and Cash Equivalents, Beginning of Period 4,125,444 3,344,490

Cash and Cash Equivalents, End of Period \$ 3,535,782 \$ 3,151,497

**Note 6 - Supplemental Cash
Flow Information (Detail) -
Supplemental Cash Flow
Information (USD \$)**

9 Months Ended

Nov. 30, 2012 Nov. 30, 2011

<u>Interest</u>	\$ (33,659)	\$ (50,175)
<u>Income taxes</u>	979,145	1,425,551
<u>Non-Cash Operating Activities Accrued Inventory</u>	326,401	283,949
<u>Non-Cash Financing Activities Dividend Payable</u>	\$ 665,531	\$ 612,601

**Note 6 - Supplemental Cash
Flow Information (Tables)**

[Schedule of Cash Flow, Supplemental Disclosures \[Table
Text Block\]](#)

**9 Months Ended
Nov. 30, 2012**

		Nine Months Ended November 30,	
		2012	2011
Cash paid (received) for:			
	Interest	\$ (33,659)	\$ (50,175)
	Income taxes	979,145	1,425,551
Non-Cash	Operating Activities		
	Accrued Inventory	326,401	283,949
Non-Cash	Financing Activities		
	Dividend Payable	\$ 665,531	\$ 612,601

**Note 7 - Operating Segments
(Detail) (USD \$)
In Millions, unless otherwise
specified**

9 Months Ended

Nov. 30, 2012 Nov. 30, 2011

<u>Number of Reportable Segments</u>	3	
<u>Numbers Of Major Customers</u>	1	
<u>Entity-Wide Revenue, Major Customer, Amount (in Dollars)</u>	\$ 2.5	\$ 2.4

**Note 8 - Goodwill and
Intangible Assets (Tables)**

Schedule of Intangible Assets and
Goodwill [Table Text Block]

**9 Months Ended
Nov. 30, 2012**

	Amortization Period (Years)	November 30, 2012		February 29, 2012	
		Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Intangible assets subject to amortization					
Store design	10	\$ 205,777	\$ 204,300	\$ 205,777	\$ 200,445
Packaging licenses	3 -5	120,830	120,830	120,830	120,830
Packaging design	10	430,973	430,973	430,973	430,973
Aspen Leaf Yogurt Design	5	19,740	5,922	19,740	2,961
Total		777,320	762,025	777,320	755,209
Intangible assets not subject to amortization					
Franchising segment-					
Company stores goodwill		\$1,099,328	\$ 267,020	\$1,099,328	\$ 267,020
Franchising goodwill		295,000	197,682	295,000	197,682
Manufacturing segment-Goodwill		295,000	197,682	295,000	197,682
Trademark		20,000	-	20,000	-
Total Goodwill		1,709,328	662,384	1,709,328	662,384
Total intangible assets		\$2,486,648	\$ 1,424,409	\$2,486,648	\$ 1,417,593

**Note 1 - Nature of
Operations and Basis of
Presentation**

9 Months Ended

Nov. 30, 2012

[Organization, Consolidation
and Presentation of Financial
Statements Disclosure \[Text
Block\]](#)

NOTE 1 – NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Nature of Operations

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

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

Aspen Leaf Yogurt, LLC (“ALY”) was incorporated in the state of Colorado as Aspen Leaf Yogurt, Inc. on September 30, 2010 and organized through conversion as Aspen Leaf Yogurt, LLC on October 14, 2010. ALY is a franchisor and retail operator of self-serve frozen yogurt retail units.

The Company’s revenues are currently derived from three principal sources: sales to franchisees and others of chocolates and other confectionery products manufactured by the Company; the collection of initial franchise fees and royalties from franchisees’ sales; and sales at Company-owned stores of chocolates, frozen yogurt, and other confectionery products. The following table summarizes the number of stores operating under RMCF and ALY at November 30, 2012:

	Sold, Not Yet Open	Open	Total
Rocky Mountain Chocolate Factory			
Company-owned stores	-	7	7
Franchise stores – Domestic stores	3	227	230
Franchise stores – Domestic kiosks	-	8	8
Franchise units – International	-	64	64
Cold Stone Creamery – co-branded	1	55	56
Aspen Leaf Yogurt Stores			
Company-owned stores	-	8	8
Franchise stores – Domestic stores	4	8	12
Total	8	377	385

Basis of Presentation

The accompanying financial statements have been prepared by the Company, without audit, and reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial reporting and Securities and Exchange Commission regulations. Certain information and footnote disclosures normally included in financial statements prepared in

accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the financial statements reflect all adjustments (of a normal and recurring nature) which are necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. The results of operations for the three and nine months ended November 30, 2012 are not necessarily indicative of the results to be expected for the entire fiscal year.

These financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended February 29, 2012.

Subsequent Events

On January 14, 2013, Ulysses Asset Acquisition, LLC (“Newco”), a wholly-owned subsidiary of the Company formed in the State of Colorado on January 2, 2013, entered into an agreement to acquire substantially all of the assets of YHI, Inc. and Yogurtini International, LLC (collectively, “Yogurtini”), which are the franchisors of self-serve frozen yogurt retail units branded as “Yogurtini.” In addition, on January 14, 2013, the Company entered into two agreements to sell all of its membership interests in Newco and substantially all of its assets in ALY to U-Swirl, Inc., a publicly traded company (OTCQB: SWRL), in exchange for a 60% controlling equity interest in U-Swirl, Inc. Upon completion of these transactions, the Company expects to cease to operate any Company-owned Aspen Leaf Yogurt locations or sell and support franchise locations. For the three months ended November 30, 2012, the Company recorded an impairment to certain long-lived assets as discussed in Notes 11 and 12 to these financial statements. In addition to the impairment of assets, the Company expects to incur future restructuring costs of \$500,000-600,000 associated with this restructuring. As of November 30, 2012, approximately \$47,000 of expenses associated with this restructuring had been incurred and was recorded to general and administrative costs.

Stock-Based Compensation

At November 30, 2012, the Company had stock-based compensation plans for employees and non-employee directors which authorized the granting of stock awards.

The Company recognized \$94,867 and \$324,767 of stock-based compensation expense during the three and nine month periods ended November 30, 2012, respectively, compared to \$102,260 and \$356,490, during the three and nine month periods ended November 30, 2011, respectively. Compensation costs related to stock-based compensation are generally amortized over the vesting period.

The following table summarizes stock option transactions for common stock during the nine months ended November 30, 2012 and November 30, 2011:

	Nine Months Ended November 30,	
	2012	2011
Outstanding stock options as of February 28 or 29:	307,088	341,890
Granted	-	12,936

Exercised	(3,000)	(8,731)
Cancelled/forfeited	(14,952)	(1,575)
Outstanding stock options as of November 30:	289,136	344,520
Weighted average exercise price	\$ 10.67	\$ 10.11
Weighted average remaining contractual term (in years)	2.07	2.72

The following table summarizes non-vested restricted stock unit transactions for common stock during the nine months ended November 30, 2012 and November 30, 2011:

	Nine Months Ended November 30,	
	2012	2011
Outstanding non-vested restricted stock units as of February 28 or 29:	101,980	141,260
Granted	-	4,540
Vested	(44,190)	(43,300)
Cancelled/forfeited	(560)	-
Outstanding non-vested restricted stock units as of November 30:	57,230	102,500
Weighted average grant date fair value	\$ 9.22	\$ 9.19
Weighted average remaining vesting period (in years)	1.38	2.24

During the nine months ended November 30, 2012, the Company issued 4,000 fully-vested, unrestricted shares of stock to non-employee directors compared with 4,000 fully-vested, unrestricted shares of stock and 12,936 shares of stock options issued to non-employee directors in the nine months ended November 30, 2011. There were no unrestricted shares or stock options issued during the three-month periods ended November 30, 2012 or November 30, 2011. In connection with these non-employee director stock issuances, the Company recognized \$37,200 and \$52,886 of stock-based compensation expense during the nine-month periods ended November 30, 2012 and 2011, respectively.

During the three and nine month periods ended November 30, 2012, the Company recognized \$94,867 and \$287,567, respectively, of stock-based compensation expense related to non-vested, non-forfeited restricted stock unit grants. The restricted stock unit grants generally vest 20% annually over a period of five years. During the nine months ended November 30, 2012, 44,190 restricted stock units vested and were issued as common stock. Total unrecognized compensation expense of non-vested, non-forfeited shares granted as of November 30, 2012 was \$378,678, which is expected to be recognized over the weighted-average period of 1.4 years.

There were no options granted during the nine months ended November 30, 2012 and the weighted-average fair value of stock options granted during the nine months ended November 30, 2011 was \$0.89 per share.

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model utilizing the following weighted-average assumptions:

	Nine Months Ended November 30,	
	2012	2011

Expected dividend yield	n/a	3.87%
Expected stock price volatility	n/a	27%
Risk-free interest rate	n/a	2.0%
Expected life of options (years)	n/a	5

Consolidated Statements of Operations (unaudited) (Parentheticals) (USD \$)	3 Months Ended		9 Months Ended	
	Nov. 30, 2012	Nov. 30, 2011	Nov. 30, 2012	Nov. 30, 2011
<u>Cost of sales, depreciation and amortization (in Dollars)</u>	\$ 72,102	\$ 68,388	\$ 214,425	\$ 206,953

**Note 11 - Impairment of
Long-lived Assets**

**9 Months Ended
Nov. 30, 2012**

[Asset Impairment Charges](#)
[\[Text Block\]](#)

NOTE 11 – IMPAIRMENT OF LONG-LIVED ASSETS

During the three months ended November 30, 2012, the Company began an initiative to sell substantially all long lived assets associated with continued operation of Aspen Leaf Yogurt Company-owned locations. This initiative caused the Company to perform an evaluation of the assets' fair value. An impairment loss for ALY operations was recognized in the amount of \$1,978,216 for certain long-lived assets related to all ALY Company-owned locations. The Company reviewed the machinery and equipment, furniture and fixtures, and leasehold improvements associated with each Company-owned ALY location, as well as ALY long-lived assets not allocated to a specific location. Current and historical operating and cash flow losses indicate that recorded asset values for these stores are not fully recoverable. Assets with net book value of \$2,893,549 were reduced to their estimated fair value based on prices of similar assets or estimated present value of future net cash flows expected to be generated from the assets.

The impairment of long-lived assets was recorded to the following segments:

Retail segment	\$ 1,929,453
Other segment	48,763
Total impairment provision	\$ 1,978,216

**Document And Entity
Information**

9 Months Ended

Nov. 30, 2012

**Jan. 01,
2013**

Document and Entity Information

[Abstract]

<u>Entity Registrant Name</u>	ROCKY MOUNTAIN CHOCOLATE FACTORY INC	
<u>Document Type</u>	10-Q	
<u>Current Fiscal Year End Date</u>	--02-28	
<u>Entity Common Stock, Shares Outstanding</u>		6,050,279
<u>Amendment Flag</u>	false	
<u>Entity Central Index Key</u>	0000785815	
<u>Entity Current Reporting Status</u>	Yes	
<u>Entity Voluntary Filers</u>	No	
<u>Entity Filer Category</u>	Smaller Reporting Company	
<u>Entity Well-known Seasoned Issuer</u>	No	
<u>Document Period End Date</u>	Nov. 30, 2012	
<u>Document Fiscal Year Focus</u>	2013	
<u>Document Fiscal Period Focus</u>	Q3	

**Note 12 - Recent Accounting
Pronouncements**

**9 Months Ended
Nov. 30, 2012**

[New Accounting
Pronouncements and Changes
in Accounting Principles \[Text
Block\]](#)

NOTE 12 – RECENT ACCOUNTING PRONOUNCEMENTS

In July 2012, the Financial Accounting Standards Board (FASB) issued ASU 2012-02, Intangibles-Goodwill and Other. The amendments permit an entity first to assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test in accordance with Subtopic 350-30, Intangibles-Goodwill and Other-General Intangibles Other than Goodwill. Determining that it is more likely than not that an indefinite-lived intangible asset is impaired will require quantitative impairment testing, otherwise, no further action will be required. This ASU is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The Company will adopt the amendments during its fiscal year ending February 28, 2014. The adoption is not expected to have an impact on the Company's Fiscal 2013 Consolidated Financial Statements.

Consolidated Balance Sheets
(November 30, 2012
unaudited) (USD \$)

	Nov. 30,	Feb. 29,
	2012	2012
<u>Current Assets</u>		
<u>Cash and cash equivalents</u>	\$	\$
	3,535,782	4,125,444
<u>Accounts receivable, less allowance for doubtful accounts of \$709,548 and \$488,448, respectively</u>	4,496,155	4,078,158
<u>Notes receivable, current portion, less current portion of the valuation allowance of \$65,453 and \$0, respectively</u>	192,777	283,225
<u>Refundable income taxes</u>	6,801	724,911
<u>Inventories, less reserve for slow moving inventory of \$253,970 and \$247,199, respectively</u>	4,391,324	4,119,073
<u>Deferred income taxes</u>	534,149	487,274
<u>Other</u>	335,811	281,282
<u>Total current assets</u>	13,492,799	14,099,367
<u>Property and Equipment, Net</u>	5,794,191	8,515,644
<u>Other Assets</u>		
<u>Notes receivable, less current portion and valuation allowance of \$37,000 and \$74,900, respectively</u>	295,109	344,474
<u>Goodwill, net</u>	1,046,944	1,046,944
<u>Intangible assets, net</u>	15,295	22,111
<u>Other</u>	135,313	134,430
<u>Total other assets</u>	1,492,661	1,547,959
<u>Total assets</u>	20,779,651	24,162,970
<u>Current Liabilities</u>		
<u>Accounts payable</u>	1,008,945	1,355,818
<u>Accrued salaries and wages</u>	530,181	653,276
<u>Other accrued expenses</u>	749,350	760,860
<u>Dividend payable</u>	665,531	616,239
<u>Deferred income</u>	139,930	156,000
<u>Total current liabilities</u>	3,093,937	3,542,193
<u>Deferred Income Taxes</u>	891,378	1,884,957
<u>Commitments and Contingencies</u>		
<u>Common stock, \$.03 par value, 100,000,000 shares authorized, 6,050,279 and 6,162,389 issued and outstanding, respectively</u>	181,508	184,872
<u>Additional paid-in capital</u>	7,399,788	8,712,743
<u>Retained earnings</u>	9,213,040	9,838,205
<u>Total stockholders' equity</u>	16,794,336	18,735,820
<u>Total liabilities and stockholders' equity</u>	20,779,651	24,162,970
Series A Junior Participating Preferred Stock [Member]		
<u>Preferred stock, \$.10 par value; 250,000 authorized; -0- shares issued and outstanding</u>		

Preferred Stock

Undesignated Series [Member]

Preferred stock, \$.10 par value; 250,000 authorized; -0- shares issued and outstanding

Preferred Stock

**Note 6 - Supplemental Cash
Flow Information**

[Cash Flow, Supplemental Disclosures \[Text
Block\]](#)

**9 Months Ended
Nov. 30, 2012**

NOTE 6 – SUPPLEMENTAL CASH FLOW INFORMATION

	Nine Months Ended November 30,	
	2012	2011
Cash paid (received) for:		
Interest	\$ (33,659)	\$ (50,175)
Income taxes	979,145	1,425,551
Non-Cash Operating Activities Accrued Inventory	326,401	283,949
Non-Cash Financing Activities Dividend Payable	\$ 665,531	\$ 612,601

**Note 5 - Stockholders'
Equity**

**9 Months Ended
Nov. 30, 2012**

[Stockholders' Equity Note
Disclosure \[Text Block\]](#)

NOTE 5 - STOCKHOLDERS' EQUITY

Cash Dividend

The Company paid a quarterly cash dividend of \$0.10 per share of common stock on March 16, 2012 to shareholders of record on March 2, 2012. The Company paid a quarterly cash dividend of \$0.11 per common share on June 8, 2012 to shareholders of record on May 24, 2012. The Company paid a quarterly cash dividend of \$0.11 per common share on September 14, 2012 to shareholders of record on September 4, 2012. The Company declared a quarterly cash dividend of \$0.11 per share of common stock on November 13, 2012 payable on December 14, 2012 to shareholders of record on November 30, 2012.

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

**Note 7 - Operating Segments
(Tables)**

**9 Months Ended
Nov. 30, 2012**

[Schedule of Segment Reporting Information, by Segment \[Table Text Block\]](#)

Three Months Ended November 30, 2012	Franchising	Manufacturing	Retail	Other	Total
Total revenues	\$ 1,308,146	\$ 6,799,847	\$ 1,089,431	\$ -	\$ 9,197,424
Intersegment revenues	-	(561,619)	-	-	(561,619)
Revenue from external customers	1,308,146	6,238,228	1,089,431	-	8,635,805
Segment profit (loss)	503,380	1,727,587	(2,131,270)	(922,062)	(822,365)
Total assets	1,316,002	11,499,337	2,422,986	5,541,326	20,779,651
Capital expenditures	-	85,058	12,357	76,665	174,080
Total depreciation & amortization	\$ 9,067	\$ 73,012	\$ 103,255	\$ 38,710	\$ 224,044
Three Months Ended November 30, 2011	Franchising	Manufacturing	Retail	Other	Total
Total revenues	\$ 1,164,453	\$ 6,738,048	\$ 966,515	\$ -	\$ 8,869,016
Intersegment revenues	-	(589,106)	-	-	(589,106)
Revenue from external customers	1,164,453	6,148,942	966,515	-	8,279,910
Segment profit (loss)	374,409	1,740,532	(179,408)	(819,135)	1,116,398
Total assets	1,328,594	11,488,435	3,982,890	5,371,335	22,171,254
Capital expenditures	10,171	22,783	622,587	15,811	671,352
Total depreciation & amortization	\$ 15,599	\$ 73,382	\$ 68,121	\$ 37,028	\$ 194,130
Nine Months Ended November 30, 2012	Franchising	Manufacturing	Retail	Other	Total
Total revenues	\$ 4,375,405	\$ 18,836,774	\$ 4,426,780	\$ -	\$ 27,638,959
Intersegment revenues	-	(1,615,125)	-	-	(1,615,125)
Revenue from external customers	4,375,405	17,221,649	4,426,780	-	26,023,834
Segment profit (loss)	1,800,330	4,890,384	(2,053,806)	(2,546,438)	2,090,470
Total assets	1,316,002	11,499,337	2,422,986	5,541,326	20,779,651
Capital expenditures	24,007	255,313	254,103	158,070	691,493
Total depreciation	\$ 30,160	\$ 217,189	\$ 329,083	\$ 115,158	\$ 691,590

& amortization					
Nine Months					
Ended					
November					
30, 2011					
	Franchising	Manufacturing	Retail	Other	Total
Total revenues	\$ 4,164,061	\$ 18,092,103	\$3,911,213	\$ -	\$26,167,377
Intersegment revenues	-	(1,673,755)	-	-	(1,673,755)
Revenue from external customers	4,164,061	16,418,348	3,911,213	-	24,493,622
Segment profit (loss)	1,756,143	4,646,749	(161,254)	(2,292,693)	3,948,945
Total assets	1,328,594	11,488,435	3,982,890	5,371,335	22,171,254
Capital expenditures	11,613	133,441	1,525,439	191,215	1,861,708
Total depreciation & amortization	\$ 50,155	\$ 221,546	\$ 177,210	\$ 104,384	\$ 553,295

**Note 1 - Nature of
Operations and Basis of
Presentation (Tables)**

[Number Of Stores \[Table Text Block\]](#)

**9 Months Ended
Nov. 30, 2012**

	Sold, Not Yet Open	Open	Total
Rocky Mountain Chocolate Factory			
Company-owned stores	-	7	7
Franchise stores – Domestic stores	3	227	230
Franchise stores – Domestic kiosks	-	8	8
Franchise units – International	-	64	64
Cold Stone Creamery – co-branded	1	55	56
Aspen Leaf Yogurt Stores			
Company-owned stores	-	8	8
Franchise stores – Domestic stores	4	8	12
Total	8	377	385

[Schedule of Share-based Compensation, Stock Options,
Activity \[Table Text Block\]](#)

	Nine Months Ended November 30,	
	2012	2011
Outstanding stock options as of February 28 or 29:	307,088	341,890
Granted	-	12,936
Exercised	(3,000)	(8,731)
Cancelled/forfeited	(14,952)	(1,575)
Outstanding stock options as of November 30:	289,136	344,520
Weighted average exercise price	\$ 10.67	\$ 10.11
Weighted average remaining contractual term (in years)	2.07	2.72

[Schedule of Share-based Compensation, Restricted Stock Units
Award Activity \[Table Text Block\]](#)

	Nine Months Ended November 30,	
	2012	2011
Outstanding non-vested restricted stock units as of February 28 or 29:	101,980	141,260
Granted	-	4,540
Vested	(44,190)	(43,300)
Cancelled/forfeited	(560)	-
Outstanding non-vested restricted stock units as of November 30:	57,230	102,500

[Schedule of Share-based Payment Award, Stock Options,
Valuation Assumptions \[Table Text Block\]](#)

Weighted average grant date			
fair value	\$	9.22	\$ 9.19
Weighted average remaining			
vesting period (in years)		1.38	2.24
			Nine Months
			Ended
			November 30,
			2012 2011
Expected dividend yield		n/a	3.87%
Expected stock price volatility		n/a	27%
Risk-free interest rate		n/a	2.0%
Expected life of options (years)		n/a	5

**Note 9 - Related Party
Transactions**

**9 Months Ended
Nov. 30, 2012**

[Related Party Transactions
Disclosure \[Text Block\]](#)

NOTE 9 – RELATED PARTY TRANSACTIONS

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

As of November 30, 2012, the Company had receivables of approximately \$1,900 due from such director associated with the director's ownership and operation of the two current ALY locations.

Our President and Chief Executive Officer has members of his immediate family with ownership interests in retail marketing businesses. These businesses have, on occasion, provided services to the Company and may provide services in the future. As of November 30, 2012, the Company had incurred expenses of \$11,150 and there was no amount recorded to accounts payable that related to these businesses. Transactions with these businesses have been immaterial to our results of operations.

Note 7 - Operating Segments

**9 Months Ended
Nov. 30, 2012**

[Segment Reporting Disclosure](#) NOTE 7 - OPERATING SEGMENTS
[\[Text Block\]](#)

The Company classifies its business interests into three reportable segments: Franchising, Manufacturing and Retail Stores. The accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 1 to these financial statements and Note 1 to the Company's financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended February 29, 2012. The Company evaluates performance and allocates resources based on operating contribution, which excludes unallocated corporate general and administrative costs and income tax expense or benefit. The Company's reportable segments are strategic businesses that utilize common merchandising, distribution, and marketing functions, as well as common information systems and corporate administration. All inter-segment sales prices are market based. Each segment is managed separately because of the differences in required infrastructure and the difference in products and services:

Three Months Ended

November 30, 2012	Franchising	Manufacturing	Retail	Other	Total
Total revenues	\$ 1,308,146	\$ 6,799,847	\$ 1,089,431	\$ -	\$ 9,197,424
Intersegment revenues	-	(561,619)	-	-	(561,619)
Revenue from external customers	1,308,146	6,238,228	1,089,431	-	8,635,805
Segment profit (loss)	503,380	1,727,587	(2,131,270)	(922,062)	(822,365)
Total assets	1,316,002	11,499,337	2,422,986	5,541,326	20,779,651
Capital expenditures	-	85,058	12,357	76,665	174,080
Total depreciation & amortization	\$ 9,067	\$ 73,012	\$ 103,255	\$ 38,710	\$ 224,044

Three Months Ended

November 30, 2011	Franchising	Manufacturing	Retail	Other	Total
Total revenues	\$ 1,164,453	\$ 6,738,048	\$ 966,515	\$ -	\$ 8,869,016
Intersegment revenues	-	(589,106)	-	-	(589,106)
Revenue from external customers	1,164,453	6,148,942	966,515	-	8,279,910
Segment profit (loss)	374,409	1,740,532	(179,408)	(819,135)	1,116,398
Total assets	1,328,594	11,488,435	3,982,890	5,371,335	22,171,254
Capital expenditures	10,171	22,783	622,587	15,811	671,352
Total depreciation & amortization	\$ 15,599	\$ 73,382	\$ 68,121	\$ 37,028	\$ 194,130

Nine Months Ended

November 30, 2012	Franchising	Manufacturing	Retail	Other	Total
Total revenues	\$ 4,375,405	\$ 18,836,774	\$ 4,426,780	\$ -	\$ 27,638,959
Intersegment revenues	-	(1,615,125)	-	-	(1,615,125)
Revenue from external customers	4,375,405	17,221,649	4,426,780	-	26,023,834
Segment profit (loss)	1,800,330	4,890,384	(2,053,806)	(2,546,438)	2,090,470
Total assets	1,316,002	11,499,337	2,422,986	5,541,326	20,779,651
Capital expenditures	24,007	255,313	254,103	158,070	691,493
Total depreciation & amortization	\$ 30,160	\$ 217,189	\$ 329,083	\$ 115,158	\$ 691,590

Nine Months Ended					
November 30, 2011	Franchising	Manufacturing	Retail	Other	Total
Total revenues	\$ 4,164,061	\$ 18,092,103	\$ 3,911,213	\$ -	\$ 26,167,377
Intersegment revenues	-	(1,673,755)	-	-	(1,673,755)
Revenue from external customers	4,164,061	16,418,348	3,911,213	-	24,493,622
Segment profit (loss)	1,756,143	4,646,749	(161,254)	(2,292,693)	3,948,945
Total assets	1,328,594	11,488,435	3,982,890	5,371,335	22,171,254
Capital expenditures	11,613	133,441	1,525,439	191,215	1,861,708
Total depreciation & amortization	\$ 50,155	\$ 221,546	\$ 177,210	\$ 104,384	\$ 553,295

Revenue from one customer of the Company's Manufacturing segment represented approximately \$2.5 million of the Company's revenues from external customers during the nine months ended November 30, 2012 compared to \$2.4 million during the nine months ended November 30, 2011.

**Note 8 - Goodwill and
Intangible Assets**

**9 Months Ended
Nov. 30, 2012**

[Goodwill and Intangible
Assets Disclosure \[Text Block\]](#)

NOTE 8 – GOODWILL AND INTANGIBLE ASSETS

Intangible assets consist of the following:

	Amortization Period (Years)	November 30, 2012		February 29, 2012	
		Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Intangible assets subject to amortization					
Store design	10	\$ 205,777	\$ 204,300	\$ 205,777	\$ 200,445
Packaging licenses	3 -5	120,830	120,830	120,830	120,830
Packaging design	10	430,973	430,973	430,973	430,973
Aspen Leaf Yogurt Design	5	19,740	5,922	19,740	2,961
Total		777,320	762,025	777,320	755,209

Intangible assets not
subject to amortization

Franchising segment- Company stores					
goodwill		\$1,099,328	\$ 267,020	\$1,099,328	\$ 267,020
Franchising goodwill		295,000	197,682	295,000	197,682
Manufacturing segment-Goodwill		295,000	197,682	295,000	197,682
Trademark		20,000	-	20,000	-
Total Goodwill		1,709,328	662,384	1,709,328	662,384
Total intangible assets		\$2,486,648	\$ 1,424,409	\$2,486,648	\$ 1,417,593

Amortization expense related to intangible assets totaled \$6,817 and \$40,716 during the nine months ended November 30, 2012 and 2011, respectively. As of November 30, 2012, \$15,295 net intangible assets subject to amortization remained to be amortized through May 2016.

**Note 10 - Franchise Fee
Revenue Recognition**

**9 Months Ended
Nov. 30, 2012**

[Revenue Recognition,
Services, Franchise Fees
\[Policy Text Block\]](#)

NOTE 10 – FRANCHISE FEE REVENUE RECOGNITION

Franchise fee revenue is recognized upon the opening of a franchise location. During the six months ended August 31, 2011 four Aspen Leaf Yogurt franchise locations opened and \$78,500 of franchise fee revenue was recognized associated with these openings. During the three months ended November 30, 2011 the franchise fee for Aspen Leaf Yogurt was reduced and a decrease to revenue of \$54,500 was recorded associated with locations previously opened during the six months ended August 31, 2011. The change to ALY franchise fees was the result of the Company's continued evaluation of the self serve yogurt franchise environment and its desire to remain competitive among many franchise offerings. There was no change to the Rocky Mountain Chocolate Factory franchise fee or the Company's franchise fee revenue recognition policy.

**Note 5 - Stockholders'
Equity (Detail) (USD \$)**

3 Months Ended

Nov. 30, 2012 Aug. 31, 2012 May 31, 2012

<u>Common Stock, Dividends, Per Share, Cash Paid</u>	\$ 0.11	\$ 0.11	\$ 0.10
<u>Common Stock, Dividends, Per Share, Declared</u>	\$ 0.11		

**Note 4 - Property and
Equipment, Net (Tables)**

[Property, Plant and Equipment \[Table Text
Block\]](#)

**9 Months Ended
Nov. 30, 2012**

	November 30, 2012	February 29, 2012
Land	\$ 513,618	\$ 513,618
Building	4,764,005	4,700,905
Machinery and equipment	8,784,810	8,580,960
Furniture and fixtures	1,452,570	1,614,484
Leasehold improvements	1,814,118	2,064,345
Transportation equipment	362,413	360,582
Impairment provision of long-lived assets	(1,989,216)	-
	\$15,702,318	\$17,834,894
Less accumulated depreciation	9,908,127	9,319,250
Property and equipment, net	\$ 5,794,191	\$ 8,515,644

**Note 1 - Nature of
Operations and Basis of
Presentation (Detail) (USD
\$)**

	3 Months Ended		9 Months Ended	
	Nov. 30, 2012	Nov. 30, 2011	Nov. 30, 2012	Nov. 30, 2011
Number of Operating Segments			3	
Equity Method Investment, Ownership Percentage	60.00%		60.00%	
Restructuring Charges	\$ 47,000			
Share-based Compensation	94,867	102,260	324,767	356,490
Stock Issued During Period, Value, Share-based Compensation, Gross			37,200	52,886
Share-based Compensation Arrangement by Share-based Payment Award, Award Vesting Rights			20%	
Share-based Compensation Arrangement by Share-based Payment Award, Award Vesting Period			5 years	
Stock Issued During Period, Shares, Restricted Stock Award, Gross (in Shares)			44,190	
Employee Service Share-based Compensation, Nonvested Awards, Total Compensation Cost Not yet Recognized	378,678		378,678	
Employee Service Share-based Compensation, Nonvested Awards, Total Compensation Cost Not yet Recognized, Period for Recognition			1 year 146 days	2 years 87 days
Share-based Compensation Arrangement by Share-based Payment Award, Options, Grants in Period, Weighted Average Grant Date Fair Value (in Dollars per share)				\$ 0.89
Unrestricted Shares Of Stock [Member]				
Stock Issued During Period, Shares, Share-based Compensation, Gross (in Shares)			4,000	4,000
Stock Options [Member]				
Stock Issued During Period, Shares, Share-based Compensation, Gross (in Shares)				12,936
Restricted Stock Units (RSUs) [Member]				
Share-based Compensation	94,867		287,567	
Minimum [Member]				
Restructuring Charges	500,000			
Maximum [Member]				
Restructuring Charges	\$ 600,000			

Note 10 - Franchise Fee Revenue Recognition (Detail)	3 Months Ended	6 Months Ended
(USD \$)	Nov. 30, 2011	Aug. 31, 2011
<u>Initial Franchise Fees</u>		\$ 78,500
<u>Decrease To Franchise Revenues</u>	\$ 54,500	

Consolidated Balance Sheets
(November 30, 2012
unaudited) (Parentheticals)
(USD \$)

Nov. 30, 2012 Feb. 29, 2012

<u>Accounts receivable, allowance for doubtful accounts (in Dollars)</u>	\$ 709,548	\$ 488,448
<u>Notes receivable, current portion of the valuation allowance (in Dollars)</u>	65,453	0
<u>Inventories, reserve (in Dollars)</u>	253,970	247,199
<u>Notes receivable, valuation allowance (in Dollars)</u>	\$ 37,000	\$ 74,900
<u>Common stock, par value (in Dollars per share)</u>	\$ 0.03	\$ 0.03
<u>Common stock, shares authorized (in Shares)</u>	100,000,000	100,000,000
<u>Common stock, shares issued (in Shares)</u>	6,050,279	6,162,389
<u>Common stock, shares outstanding (in Shares)</u>	6,050,279	6,162,389
Series A Junior Participating Preferred Stock [Member]		
<u>Preferred Stock, par value (in Dollars per share)</u>	\$ 0.10	\$ 0.10
<u>Preferred Stock, shares authorized (in Shares)</u>	50,000	50,000
<u>Preferred Stock, shares issued (in Shares)</u>	0	0
<u>Preferred Stock, shares outstanding (in Shares)</u>	0	0
Undesignated Series [Member]		
<u>Preferred Stock, par value (in Dollars per share)</u>	\$ 0.10	\$ 0.10
<u>Preferred Stock, shares authorized (in Shares)</u>	200,000	200,000
<u>Preferred Stock, shares issued (in Shares)</u>	0	0
<u>Preferred Stock, shares outstanding (in Shares)</u>	0	0

**Note 4 - Property and
Equipment, Net**

[Property, Plant and Equipment Disclosure \[Text
Block\]](#)

**9 Months Ended
Nov. 30, 2012**

NOTE 4 - PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following:

	November 30, 2012	February 29, 2012
Land	\$ 513,618	\$ 513,618
Building	4,764,005	4,700,905
Machinery and equipment	8,784,810	8,580,960
Furniture and fixtures	1,452,570	1,614,484
Leasehold improvements	1,814,118	2,064,345
Transportation equipment	362,413	360,582
Impairment provision of long-lived assets	(1,989,216)	-
	\$15,702,318	\$17,834,894
Less accumulated depreciation	9,908,127	9,319,250
Property and equipment, net	\$ 5,794,191	\$ 8,515,644

**Note 1 - Nature of
Operations and Basis of
Presentation (Detail) -
Number of Stores**

**Nov. 30,
2012**

Company-owned stores	385
Sold, Not Yet Open [Member] Franchise Stores - Domestic Stores [Member] Parent Company [Member]	
Company-owned stores	3
Sold, Not Yet Open [Member] Franchise Stores - Domestic Stores [Member] Subsidiaries [Member]	
Company-owned stores	4
Sold, Not Yet Open [Member] Cold Stone Creamery - Co-Branded [Member] Parent Company [Member]	
Company-owned stores	1
Sold, Not Yet Open [Member]	
Company-owned stores	8
Open [Member] Company-Owned Stores [Member] Parent Company [Member]	
Company-owned stores	7
Open [Member] Company-Owned Stores [Member] Subsidiaries [Member]	
Company-owned stores	8
Open [Member] Franchise Stores - Domestic Stores [Member] Parent Company [Member]	
Company-owned stores	227
Open [Member] Franchise Stores - Domestic Stores [Member] Subsidiaries [Member]	
Company-owned stores	8
Open [Member] Franchise Stores - Domestic Kiosks [Member] Parent Company [Member]	
Company-owned stores	8
Open [Member] Franchise Units - International [Member] Parent Company [Member]	
Company-owned stores	64
Open [Member] Cold Stone Creamery - Co-Branded [Member] Parent Company [Member]	
Company-owned stores	55
Open [Member]	
Company-owned stores	377
Company-Owned Stores [Member] Parent Company [Member]	
Company-owned stores	7
Company-Owned Stores [Member] Subsidiaries [Member]	
Company-owned stores	8
Franchise Stores - Domestic Stores [Member] Parent Company [Member]	
Company-owned stores	230
Franchise Stores - Domestic Stores [Member] Subsidiaries [Member]	
Company-owned stores	12
Franchise Stores - Domestic Kiosks [Member] Parent Company [Member]	
Company-owned stores	8
Franchise Units - International [Member] Parent Company [Member]	
Company-owned stores	64

**Note 8 - Goodwill and
Intangible Assets (Detail)
(USD \$)**

9 Months Ended

Nov. 30, 2012 Nov. 30, 2011

<u>Amortization</u>	\$ 6,817	\$ 40,716
<u>Finite-Lived Intangible Assets, Net</u>	\$ 15,295	

Note 3 - Inventories (Tables)

**9 Months Ended
Nov. 30, 2012**

[Schedule of Inventory, Current \[Table Text Block\]](#)

	November 30, 2012	February 29, 2012
Ingredients and supplies	\$2,327,525	\$2,484,796
Finished candy	2,063,799	1,634,277
Total inventories	\$4,391,324	\$4,119,073