

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, 2008

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

For the transition period from _____ to _____

Commission file number 0-14749

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

Colorado
(State of incorporation)

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer a non-accelerated filer or a smaller reporting company. See 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 December 26, 2008 the registrant had outstanding 5,986,624 shares of its common stock, \$.03 par value.

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC.

FORM 10-Q

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC.
STATEMENTS OF INCOME
(unaudited)

| | Three Months Ended November 30, | | Nine Months Ended November 30, | |
|--|---------------------------------|--------------|--------------------------------|--------------|
| | 2008 | 2007 | 2008 | 2007 |
| Revenues | | | | |
| Sales | \$ 6,080,004 | \$ 7,166,917 | \$16,204,266 | \$19,009,821 |
| Franchise and royalty fees | 1,363,792 | 1,598,554 | 4,589,520 | 4,582,614 |
| Total revenues | 7,443,796 | 8,765,471 | 20,793,786 | 23,592,435 |
| Costs and Expenses | | | | |
| Cost of sales, exclusive of depreciation and amortization expense of \$89,131 \$99,308, \$280,914 and \$291,382 respectively | 4,182,193 | 4,944,662 | 10,980,800 | 12,339,255 |
| Franchise costs | 436,244 | 404,762 | 1,254,062 | 1,184,030 |
| Sales and marketing | 383,643 | 380,331 | 1,089,955 | 1,076,415 |
| General and administrative | 632,738 | 596,787 | 1,857,772 | 1,890,529 |
| Retail operating | 266,177 | 222,613 | 712,812 | 735,806 |
| Depreciation and amortization | 189,086 | 197,365 | 581,639 | 585,357 |
| Total costs and expenses | 6,090,081 | 6,746,520 | 16,477,040 | 17,811,392 |
| Income from Operations | 1,353,715 | 2,018,951 | 4,316,746 | 5,781,043 |
| Other Income (Expense) | | | | |
| Interest Expense | (5,948) | - | (14,023) | - |
| Interest Income | 4,153 | 25,569 | 16,752 | 84,112 |
| Other, net | (1,795) | 25,569 | 2,729 | 84,112 |
| Income Before Income Taxes | 1,351,920 | 2,044,520 | 4,319,475 | 5,865,155 |
| Income Tax Provision | 509,916 | 778,965 | 1,640,556 | 2,234,630 |
| Net Income | \$ 842,004 | \$ 1,265,555 | \$ 2,678,919 | \$ 3,630,525 |
| Basic Earnings per Common Share | \$.14 | \$.20 | \$.45 | \$.57 |
| Diluted Earnings per Common Share | \$.14 | \$.19 | \$.44 | \$.56 |
| Weighted Average Common Shares Outstanding | 5,985,454 | 6,367,023 | 5,983,933 | 6,374,760 |
| Dilutive Effect of Stock Options | 210,391 | 173,522 | 164,485 | 164,996 |
| Weighted Average Common Shares Outstanding, Assuming Dilution | 6,195,845 | 6,540,545 | 6,148,418 | 6,539,756 |

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

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC.
BALANCE SHEETS

| | November 30, 2008 (unaudited) | February 29 2008 |
|--|-------------------------------------|---------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 343,212 | \$ 675,642 |
| Accounts receivable, less allowance for doubtful accounts of \$252,719 and \$114,271, respectively | 5,000,534 | 3,801,172 |
| Notes receivable | - | 22,435 |
| Refundable income taxes | 22,779 | 63,357 |
| Inventories, less reserve for slow moving inventory of \$216,904 and \$194,719, respectively | 4,114,786 | 4,015,459 |
| Deferred income taxes | 124,117 | 117,846 |
| Other | 438,780 | 267,184 |
| Total current assets | 10,044,208 | 8,963,095 |
| Property and Equipment, Net | 5,332,097 | 5,665,108 |
| Other Assets | | |
| Notes receivable | 124,452 | 205,916 |
| Goodwill, net | 1,046,944 | 939,074 |
| Intangible assets, net | 201,414 | 276,247 |
| Other | 184,245 | 98,020 |
| Total other assets | 1,557,055 | 1,519,257 |
| Total assets | \$ 16,933,360 | \$16,147,460 |
| Liabilities and Stockholders' Equity | | |
| Current Liabilities | | |
| Line of Credit | \$ 700,000 | \$ 300,000 |
| Accounts payable | 1,043,155 | 1,710,380 |
| Accrued salaries and wages | 513,420 | 430,498 |
| Other accrued expenses | 516,454 | 467,543 |
| Dividend payable | 599,059 | 599,473 |
| Deferred income | 171,000 | 303,000 |
| Total current liabilities | 3,543,088 | 3,810,894 |
| Deferred Income Taxes | 682,636 | 681,529 |
| Commitments and Contingencies | | |
| Stockholders' Equity | | |
| Common stock, \$.03 par value, 100,000,000 shares authorized, 5,986,624 and 5,980,919 issued and outstanding, respectively | 179,599 | 179,428 |
| Additional paid-in capital | 7,217,677 | 7,047,142 |
| Retained earnings | 5,310,360 | 4,428,467 |
| Total stockholders' equity | 12,707,636 | 11,655,037 |
| Total liabilities and stockholders' equity | \$16,933,360 | \$16,147,460 |

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

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

| | Nine Months Ended November 30, | |
|---|-----------------------------------|--------------|
| | 2008 | 2007 |
| Cash Flows From Operating activities | | |
| Net income | \$ 2,678,919 | \$ 3,630,525 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 581,639 | 585,357 |
| Provision for loss on accounts and notes receivable | 139,000 | 25,000 |
| Provision for obsolete inventory | 65,000 | 60,000 |
| Loss on sale of property and equipment | 20,857 | 28,856 |
| Expense recorded for stock compensation | 165,253 | 58,355 |
| Deferred income taxes | (5,164) | - |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (1,360,309) | (1,627,034) |
| Inventories | (160,929) | (489,074) |
| Other current assets | (189,119) | (79,101) |
| Accounts payable | (667,349) | 346,821 |
| Deferred income | (132,000) | 87,500 |
| Accrued liabilities | 171,429 | (130,723) |
| Net cash provided by operating activities | 1,307,227 | 2,496,482 |
| Cash Flows From Investing Activities | | |
| Proceeds received on notes receivable | 1,798 | 34,868 |
| Proceeds from sale or distribution of assets | 8,910 | 29,000 |
| Purchases of property and equipment | (177,933) | (498,657) |
| (Increase) decrease in other assets | (81,428) | 158,800 |
| Net cash used in investing activities | (248,653) | (275,989) |
| Cash Flows From Financing Activities | | |
| Net change in line of credit | 400,000 | - |
| Repurchase and redemption of common stock | - | (1,256,513) |
| Proceeds from exercise of stock options | 5,453 | 322,300 |
| Costs of stock dividend | - | (9,647) |
| Dividends paid | (1,796,457) | (1,766,084) |
| Net cash used in financing activities | (1,391,004) | (2,709,944) |
| Net Decrease in Cash and Cash Equivalents | (332,430) | (489,451) |
| Cash and Cash Equivalents, Beginning of Period | 675,642 | 2,830,175 |
| Cash and Cash Equivalents, End of Period | \$ 343,212 | \$ 2,340,724 |

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

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC.
NOTES TO INTERIM FINANCIAL STATEMENTS

NOTE 1 - NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Nature of Operations

Rocky Mountain Chocolate Factory, Inc. is an international franchiser, confectionery manufacturer and retail operator in the United States, Canada and the United Arab Emirates. The Company manufactures an extensive line of premium chocolate candies and other confectionery products. The Company's revenues are currently derived from three principal sources: sales to franchisees and others of chocolates and other confectionery products manufactured by the Company; the collection of initial franchise fees and royalties from franchisees' sales; and sales at Company-owned stores of chocolates and other confectionery products. The following table summarizes the number of Rocky Mountain Chocolate Factory stores at November 30, 2008:

| | Sold, Not Yet Open | Open | Total |
|------------------------------------|--------------------|------|-------|
| Company-owned stores | - | 5 | 5 |
| Company-owned kiosks | - | - | - |
| Franchise stores - Domestic stores | 8 | 271 | 279 |
| Franchise stores - Domestic kiosks | - | 14 | 14 |
| Franchise units - International | - | 46 | 46 |
| Cold Stone Creamery - co-branded | - | 1 | 1 |
| | 8 | 337 | 345 |

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 statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial reporting and Securities and Exchange Commission regulations. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the financial statements reflect all adjustments (of a normal and recurring nature) which are necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. The results of operations for the three and nine months ended November 30, 2008 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, 2008.

Stock-Based Compensation

At November 30, 2008, the Company had stock-based compensation plans for employees and nonemployee directors which authorized the granting of stock awards.

Effective March 1, 2006, the Company adopted the recognition provisions of Statement of Financial Accounting Standard No. 123R, "Share-Based Payment" ("SFAS No. 123R"), using the modified-prospective transition method. Under this transition method, compensation cost includes the portion vesting in the period for (1) all share-based payments granted prior to, but not vested, as of March 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and (2) all share-based payments granted subsequent to March 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R.

The Company recognized \$87,902 and \$165,253 of equity-based compensation expense during the three and nine month periods ended November 30, 2008 compared with \$0 and \$33,198 during the three and nine month periods ended November 30, 2007. Compensation costs related to share-based compensation are generally amortized over the vesting period.

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

Stock-Based Compensation - Continued

On February 21, 2006, the Company accelerated the vesting of all outstanding stock options and recognized a share-based compensation charge related to this acceleration. The Company recognized an additional share-based compensation charge of \$11,240 for the three and nine months ended November 30, 2008 compared with \$0 and \$25,158 during the three and nine month periods ended November 30, 2007, related to this acceleration due to changes in certain estimates and assumptions related to employee turnover since the acceleration date. Adjustments in future periods may be necessary as actual results could differ from these estimates and assumptions.

Prior to adopting SFAS No. 123R, the Company presented all benefits from tax deductions arising from equity-based compensation as a non-cash transaction in the Statement of Cash Flows. SFAS No. 123R requires that the tax benefits in excess of the compensation cost recognized for those exercised options be classified as cash provided by financing activities. No excess tax benefit was included in net cash provided by financing activities for the nine months ended November 30, 2008.

There were no options granted during the nine-month period ended November 30, 2008. The weighted-average fair value of stock options granted during the nine-month period ended November 30, 2007 was \$2.69.

The fair value of each 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, | |
|---------------------------------|-----------------------------------|---------|
| | 2008 | 2007 |
| Expected dividend yield | n/a | 2.60% |
| Expected stock price volatility | n/a | 20% |
| Risk-free interest rate | n/a | 4.7% |
| Expected life of options | n/a | 5 years |

During the nine month period ended November 30, 2008, the Company granted 170,400 shares of restricted common stock units with a grant date fair value of \$1,541,040 or \$9.04 per share. The restricted stock unit grants vest 20% annually over a period of five years. The Company recognized \$74,340 and \$104,611 of equity-based compensation expense related to this grant for the three and nine months ended November 30, 2008, respectively. Total unrecognized compensation expense of non-vested, non-forfeited shares granted, as of November 30, 2008, was \$1,390,579, which is expected to be recognized over the weighted average period of 4.7 years.

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, 2008 and 2007, 137,219 and 68,169 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, 2008 and 2007, 139,827 and 99,614 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, 2008 | February 29, 2008 |
|--------------------------|-------------------|-------------------|
| Ingredients and supplies | \$ 2,205,876 | \$ 1,985,929 |
| Finished candy | 1,908,910 | 2,029,530 |
| Total inventories | \$ 4,114,786 | \$ 4,015,459 |

NOTE 4 - PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following:

| | November 30, 2008 | February 29, 2008 |
|-------------------------------|-------------------|-------------------|
| Land | \$ 513,618 | \$ 513,618 |
| Building | 4,707,381 | 4,717,230 |
| Machinery and equipment | 6,938,462 | 6,855,408 |
| Furniture and fixtures | 679,223 | 699,473 |
| Leasehold improvements | 347,124 | 428,937 |
| Transportation equipment | 350,714 | 350,714 |
| | 13,536,522 | 13,565,380 |
| Less accumulated depreciation | 8,204,425 | 7,900,272 |
| Property and equipment, net | \$ 5,332,097 | \$ 5,665,108 |

NOTE 5 - STOCKHOLDERS' EQUITY

Stock Dividend

On July 10, 2007 the Board of Directors declared a 5 percent stock dividend payable on July 31, 2007 to shareholders of record as of July 20, 2007. Shareholders received one additional share of Common Stock for every twenty shares owned prior to the record date. Subsequent to the dividend there were 6,380,945 shares outstanding.

Stock Repurchases

Between January 9, 2008 and February 8, 2008, the Company repurchased 391,600 shares at an average price of \$11.94. Between August 15, 2007 and August 28, 2007, the Company repurchased 16,000 shares at an average price of \$15.96 per share. Between March 1, 2007 and May 15, 2007 the Company repurchased 76,335 shares at an average price of \$13.12 per share. Between May 1, 2006 and February 28, 2007 the Company repurchased 253,141 shares at an average price of \$12.94 per share. Between March 24, 2006 and April 28, 2006 the Company repurchased 74,249 shares at an average price of \$14.90 per share.

Cash Dividend

The Company paid a quarterly cash dividend of \$0.10 per common share on March 14, 2008 to shareholders of record on February 29, 2008. The Company paid a quarterly cash dividend of \$0.10 per common share on June 13, 2008 to shareholders of record on June 2, 2008. The Company paid a quarterly cash dividend of \$0.10 per common share on September 12, 2008 to shareholders of record on September 2, 2008. The Company declared a quarterly cash dividend of \$0.10 per common share on November 18, 2008 payable to shareholders of record on December 1, 2008.

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, | |
| | 2008 | 2007 |
| Cash paid for: | | |
| Interest | \$ 14,112 | - |
| Income taxes | \$ 1,605,141 | \$ 2,084,412 |
| Non-Cash Financing Activities | | |
| Dividend payable | \$ 568 | \$ 86,592 |
| Issue stock for rights and services | \$ 2,323 | - |

NOTE 6 - SUPPLEMENTAL CASH FLOW INFORMATION - CONTINUED

Fair value of assets received upon settlement
of note, accrued interest, and accounts
receivable

| | | | | |
|--------------|----|--------|----|---|
| Store assets | \$ | 19,021 | \$ | - |
| Inventory | \$ | 3,398 | \$ | - |
| Goodwill | \$ | 87,870 | \$ | - |

NOTE 7 - OPERATING SEGMENTS

The Company classifies its business interests into two reportable segments: Franchising and Manufacturing. The Company's retail stores provide an environment for testing consumer behavior, various pricing strategies, new products and promotions, operating, training and merchandising techniques. All Company-owned retail stores are evaluated by management in relation to their contribution to franchising efforts and are included in the Franchising segment. The accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 1 to the Company's financial statements included in the Company's annual report on Form 10-K for the year ended February 29, 2008. 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, 2008 | Franchising | Manufacturing | Other | Total |
|---|--------------|---------------|-----------|--------------|
| Total revenues | \$ 1,696,869 | \$ 6,226,620 | \$ - | \$ 7,923,489 |
| Intersegment revenues | - | (479,693) | - | (479,693) |
| Revenue from external customers | 1,696,869 | 5,746,927 | - | 7,443,796 |
| Segment profit (loss) | 483,546 | 1,550,693 | (682,319) | 1,351,920 |
| Total assets | 2,708,659 | 12,205,603 | 2,019,098 | 16,933,360 |
| Capital expenditures | 6,647 | 25,344 | 32,985 | 64,976 |
| Total depreciation & amortization | 42,875 | 94,440 | 51,771 | 189,086 |

| Three Months Ended November 30, 2007 | Franchising | Manufacturing | Other | Total |
|---|--------------|---------------|-----------|--------------|
| Total revenues | \$ 1,909,836 | \$ 7,286,516 | \$ - | \$ 9,196,352 |
| Intersegment revenues | - | (430,881) | - | (430,881) |
| Revenue from external customers | 1,909,836 | 6,855,635 | - | 8,765,471 |
| Segment profit (loss) | 781,197 | 1,879,739 | (616,416) | 2,044,520 |
| Total assets | 2,301,016 | 13,059,186 | 4,377,276 | 19,737,478 |
| Capital expenditures | 1,725 | 151,692 | 30,273 | 183,690 |
| Total depreciation & amortization | 47,593 | 104,574 | 45,198 | 197,365 |

| Nine Months Ended November 30, 2008 | Franchising | Manufacturing | Other | Total |
|--|--------------|---------------|-------------|--------------|
| Total revenues | \$ 5,767,435 | \$16,167,564 | - | \$21,934,999 |
| Intersegment revenues | - | (1,141,213) | - | (1,141,213) |
| Revenue from external customers | 5,767,435 | 15,026,351 | - | 20,793,786 |
| Segment profit (loss) | 2,278,381 | 4,028,795 | (1,987,701) | 4,319,475 |
| Total assets | 2,708,659 | 12,205,603 | 2,019,098 | 16,933,360 |
| Capital expenditures | 37,023 | 68,747 | 72,163 | 177,933 |
| Total depreciation & amortization | 131,176 | 296,948 | 153,515 | 581,639 |

| Nine Months Ended November 30, 2007 | Franchising | Manufacturing | Other | Total |
|--|--------------|---------------|-------------|--------------|
| Total revenues | \$ 5,805,270 | \$19,131,712 | \$ - | \$24,936,982 |
| Intersegment revenues | - | (1,344,547) | - | (1,344,547) |
| Revenue from external customers | 5,805,270 | 17,787,165 | | 23,592,435 |
| Segment profit (loss) | 2,290,690 | 5,517,451 | (1,942,986) | 5,865,155 |
| Total assets | | | | |
| Capital expenditures | 7,718 | 360,682 | 130,257 | 498,657 |
| Total depreciation & amortization | 142,644 | 307,370 | 135,343 | 585,357 |

NOTE 8 - GOODWILL AND INTANGIBLE ASSETS

Intangible assets consist of the following:

| | Amortization Period | November 30, 2008 | | February 29, 2008 | |
|---|------------------------|----------------------------|-----------------------------|----------------------------|-----------------------------|
| | | Gross Carrying Value | Accumulated Amortization | Gross Carrying Value | Accumulated Amortization |
| Intangible assets subject to amortization | | | | | |
| Store design | 10 Years | \$ 205,777 | \$ 143,147 | \$ 205,777 | \$ 127,314 |
| Packaging licenses | 3-5 Years | 120,830 | 112,914 | 120,830 | 109,164 |
| Packaging design | 10 Years | 430,973 | 300,105 | 430,973 | 264,855 |
| Total | | 757,580 | 556,166 | 757,580 | 501,333 |
| Intangible assets not subject to amortization | | | | | |
| Franchising segment- | | | | | |
| Company stores goodwill | | 1,099,328 | 267,020 | 1,011,458 | 267,020 |
| Franchising goodwill | | 295,000 | 197,682 | 295,000 | 197,682 |
| Manufacturing segment-Goodwill | | | | | |
| Trademark | | 20,000 | - | 20,000 | - |
| Total Goodwill | | 1,709,328 | 662,384 | 1,621,458 | 662,384 |
| Total intangible assets | | \$2,466,908 | \$1,218,550 | \$2,379,038 | \$ 1,163,717 |

Amortization expense related to intangible assets totaled \$54,833 and \$54,833 during the nine months ended November 30, 2008 and 2007, respectively. The aggregate estimated amortization expense for intangible assets remaining as of November 30, 2008 is as follows:

| | |
|--------------------------|---------|
| Remainder of fiscal 2009 | 18,300 |
| 2010 | 73,100 |
| 2011 | 64,400 |
| 2012 | 40,200 |
| 2013 | 4,700 |
| Thereafter | 714 |
| Total | 201,414 |

NOTE 9 - STORE PURCHASE

Effective August 1, 2008 the Company took possession of a previously financed franchise store and related inventory in satisfaction of \$110,289 of notes, accrued interest, and accounts receivable. The Company currently intends to retain and operate the store. The following table summarizes the allocation of the purchase price:

Fair value of assets received upon settlement
of note, accrued interest, and accounts
receivable

| | |
|--------------|-----------|
| Store assets | \$ 19,021 |
| Inventory | \$ 3,398 |
| Goodwill | \$ 87,870 |

NOTE 10 - RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued SFAS 157, Fair Value Measurements. SFAS 157 establishes a framework for measuring fair value under GAAP and expands disclosures about fair value measurement. SFAS 157 also creates consistency and comparability in fair value measurements among the many accounting pronouncements that require fair value measurements but does not require any new fair value measurements. SFAS 157 is effective for fiscal years (including interim periods) beginning after November 15, 2007. The Company has adopted SFAS No. 157 in fiscal 2009 and it has not had a significant impact on the Company's financial statements.

In February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115. This standard amends SFAS 115, Accounting for Certain Investment in Debt and Equity Securities, with respect to accounting for a transfer to the trading category for all entities with available-for-sale and trading securities electing the fair value option. This standard allows companies to elect fair value accounting for many financial instruments and other items that currently are not required to be accounted as such, allows different applications for electing the option for a single item or groups of items, and requires disclosures to facilitate comparisons of similar assets and liabilities that are accounted for differently in relation to the fair value option. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company has adopted SFAS No. 159 in fiscal 2009 and it has not had a significant impact on the Company's financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations, which replaces FASB Statement No. 141. SFAS No. 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non controlling interest in the acquiree and the goodwill acquired. The Statement also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. SFAS No. 141R is effective as of the beginning of an entity's fiscal year that begins after December 15, 2008 (Fiscal 2010). The Company is in the process of evaluating the potential impact, if any, of the adoption of SFAS No. 141R.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements - an amendment of Accounting Research Bulletin No. 51, which establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. The Statement also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No.160 is effective as of the beginning of an entity's fiscal year that begins after December 15, 2008 (Fiscal 2010). The Company is in the process of evaluating the potential impact, if any, of the adoption of SFAS No. 160.

In March 2008, the FASB issued SFAS 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, which expands disclosures to include information about the fair value of derivatives, related credit risks and a company's strategies and objectives for using derivatives. SFAS 161 is effective as of the beginning of an entity's fiscal year that begins after November 15, 2008 (Fiscal 2010). The Company is in the process of evaluating the potential impact, if any, of the adoption of SFAS No. 160.

In April 2008, the FASB issued FASB FSP 142-3, Determination of the Useful Life of Intangible Assets. FSP No. FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008 (Fiscal 2010). The Company is in the process of evaluating the potential impact, if any, of the adoption of FSP 142-3.

In June 2008, the FASB issued FSP EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities. FSP EITF 03-6-1 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be

included in the computation of earnings per share pursuant to the two-class method. The FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008 (Fiscal 2010). Upon adoption, a company is required to retrospectively adjust its earnings per share data (including any amounts related to interim periods, summaries of earnings and selected financial data) to conform with the provisions of FSP EITF 03-6-1. The Company is in the process of evaluating the potential impact, if any, of FSP EITF 03-6-1 on its financial statements.

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

A Note About Forward-Looking Statements

The following discussion and analysis of the financial condition and results of operations of the Company should be read in conjunction with the unaudited financial statements and related Notes of the Company included elsewhere in this report. The nature of the Company's operations and the environment in which it operates subject it to changing economic, competitive, regulatory and technological conditions, risks and uncertainties. The statements, other than statements of historical fact, included in this report 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. Many of the forward-looking statements contained in this document may be identified by the use of forward-looking words such as "will," "intend," "believe," "expect," "anticipate," "should," "plan," "estimate" and "potential," or similar expressions. Factors which could cause results to differ include, but are not limited to: changes in the confectionery business environment, seasonality, consumer interest in the Company's products, general economic conditions, consumer trends, costs and availability of raw materials, competition and the effect of government regulation. Government regulation which the Company and its franchisees either are or may be subject to and which could cause results to differ from forward-looking statements include, but are not limited to: local, state and federal laws regarding health, sanitation, safety, building and fire codes, franchising, employment, manufacturing, packaging and distribution of food products and motor carriers. For a detailed discussion of the risks and uncertainties that may cause the Company's actual results to differ from the forward-looking statements contained herein, please see the "Risk Factors" contained in the Company's 10-K for the fiscal year ended February 29, 2008 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. As such they should not be unduly relied upon for more current circumstances. Except as required by law, the Company is 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.

The Company is a product-based international franchiser. The Company's revenues and profitability are derived principally from its franchised system of retail stores that feature chocolate and other confectionery products. The Company also sells its candy in selected locations outside its system of retail stores to build brand awareness. The Company operates seven retail units as a laboratory to test marketing, design and operational initiatives.

The Company is subject to seasonal fluctuations in sales because of the location of its franchisees, which are located in street fronts, tourist locations, outlet centers and regional centers. Seasonal fluctuation in sales cause fluctuations in quarterly results of operations. Historically, the strongest sales of the Company's products have occurred during the Christmas holiday and summer vacation seasons. Additionally, quarterly results have been, and in the future are likely to be, affected by the timing of new store openings and sales of franchises. Because of the seasonality of the Company's business and the impact of new store openings and sales of franchises, results for any quarter are not necessarily indicative of results that may be achieved in other quarters or for a full fiscal year.

The most important factors in continued growth in the Company's 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.

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

Efforts to reverse the decline in same store pounds purchased from the factory by franchised stores and to increase total factory sales depend on many factors, including new store openings and the receptivity of the Company's franchise system to the Company's product introductions and promotional programs. Same store pounds purchased from the factory by franchised stores declined approximately 14% in the first quarter, declined approximately 10% in the second quarter, declined approximately 24% in the third quarter and declined approximately 17% in the first nine months of fiscal 2009.

As a result, the actual results realized by the Company could differ materially from the results discussed in or contemplated by the forward-looking statements made herein. Readers are cautioned not to place undue reliance on the forward-looking statements in this Quarterly Report on Form 10-Q.

Results of Operations

Three Months Ended November 30, 2008 Compared to the Three Months Ended November 30, 2007

Basic earnings per share decreased 30.0% from \$.20 for the three months ended November 30, 2007 to \$.14 for the three months ended November 30, 2008. Revenues decreased 15.1% from \$8.8 million in the three months ended November 30, 2007 to \$7.4 million in the three months ended November 30, 2008. Net income decreased 33.5% from \$1.3 million in the three months ended November 30, 2007 to \$842,000 in the three months ended November 30, 2008. The decrease in earnings per share, operating income, and net income for the three months ended November 30, 2008 versus the same period in fiscal 2008 was due primarily to a decrease in same store pounds purchased from the factory by franchised stores.

| Revenues (\$'s in thousands) | Three Months Ended November 30, | | \$ Change | % Change |
|---------------------------------|------------------------------------|------------|--------------|-------------|
| | 2008 | 2007 | | |
| Factory sales | \$ 5,747.0 | \$ 6,855.7 | \$(1,108.7) | (16.2%) |
| Retail sales | 333.0 | 311.3 | 21.7 | 7.0% |
| Franchise fees | 124.0 | 278.0 | (154.0) | (55.4%) |
| Royalty and Marketing fees | 1,239.8 | 1,320.5 | (80.7) | (6.1%) |
| Total | \$ 7,443.8 | \$ 8,765.5 | \$(1,321.7) | (15.1%) |

Factory Sales

The decrease in factory sales in the three months ended November 30, 2008 was due to a 24% decrease in same store pounds purchased by franchised stores in that period compared to the three months ended November 30, 2007. The Company believes the decrease in same store pounds purchased from the factory is due to a number of factors, including general economic uncertainty approaching the key holiday sales period, an 8.1% decrease in same store sales and a product mix shift from factory products to products made in the stores.

Retail Sales

The increase in total retail sales was due to a change in the Company-owned stores in operation in the third quarter of fiscal 2009 compared to the third quarter of fiscal 2008 resulting from the closure of one Company-owned store in the first quarter of fiscal 2009 and the acquisition of one Company-owned store in the second quarter of fiscal 2009. Same store retail sales declined 5.1% in the third quarter of fiscal 2009 compared to the third quarter of fiscal 2008.

Royalties, Marketing Fees and Franchise Fees

The decrease in royalties and marketing fees resulted from a decrease in same store sales at domestic franchised stores partially offset by an increase in domestic units in operation. The average number of domestic units in operation grew 1.1% from 280 in the third quarter of fiscal 2008 to 283 in the third quarter of fiscal 2009 and same store sales declined 8.1% in the third

quarter of fiscal 2009 compared to the third quarter of fiscal 2008. Franchise fee revenues in the third quarter of fiscal 2009 decreased 55.4% versus the third quarter of fiscal 2008 as a result of a decline in domestic store openings from 14 in the three months ended November 30, 2007 to 8 openings in the three months ended November 30, 2008.

| Costs and Expenses (\$'s in thousands) | Three Months Ended November 30, | | \$ Change | % Change |
|---|------------------------------------|------------|--------------|-------------|
| | 2008 | 2007 | | |
| Cost of sales - factory adjusted | \$ 4,048.3 | \$ 4,814.7 | \$ (766.4) | (15.9%) |
| Cost of sales - retail | 133.9 | 130.0 | 3.9 | 3.0% |
| Franchise costs | 436.2 | 404.8 | 31.4 | 7.8% |
| Sales and marketing | 383.6 | 380.3 | 3.3 | 0.9% |
| General and administrative | 632.7 | 596.8 | 35.9 | 6.0% |
| Retail operating | 266.2 | 222.6 | 43.6 | 19.6% |
| Total | \$ 5,900.9 | \$ 6,549.2 | \$ (648.3) | (9.9%) |

| Adjusted gross margin (\$'s in thousands) | Three Months Ended November 30, | | \$ Change | % Change |
|--|------------------------------------|------------|--------------|-------------|
| | 2008 | 2007 | | |
| Factory adjusted gross margin | \$ 1,698.7 | \$ 2,041.0 | \$ (342.3) | (16.8%) |
| Retail | 199.1 | 181.3 | 17.8 | 9.8% |
| Total | \$ 1,897.8 | \$ 2,222.3 | \$ (324.5) | (14.6%) |

(Percent)

| | | | | |
|-------------------------------|-------|-------|--------|--------|
| Factory adjusted gross margin | 29.6% | 29.8% | (0.2%) | (0.7%) |
| Retail | 59.8% | 58.2% | 1.6% | 2.7% |
| Total | 31.2% | 31.0% | 0.2% | 0.6% |

Adjusted gross margin is equal to 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 adjusted gross margin to gross margin, the most comparable performance measure under GAAP:

| (\$'s in thousands) | Three Months Ended November 30, | |
|-------------------------------------|------------------------------------|------------|
| | 2008 | 2007 |
| Factory adjusted gross margin | \$ 1,698.7 | \$ 2,041.0 |
| Less: Depreciation and Amortization | 89.1 | 99.3 |
| Factory GAAP gross margin | \$ 1,609.6 | \$ 1,941.7 |

Cost of Sales and Gross Margin

The decrease in factory margin is due primarily to lower manufacturing efficiencies associated with lower production volume and higher commodity prices during the third quarter of fiscal 2009 versus the same period in the prior year. The increase in Company-owned store margin is due primarily to mix of product sold during the third quarter of fiscal 2009 versus the third quarter of fiscal 2008, associated with a change in the Company-owned stores in operation in the third quarter of fiscal 2009 compared to the third quarter of fiscal 2008 resulting from the closure of one Company-owned store in the first quarter of fiscal 2009 and the acquisition of one Company-owned store in the second quarter of fiscal 2009.

Franchise Costs

The increase in franchise costs for the three months ended November 30, 2008 compared with the three months ended November 30, 2007 is due primarily to increased compensation costs. As a percentage of total royalty and marketing fees and franchise fee revenue, franchise costs increased to 32.0% in the third quarter of fiscal 2009 from 25.3% in the third quarter of fiscal 2008. This increase as a percentage of royalty, marketing and franchise fees is primarily a result of higher franchise costs relative to revenues.

Sales and Marketing

The increase in sales and marketing costs for the three months ended November 30, 2008 versus the corresponding period in the prior year is due to increased compensation costs.

General and Administrative

The increase in general and administrative costs in the third quarter of fiscal 2009 versus the same period in the prior year is due primarily to an increase in bad debt expense associated with the valuation of accounts receivable. As a percentage of total revenues, general and administrative expenses increased to 8.5% in the third quarter of fiscal 2009 compared to 6.8% in the third quarter of fiscal 2008.

Retail Operating Expenses

The increase in retail operating expenses during the third quarter of fiscal 2009 compared to the same period in fiscal 2008 was due primarily to costs associated with the acquisition of a Company-owned store in the second quarter of fiscal 2009. Retail operating expenses, as a percentage of retail sales, increased from 71.5% in the third quarter of fiscal 2008 to 79.9% in the third quarter of fiscal 2009 due to a higher increase in costs relative to the increase in revenues.

Depreciation and Amortization

Depreciation and amortization of \$189,000 in the third quarter of fiscal 2009 decreased 4.2% from \$197,000 incurred in the third quarter of fiscal 2008, due to certain assets becoming fully depreciated.

Other, Net

Other, net of \$(1,800) incurred in the third quarter of fiscal 2009 represents a decrease of \$27,400 from the \$25,600 realized in the third quarter of fiscal 2008 due to lower average outstanding cash balances and an increase in interest expense incurred related to use of the operating line of credit.

Income Tax Expense

The Company's effective income tax rate in the third quarter of fiscal 2009 was 37.7% which is a decrease of 0.4% compared to the third quarter of fiscal 2008. The change in the effective tax rate is primarily the result of an increase in the allowable domestic production activities deduction.

Nine Months Ended November 30, 2008 Compared to the Nine Months Ended November 30, 2007

Basic earnings per share decreased 21.1% from \$.57 for the nine months ended November 30, 2007 to \$.45 for the nine months ended November 30, 2008. Revenues decreased 11.9% from \$23.6 million for the nine months ended November 30, 2007 to \$20.8 million in the nine months ended November 30, 2008. Operating income decreased 25.3% from \$5.8 million in the nine months ended November 30, 2007 to \$4.3 million in the nine months ended November 30, 2008. Net income decreased 26.2% from \$3.6 million in the nine months ended November 30, 2007 to \$2.7 million in the nine months ended November 30, 2008. The decrease in earnings per share, operating income, and net income for the first nine months of fiscal 2009 versus the same period in fiscal 2008 was due primarily to decreased specialty market sales and a decrease in same store pounds purchased by Franchise locations, partially offset by growth in the average number of franchise stores in operation.

Revenues

| (\$'s in thousands) | Nine Months Ended | | \$ | % |
|----------------------------|-------------------|------------|-------------|---------|
| | November 30, | | | |
| | 2008 | 2007 | Change | Change |
| Factory sales | \$15,026.4 | \$17,787.2 | \$(2,760.8) | (15.5%) |
| Retail sales | 1,177.9 | 1,222.7 | (44.8) | (3.7%) |
| Franchise fees | 397.5 | 449.5 | (52.0) | (11.6%) |
| Royalty and marketing fees | 4,192.0 | 4,133.1 | 58.9 | 1.4% |
| Total | \$20,793.8 | \$23,592.5 | \$(2,798.7) | (11.9%) |

Factory Sales

The decrease in factory sales for the nine months ended November 31, 2008 versus the nine months ended November 30, 2007 was primarily due to a 41.3% decrease in product shipments to customers outside our system of franchised retail stores and a 17% decrease in same store pounds purchased by franchised stores, partially offset by a 3.2% increase in the average number of franchised stores in operation to 327 in the first nine months of fiscal 2009 from 317 in the first nine months of fiscal 2008. The decline in shipments to customers outside our system of franchised retail stores primarily reflected the absence of a large order from a warehouse club customer that was shipped in the second quarter of fiscal 2008.

Retail Sales

The decline in total retail sales was due primarily to a decrease in same store retail sales at Company-owned stores in the nine months ended November 30, 2008 compared with the same period in the prior year. Same store retail sales decreased 2.8% in the first nine months of fiscal 2009 compared to the first nine months of fiscal 2008.

Royalties, Marketing Fees and Franchise Fees

The increase in royalties and marketing fees resulted from an increase in the effective royalty rate, related to the Company's factory purchase based royalty structure and growth in the average number of domestic units in operation, partially offset by a decrease of 3.7% in same store sales in the first nine months of fiscal 2009 compared with the same period in fiscal 2008. The average number of domestic units in operation grew 1.8% from 279 in the first nine months of fiscal 2008 to 284 in 2009. Franchise fee revenues in the first nine months of fiscal 2009 decreased 11.6% as a result of a decrease in the number of domestic franchise store openings from 24 in the first nine months of fiscal 2008 to 22 domestic franchise openings in the first nine months of fiscal 2009 and the corresponding decrease in franchise fees.

Costs and Expenses

| (\$'s in thousands) | Nine Months Ended | | \$ | % |
|----------------------------------|-------------------|-------------|-------------|---------|
| | November 30, | | | |
| | 2008 | 2007 | Change | Change |
| Cost of sales - factory adjusted | \$ 10,532.7 | \$ 11,849.2 | \$(1,316.5) | (11.1%) |
| Cost of sales - retail | 448.1 | 490.1 | (42.0) | (8.6%) |
| Franchise costs | 1,254.1 | 1,184.0 | 70.1 | 5.9% |
| Sales and marketing | 1,090.0 | 1,076.4 | 13.6 | 1.3% |
| General and administrative | 1,857.8 | 1,890.5 | (32.7) | (1.7%) |
| Retail operating | 712.8 | 735.8 | (23.0) | (3.1%) |
| Total | \$ 15,895.5 | \$ 17,226.0 | \$(1,330.5) | (7.7%) |

Adjusted gross margin

| (\$'s in thousands) | Nine Months Ended | | \$ | % |
|-------------------------------|-------------------|------------|-------------|---------|
| | November 30, | | | |
| | 2008 | 2007 | Change | Change |
| Factory adjusted gross margin | \$ 4,493.7 | \$ 5,938.0 | \$(1,444.3) | (24.3%) |
| Retail | 729.8 | 732.6 | (2.8) | (0.4%) |
| Total | \$ 5,223.5 | \$ 6,670.6 | \$(1,447.1) | (21.7%) |

| (Percent) | Nine Months Ended | | \$ | % |
|-------------------------------|-------------------|-------|--------|---------|
| | November 30, | | | |
| | 2008 | 2007 | Change | Change |
| Factory adjusted gross margin | 29.9% | 33.4% | (3.5%) | (10.5%) |
| Retail | 62.0% | 59.9% | 2.1% | 3.5% |
| Total | 32.2% | 35.1% | (2.9%) | (8.3%) |

Adjusted gross margin is equal to 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 adjusted gross margin to gross margin, the most comparable performance measure under GAAP:

| (\$'s in thousands) | Nine Months Ended | |
|-------------------------------------|-------------------|------------|
| | November 30, | |
| | 2008 | 2007 |
| Factory adjusted gross margin | \$ 4,493.7 | \$ 5,938.0 |
| Less: Depreciation and Amortization | 280.1 | 291.4 |
| Factory GAAP gross margin | \$4,213.6 | \$ 5,646.6 |

Cost of Sales and Gross Margin

Factory margins decreased 350 basis points from the first nine months of fiscal 2008 compared to the same period in fiscal 2009 due to lower manufacturing efficiencies associated with lower production volume and higher commodity prices during the nine months ended November 30, 2008 versus the nine months ended November 30, 2007.

Franchise Costs

The increase in franchise costs is due to increased compensation costs. As a percentage of total royalty and marketing fees and franchise fee revenue, franchise costs increased to 27.3% in the first nine months of fiscal 2009 from 25.8% in the first nine months of fiscal 2008.

Sales and Marketing

Sales and marketing costs were approximately the same for the nine months ended November 30, 2008 compared with the nine months ended November 30, 2007.

General and Administrative

The decrease in general and administrative costs for the first nine months of fiscal 2009 versus the same period in fiscal 2008 is due primarily to decreased professional fees and decreased compensation related costs. Partially offsetting these decreases was an increase in bad debt expense from the first nine months of fiscal 2009 compared with the same period in fiscal 2008. As a percentage of total revenues, general and administrative expenses increased to 8.9% in the first nine months of fiscal 2009 compared to 8.0% in the first nine months of fiscal 2008.

Retail Operating Expenses

Retail operating expenses were approximately unchanged during the first nine months of fiscal 2009 versus the first nine months of fiscal 2008. Retail operating expenses, as a percentage of retail sales, increased from 60.2% in the first nine months of fiscal 2008 to 60.5% in the first nine months of fiscal 2009 due to a lower decrease in costs relative to the decrease in revenues associated with a decrease in the average number of Company stores in operation.

Depreciation and Amortization

Depreciation and amortization of \$582,000 in the first nine months of fiscal 2009 decreased 0.5% from the \$585,000 incurred in the first nine months of fiscal 2008 due to certain assets becoming fully depreciated.

Other, Net

Other, Net of \$2,700 realized in the first nine months of fiscal 2009 represents a decrease of \$81,400 from the \$84,100 realized in the first nine months of fiscal 2008 due to lower average outstanding cash balances and an increase in interest expense incurred related to use of the operating line of credit.

Income Tax Expense

The Company's effective income tax rate in the nine months ended November 30, 2008 was 38.0% which is approximately the same as in nine months ended November 30, 2007.

Liquidity and Capital Resources

As of November 30, 2008, working capital was \$6.5 million, compared with \$5.2 million as of February 29, 2008, an increase of \$1.3 million. The increase in working capital was primarily due to operating results less the payment of \$1.8 million in cash dividends.

Cash and cash equivalent balances decreased from \$676,000 as of February 29, 2008 to \$343,000 as of November 30, 2008 as a result of cash flows provided by operating activities less than cash flows used by financing and investing activities. The Company's current ratio was 2.83 to 1 at November 30, 2008 in comparison with 2.35 to 1 at February 29, 2008. The Company monitors current and anticipated future levels of cash and cash equivalents in relation to anticipated operating, financing and investing requirements.

The Company has a \$5.0 million (\$4.3 million available as of November 30, 2008) working capital line of credit collateralized by substantially all of the Company's assets with the exception of the Company's retail store assets. The line is subject to renewal in July, 2009.

The Company believes cash flows generated by operating activities and available financing will be sufficient to fund the Company's operations at least through the end of fiscal 2009.

Impact of Inflation

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

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

Seasonality

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

The Company frequently enters into purchase contracts of between six to eighteen months for chocolate, sugar, butter and certain nuts. These contracts permit the Company to purchase the specified commodity at a fixed price on an as-needed basis during the term of the contract. Because prices for these products may fluctuate, the Company may benefit if prices rise during the terms of these contracts, but it may be required to pay above-market prices if prices fall and it is unable to renegotiate the terms of the contract.

As of November 30, 2008, all of the Company's long-term debt was paid in full. The Company also has a \$5.0 million bank line of credit that bears interest at a variable rate. As of November 30, 2008, \$700,000 was outstanding under the line of credit. The Company does not believe that it is exposed to any material interest rate risk related to line of credit.

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

Item 4. Controls and Procedures

Under the supervision and with the participation of management, including the principal executive officer and principal financial officer, the Company has evaluated the effectiveness of the design and operation of the disclosure controls and procedures and, based on their evaluation, the Company's principal executive officer and principal financial officer have concluded that these controls and procedures are effective, as of the end of the period covered by this report, to ensure that information required to be disclosed in the reports that the Company files under the Exchange Act is accumulated and communicated to management, including the principal executive officer and the principal financial officer, as appropriate to allow timely decisions regarding required disclosure. There were no material changes in the Company's internal controls or in other factors that could materially affect these controls subsequent to the date of their evaluation. Disclosure controls and procedures are the Company's controls and other procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. There were no changes in the Company's internal control over financial reporting that occurred during the last quarter that has materially affected, or is reasonable likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is not currently involved in any material legal proceedings other than routine litigation incidental to its 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, 2008. There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K.

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

None

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

None

Item 6. Exhibits

- 3.1 Articles of Incorporation of the Registrant, as amended, incorporated by reference to Exhibit 3.1 to Annual Report on Form 10-K of the Registrant for the year ended February 29, 2008
- 3.2 By-laws of the Registrant, as amended on November 25, 1997, incorporated by reference to Exhibit 3.2 to the Annual Report on Form 10-K of the Registrant for the fiscal year ended February 28, 2007
- 31.1 *Certification Filed Pursuant To Section 302 Of The Sarbanes-Oxley Act of 2002, Chief Executive Officer
- 31.2 *Certification Filed Pursuant To Section 302 Of The Sarbanes-Oxley Act of 2002, Chief Financial Officer
- 32.1**Certification Furnished Pursuant To Section 906 Of The Sarbanes-Oxley Act of 2002, Chief Executive Officer
- 32.2**Certification Furnished Pursuant To Section 906 of The Sarbanes-Oxley Act of 2002, Chief Financial Officer

* Filed herewith.

** Furnished herewith.

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 9, 2009

/s/ Bryan J. Merryman

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

Certification Pursuant To Rules 13a-14(a) And 15d-14(a) Under The Securities Exchange Act Of 1934, As Adopted Pursuant To The Sarbanes-Oxley Act of 2002

I, Franklin E. Crail, certify that:

1. I have reviewed this 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 9, 2009

/s/ Franklin E. Crail

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

Certification Pursuant To Rules 13a-14(a) And 15d-14(a) Under The Securities Exchange Act Of 1934, As Adopted Pursuant To The Sarbanes-Oxley Act of 2002

I, Bryan J. Merryman, certify that:

1. I have reviewed this 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 9, 2009

/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, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned certifies 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.

Dated: January 9, 2009

By /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, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned certifies 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.

Dated: January 9, 2009

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