UNIVERSITI UTARA MALAYSIA
PEPERIKSAAN AKHIR SEMESTER KEDUA SESI 2009/2010
FINAL EXAMINATION SECOND SEMESTER SESSION 2009/2010

KOD / NAMA KURSUS : BPMN3023/PENGURUSAN STRATEGIK
COURSE CODE / NAME : BPMN3023/STRATEGIK MANAGEMENT

TARIKH : 21 APRIL 2010 (WEDNESDAY)
DATE : 2:30 PM - 5:00 PM (2 1/2 HOURS)

MASA : 21 APRIL 2010 (WEDNESDAY)
DATE : 2:30 PM - 5:00 PM (2 1/2 HOURS)

TEMPAT / VENUE : KYM, PM, IKIP, NEGERI, DSB DPP TM, DTSO, DSB DPP TWD, DSB DPP MAS, TE, DMS,

ARAHAN :
1. Kertas soalan ini mengandungi TUJUH (7) soalan di dalam EMPAT (4) halaman bercetak tidak termasuk kulit hadapan.
3. Calon dikehendaki menjawab SEMUA soalan yang ditemukakan.
4. Semua jawapan hendaklah ditulis di dalam buku jawapan yang disediakan.

INSTRUCTION
1. This paper consists of SEVEN (7) questions in FOUR (4) printed pages excluding the front page.
3. Candidates is required to answer ALL questions.
4. All answer must be written in the answer booklet provided.

NO. MATRIK :
MATRIC NO. ________________________
(dengan perkataan / in word)
(dengan angka / in number)

NO. KAD PENGENALAN :
IDENTIFICATION CARD NO.

PENSYARAH : ________________________
LECTURER

KUMPULAN : NO. MEJA : TABLE NO.
GROUP :  

JANGAN BUKA KERTAS PEPERIKSAAN INI SEHINGGA DIBERI ARAHAN
DO NOT OPEN THIS EXAMINATION PAPER UNTIL INSTRUCTED

SULIT/CONFIDENTIAL
BAHAGIAN A / SECTION A

1) Bayangkan anda adalah seorang pengarah urusan sebuah syarikat terkenal di Malaysia. Terdapat banyak faedah boleh diperolehi sekiranya syarikat mempraktikkan konsep pengurusan strategik dalam organisasi. Bincangkan secara ringkas komponen-komponen yang terdapat dalam model pengurusan strategik yang anda ketahui.

(20 markah)

Imagine that you are a managing director for an established corporation in Malaysia. There are many benefits can be gained if the company practices the strategic management concept in the organization. Briefly discuss the components of the strategic management model that you know best.

(20 marks)


(a) Berdasarkan pada ungkapan di atas, kenal pasti dan definisikan strategi yang digunakan oleh Idris Jala yang membolehkan MAS mencatat keuntungan semula.

(4 markah)

(b) Huraikan dengan ringkas DUA(2) fasa strategi yang dikenalpasti di (a).

(6 markah)
Malaysia Airlines (MAS) recorded its worst loss of 1.3 billion ringgit in 2005. Idris Jala was appointed as the CEO of MAS in December 2005 to bring about changes in the operations to arrest the decline. Among the factors identified as contributing to the huge loss were fuel costs and high operating costs.

In February 2006, Idris Jala announced various initiatives to bring MAS back to profitability. Among the initiatives taken were route rationalization, revenue enhancements and cost reduction. In 2006 MAS recorded a lower loss of 134 million and in 2007 reported a whopping 851 million ringgit profit.

(a) Based on the above explanation, identify and define the strategy undertaken by Idris Jala to make MAS profitable again.

(4 marks)

(b) Briefly explain the TWO (2) phases of the strategy identified in (a).

(6 marks)

3) Senaraikan dan bincangkan secara ringkas ENAM (6) langkah penting dalam Pelan Tindakan (Action Planning) yang terdapat di peringkat pelaksanaan strategi.

(12 markah)

List and briefly discuss the SIX (6) steps of Action Plan of the implementation strategy stage.

(12 marks)
4) Proses penilaian dan kawalan strategik dapat memastikan syarikat mencapai apa yang ditetapkan. Sebagai pegawai yang dipertanggungiawabkan dengan perancangan strategik syarikat, bincangkan secara ringkas proses penilaian dan kawalan strategi syarikat anda.  

(10 markah)

*The strategic evaluation and control process ensures that a company is achieving what it set out to accomplish. As the person in charge of strategic planning in your organization, briefly discuss strategic evaluation and control process in your organization.*  

(10 marks)

5. Huraikan istilah-istilah pengurusan strategik berikut serta beri contoh yang sesuai:

a) Strategi integrasi mendatar  
(2 markah)

b) Sinergi  
(2 markah)

c) Persumberan luar *(outsourcing)*  
(2 markah)

d) Daya saing unggul *(distinctive competencies)*  
(2 markah)

*Explain the following strategic management terms together with appropriate example:*

a) *Horizontal integration strategy*  
(2 marks)

b) *Synergy*  
(2 marks)

c) *Outsourcing*  
(2 marks)

d) *Distinctive competencies*  
(2 marks)
BAHAGIAN B / SECTION B

1. Bentuk Matrik TOWS Rocky Mountain Chocolate (RMC) berasaskan faktor-faktor kekuatan, kelemahan, peluang dan ancaman seperti yang terdapat di dalam kajian kes.

   (20 markah)

   Develop a TOWS Matrix for Rocky Mountain Chocolate (RMC) that is based on its strengths, weaknesses, opportunities and threats as stated in the case study.

   (20 markah)

2. Kenal pasti dan kritik EMPAT (4) strategi yang digunakan oleh Rocky Mountain Chocolate (RMC) dalam usahanya menghadapi persaingan hiperkompetitif dunia perniagaan hari ini.

   (20 markah)

   Identify and critique FOUR (4) strategies used by Rocky Mountain Chocolate (RMC) as to face hypercompetitive competition of today's business environment.

   (20 marks)
CASE 22

Rocky Mountain Chocolate Factory Inc. (2008):
RECIPE FOR SUCCESS?
Annie Phan and Joyce Vincelette

Introduction

SITTING AT HIS DECK, ADMIRING THE COLORADO MOUNTAINS IN THE DISTANCE, Frank Crail was counting his blessings at the success of Rocky Mountain Chocolate Factory Inc. (RMCF) over the past 27 years. The company had not only allowed him and his wife to raise their children in Durango, Colorado, but had also provided them a more-than-comfortable livelihood. Crail knew that for his company to continue to grow and be successful, planning for the future was necessary. How long would growth continue in the gourmet segment of the chocolate industry? Consumer tastes were changing. Competition was heating up, with smaller companies being bought by corporate giants who were eyeing the growth in the gourmet segment of the market. RMCF’s business model had been effective, but should changes be considered? With one last glace at the beginnings of springtime in the mountains, Crail left for RMCF’s annual planning meeting and his management team waiting in the board room across the hall.

History¹

Rocky Mountain Chocolate Factory (RMCF) was built around a location and a lifestyle. RMCF began as Frank Crail’s dream to move his family from crowded and bustling Southern California, where he owned CNI Data Processing Inc., a company that produced billing software for the
cable TV industry, to a slower-paced and family-friendly environment. He and his wife chose the small and quaint Victorian-era town of Durango, Colorado, and began surveying the town’s residents and merchants for business opportunities. “It came down to either a car wash or a chocolate shop,” recalls the father of seven. “I think I made the right choice.”

Founded in 1981 by Crail and two partners and incorporated in Colorado in 1982, RMCF was successful from the start. In addition to the opening of the Durango store, Crail’s partners opened stores in Breckenridge and Boulder, Colorado. The first franchised stores were opened in 1982 in Colorado Springs, and Park City, Utah. Crail later told *ColoradoBiz* that the “typical franchisee was a professional who wanted to set out on a second career in a small, family-oriented town,” much as he himself had done. Crail’s two partners left the business in 1983.

Over the years, RMCF fine-tuned its chocolates and its strategy. In February 1986, Crail took the company public, where it is now found on the NASDAQ under the symbol RMCF. *Chain Store Age* pronounced RMCF founder Frank Crail one of its Entrepreneurs of the Year for 1995. In the late 1990s most of the company-owned retail operations were closed or sold to franchisees, allowing RMCF to focus on franchising and manufacturing.

In 2008, RMCF was an international franchiser and confectionary manufacturer. The original shop “still stands on Main Street in Durango, with its sights and smells tempting tourists and locals alike to experience a cornucopia of chocolate treats before taking part in a scenic ride on the Durango-Silverton Narrow Gauge Railroad or after a white water rafting trip through town.”

As of March 31, 2008, there were five company-owned and 329 franchised RMCF stores operating in 38 states (concentrated primarily on the west coast and in the Sun Belt), Canada, and the United Arab Emirates, with total revenues of $31,878,183.

Frank Crail believed he had created the recipe that had driven the company to success. “The number one factor is the quality of the product,” said Crail. “Without that customers aren’t going to stay around long.” As a testament, Crail proudly points to a page from *Money* magazine mounted on his office wall, which features Rocky Mountain Chocolate winning the coveted 3-heart rating in a blind taste test. The candy maker’s chocolate beat out See’s Candies, Ferrugina, Teuscher, Godiva, and Fanny May for the richest chocolate, with intense natural flavor. In addition to product quality, taste, value, and variety having been key to RMCF’s business strategy, the company also believed that its store atmosphere and ambiance, its brand name recognition, its careful selection of sites for new stores and kiosks, its expertise in the manufacture, merchandising and marketing of chocolate and other candy products, and its commitment to customer service were keys to the accomplishment of its objective to build on its position as a leading international franchiser and manufacturer of high quality chocolate and other confectionary products.

“A great deal has happened over the years,” recounts Crail with a twinkle in his eye, “I never imagined that in my search for a place to raise a family things would turn out so sweet!”

**Corporate Governance**

The biographical sketches for the executive officers and directors as of April 30, 2008, were as follows:

**Executive Officers**

_Franklin E. Crail (age 66) co-founded the first RMCF store in May 1981. Since the incorporation of the company in November 1982, he has served as its chief executive officer, president, and a director. He was elected chairman of the board in March 1986. Prior to founding the company, Mr. Crail was co-founder and president of CNI Data Processing Inc., a software firm that developed automated billing systems for the cable television industry._
Bryan J. Merryman (age 47) joined the company in December 1997 as vice president, Finance, and chief financial officer. Since April 1999, Mr. Merryman has also served the company as chief operating officer and as a director, and since January 2000 as its treasurer. Prior to joining the company, Mr. Merryman was a principal in Knightsbridge Holdings Inc. (a leveraged buyout firm) from January 1997 to December 1997. Mr. Merryman also served as chief financial officer of Super Shops Inc., a retailer and manufacturer of aftermarket auto parts from July 1996 to November 19997, and was employed for more than eleven years by Deloitte and Touche LLP, most recently as a senior manager.

Gregory L. Pope (age 41) became senior vice president of Franchise Development and Operations in May 2004. Since joining the company in October 1990, he has served in various positions, including store manager, new store opener, and franchise field consultant. In March 1996 he became director of Franchise Development and Support. In June 2001 he became vice president of Franchise Development, a position he held until he was promoted to his present position.

Edward L. Dudley (age 44) joined the company in January 1997 to spearhead the company's newly formed Product Sales Development function as vice president, sales and Marketing, with the goal of increasing the company's factory and retail sales. He was promoted to senior vice president in June 2001. During his 10-year career with Baxter Healthcare Corporation, Mr. Dudley served in a number of senior marketing and sales management capacities, including most recently that of director, Distribution Services from March 1996 to January 1997.

William K. Jobson (age 52) joined the company in July 1998 as director of information technology. In June 2001, he was promoted to chief information officer, a position created to enhance the company's strategic focus on information and information technology. From 1995 to 1998, Mr. Jobson worked for ADAC Laboratories in Durango, Colorado, a leading provider of diagnostic imaging and information systems solutions in the healthcare industry, as manager of technical services, and before that, regional manager.

Jay B. Hawes (age 58) joined the company in August 1991 as vice president of Creative Services. Since 1981, Mr. Hawes had been closely associated with the company, both as a franchisee and marketing/graphic design consultant. From 1986 to 1991 he operated two RMCF franchisees located in San Francisco. From 1983 to 1989 he served as vice president of Marketing for Image Group Inc., a marketing communications firm based in Northern California. Concurrently, Mr. Hawes co-owned of two other RMCF franchisees located in Sacramento and Walnut Creek, California. From 1973 to 1983 he was principal of Jay Hawes and Associates, an advertising and graphic design agency.

Virginia M. Perez (age 70) joined the company in June 1996 and has served as the company's corporate secretary since February, 1997. From 1992 until joining the company, she was employed by Huettel & Schromm Inc., a property management and development firm in Palo Alto, California, as executive assistant to the president and owner. Huettel & Schromm developed, owned, and managed over 10,000,000 square feet of office space in business parks and office buildings on the San Francisco peninsula. Ms. Perez is a paralegal and has held various administrative positions during her career, including executive assistant to the chairman and owner of Sunset Magazine & Books Inc.

Directors

The company bylaws provided for no fewer than three or more than nine directors. The board had previously fixed the number of directors at six. Directors were elected for one-year terms. Crail and Merryman were the only two internal board members. Directors of Rocky Mountain Chocolate Factory who did not also serve as an executive officer were as follows:

Gerald A. Kien (age 75) became a director in August 1995. He retired in 1995 from his positions as president and chief executive officer of Remote Sensing Technologies Inc., a subsidiary of Envirotech Systems Inc., a company engaged in the development of instrumentation for vehicle emissions testing located in Tucson, Arizona. Mr. Kien has served as a director and as chairman
of the Executive Committee of Sun Electric Corporation since 1980 and as chairman, president, and chief executive officer of Sun Electric until retirement in 1993.

Lee N. Mortensen (age 71) has served on the board of directors of the company since 1957. Mr. Mortensen has been engaged in consulting and investments activities since July 2000, and was a managing director of Kensington Partners LLC (a private investment firm) from June 2001 to April 2006. Mr. Mortensen has been president and chief executive officer of Newell Resources LLC since 2002, providing management consulting and investment services. Mr. Mortensen served as president, chief operating officer, and a director of Tesco Capital Corporation of Chicago, Illinois, from January 1984 to February 2000. Tesco Capital Corporation was principally engaged in the manufacturing and real estate businesses. He was president, chief operating officer, and a director of Sunstates Corporation from December 1990 to February 2000. Sunstates Corporation was a company primarily engaged in real estate development and manufacturing. Mr. Mortensen was a director of Alba-Waldenian Inc. from 1984 to July 1999, and served as its president, chief executive officer, and director from February 1997 to July 1999. Alba was principally engaged in the manufacturing of apparel and medical products.

Fred M. Trainor (age 68) has served as a director of the company since August 1992. Mr. Trainor is the founder and since 1984 has served as chief executive officer and president of AVCOR Health Care Products Inc., Fort Worth, Texas (a manufacturer and marketer of specialty dressing products). Prior to founding AVCOR Health Care Products Inc. in 1984, Mr. Trainor was a founder, chief executive officer, and president of Tecnol Inc. of Fort Worth, Texas (also a company involved with the health care industry). Before founding Tecnol Inc., Mr. Trainor was with American Hospital Supply Corporation (AHSC) for 13 years in a number of management capacities.

Cliff W. Engle (age 64) has served as a director of the company since January 2000. Mr. Engle is chairman of the board of directors and chief executive officer of Sunstates Corporation and chairman of the board of directors, president and chief executive officer of Lincolnwood Bancorp, Inc. (formerly known as GSC Enterprises, Inc.), a one-bank holding company, and chairman of the board and chief executive officer of its subsidiary, Bank of Lincolnwood.

The Board of Directors had determined that Klein, Mortensen, Trainor, and Engle were "independent directors" under Nasdaq Rule 4200. Mortensen, Trainor, and Klein served on the Auditing Committee, Compensation Committee, and the Nominating Committee of the company's board of directors.12

Directors of RMCF did not receive any compensation for serving on the board. Directors received compensation for serving on board committees, chairing committees, and participating in meetings. Directors who are not also officers or employees of the company were entitled to receive stock option awards.13

As of June 28, 2007, there were approximately 6,080,283 shares of common stock outstanding and eligible to vote at the annual meeting. For each share of common stock held, a shareholder was entitled to one vote on all matters voted on at the annual meeting except the election of directors. Shareholders had cumulative voting rights in the election of directors.14

**Store Concept**

RMCF shops were a blend of traditional and contemporary styles. The company sought to establish a fun and inviting atmosphere in all of its locations. Unlike most other confectionery stores, each RMCF shop prepared certain products, including fudge and caramel apples, in the store. Customers could observe store personnel making fudge from start to finish, including the mixing of ingredients in old-fashioned copper kettles and the cooling of the fudge on large granite or marble tables, and were often invited to sample the store's products.
believed the in-store preparation and aroma of its products enhanced store ambiance, was fun and entertaining for customers, conveyed an image of freshness and homemade quality, and encouraged additional impulse purchases by customers. According to Craill, “We have a great marketing advantage with our unique in-store candy demonstrations. Customers can watch the cook spin a skewered apple in hot caramel or watch fudge being made before their eyes. Of course, everyone gets a sample!”

RMCF stores opened prior to fiscal 2002 had a distinctive country Victorian décor. In fiscal 2002, the company launched its revised store concept, intended specifically for high foot traffic regional shopping malls. This new store concept featured a sleeker and more contemporary design that continued to prominently feature in-store cooking while providing a more up-to-date backdrop for newly redesigned upscale packaging and displays. The company required that all new stores incorporate the revised store design and also required that key elements of the revised concept be incorporated into existing store designs upon renewal of franchise agreements or transfers in store ownership. Through March 31, 2008, 197 stores incorporating the new design had been opened.

The average store size was approximately 1,000 square feet, approximately 650 square feet of which was selling space. Most stores were open seven days a week. Typical hours were 10 a.m. to 9 p.m., Monday through Saturday, and 12 noon to 6 p.m. on Sundays. Store hours in tourist areas may have varied depending upon the tourist season.

RMCF believed that careful selection of store sites was critical to its success, and it considered a number of factors in identifying suitable sites, including tenant mix, visibility, attractiveness, accessibility, level of foot traffic, and occupancy costs. The company believed that the experience of its management team in evaluating potential sites was one of its competitive strengths, and all final site selection had to be approved by senior management. RMCF had established business relationships with most of the major regional and factory outlet center developers in the United States and believed these relationships provided it with the opportunity to take advantage of attractive sites in new and existing real estate environments.

The company established RMCF stores in five primary environments: 1) regional centers, 2) tourist areas, 3) outlet centers, 4) street fronts, and 5) airports and other entertainment-oriented shopping centers. Each of these environments had a number of attractive features, including high levels of foot traffic. The company, over the last several years, has had a particular focus on regional center locations.

Outlet Centers

As of February 29, 2008, there were approximately 110 factory outlet centers in the United States, and there were RMCF stores in approximately 67 (up from 65 in 2007) of these centers in more than 25 states.

Tourist Areas, Street Fronts, and Other Entertainment-Oriented Shopping Centers

As of February 29, 2008, there were approximately 40 (down from 45 in 2007) RMCF stores in locations considered to be tourist areas, including Fisherman’s Wharf in San Francisco, and the Riverwalk in San Antonio, Texas. RMCF believed that tourist areas offer high levels of foot traffic, favorable customer spending characteristics, and increase its visibility and name recognition. The company believed that significant opportunities existed to expand into additional tourist areas.
Regional Centers

There were approximately 1,400 regional centers in the United States, and as of February 29, 2008, there were RMCF stores in approximately 95 (down from 100 in 2007) of these centers, including locations in the Mall of America in Bloomington, Minnesota; and Fort Collins, Colorado. Although often providing favorable levels of foot traffic, regional malls typically involved more expensive rent structures and competing food and beverage concepts. The company's new store concept was designed to capitalize on the potential of the regional center environment.

Other

RMCF believed there were a number of other environments that had the characteristics necessary for the successful operation of successful stores, such as airports and sports arenas. In February 2008, twelve (up from nine in 2007) franchised RMCF stores existed at airport locations: two at both Denver and Atlanta international airports, one each at Charlotte, Minneapolis, Salt Lake City, and Dallas/Fort Worth international airports, one at Phoenix Sky Harbor Airport, and three in Canadian airports, including Edmonton, Toronto Pearson, and Vancouver international airports.

On July 20, 2007, RMCF entered into an exclusive Airport Franchise Development Agreement (which expires on July 20, 2009) with The Grove Inc. The company believed this agreement would accelerate the opening of stores in high volume airport locations throughout the United States. The Grove Inc. was a privately owned retailer of natural snacks and other branded food products and, at the time of the agreement, owned and operated 65 food and beverage units, including retail stores in 13 airports throughout the United States. Under the terms of this agreement, The Grove Inc. had the exclusive right to open RMCF stores in all airports in the United States where there were no stores currently operating or under development. The Grove Inc., as of March 31, 2008, operated three stores under this agreement.

Kiosk Concept

In fiscal 2002, RMCF opened its first full-service retail kiosk to display and sell the company's products. As of March 31, 2008, there were 18 (down from 24 in 2007) kiosks in operation. Kiosks ranged from 150 to 250 square feet and incorporated the company's trademark cooking area where popular confections are prepared in front of customers. The kiosk also included the company's core product and gifting lines in order to provide the customer with a full RMCF experience.

RMCF believed kiosks were a vehicle for retail environments where real estate is unavailable or building costs and/or rent factors do not meet the company's financial criteria. The company also believed the kiosk concept enhanced its franchise opportunities by providing more flexibility in support of existing franchisees' expansion programs and allowed new franchisees that otherwise would not qualify for a store location, an opportunity to join the RMCF system.

Franchising Program

The RMCF franchising philosophy was one of service and commitment to its franchise system, and the company continuously sought to improve its franchise support services. The company's franchise concept had consistently been rated as an outstanding franchise opportunity and in January 2008, RMCF was rated the number one franchise opportunity in the candy category by *Entrepreneur* magazine. As of March 31, 2008, there were 329 franchised stores in the RMCF system.
RMCF believed the visibility of its stores and the high foot traffic at many of its locations had generated strong name recognition and demand for its providers and franchises. RMCF stores had historically been concentrated in the western and Rocky Mountain regions of the United States, but new stores were gradually being opened in the eastern half of the country.

RMCF's continued growth and success was dependent on both its ability to obtain suitable sites at reasonable occupancy costs for both franchised stores and kiosks and its ability to attract, retain, and contract with qualified franchisees who were devoted to promoting and developing the RMCF store concept, reputation, and product quality. RMCF had established criteria to evaluate prospective franchisees, which included the applicant's net worth and liquidity, together with an assessment of work ethic and personality compatibility with the company's operating philosophy. The majority of new franchisees were awarded to persons referred by existing franchisees, to interested consumers who had visited RMCF stores, and to existing franchisees. The company also advertised for new franchisees in national and regional newspapers as suitable store locations were recognized.

Prior to store opening, each domestic franchise owner/operator and each store manager for a domestic franchise was required to complete a seven-day comprehensive training program in store operations and management at its training center in Durango, Colorado, which included a full-sized replica of a properly configured and merchandised RMCF store. Topics covered in the training course included the company's philosophy of store operation and management, customer service, merchandising, pricing, cooking, inventory and cost control, quality standards, record keeping, labor scheduling, and personnel management. Training was based on standard operating policies and procedures contained in an operations manual provided to all franchisees, which the franchisee was required to follow by terms of the franchise agreement. Additionally, trainees were provided with a complete orientation to company operations by working in key factory operational areas and by meeting with members of the senior management.

Ongoing support was provided to franchisees through communications and regular site visits by field consultants who audited performance, provided advice, and ensured that operations were running smoothly, effectively, and according to the standards set by the company.

The franchisee agreement required compliance with RMCF's procedures of operation and food quality specifications, permitted audits and inspections by the company, and required franchisees to remodel stores to conform to established standards. RMCF had the right to terminate any franchise agreement for non-compliance with operating standards. Franchisees were generally granted exclusive territory with respect to the operation of RMCF stores only in the immediate vicinity of their stores. Products sold at the stores and ingredients used in the preparation of products approved for on-site preparation were required to be purchased from the company or from approved suppliers. Franchise agreements could be terminated upon the failure of the franchisee to comply with the conditions of the agreement or upon the occurrence of certain events, which in the judgment of the company was likely to adversely affect the RMCF system. The agreements prohibited the transfer or assignment of any interest in the franchise without the prior written consent of the company and also gave RMCF the right of first refusal to purchase any interest in a franchise.

The term of each RMCF franchise agreement was 10 years, and franchisees had the right to renew for one additional 10-year term. The company did not provide prospective franchisees with financing for their stores, but had developed relationships with sources of franchise financing to which it would refer franchisees.

In fiscal 1992, the company entered into a franchise development agreement covering Canada with Immaculate Confections Ltd. of Vancouver, BC. Under this agreement Immaculate Confections had exclusive rights to franchise and operate RMCF stores in Canada. Immaculate Confections, as of March 31, 2008, operated 38 stores under this agreement.

In fiscal 2000, RMCF entered into a franchise development agreement covering the Gulf Cooperation Council States of United Arab Emirates, Qatar, Bahrain, Saudi Arabia, Kuwait, and Oman with Al Muhairy Group of United Arab Emirates. This agreement gave the
Al Muhairy Group the exclusive right to franchise and operate RMCF stores in the Gulf Cooperation Council States. Al Muhairy Group, as of March 31, 2008, operated three stores under this agreement.

Frank Crail gives credit for the success of RMCF to the more than 200 independent franchise operators that bought into his concept. "They are the ones that really make this company a success," he remarked.

**Company-Owned Stores**

As of March 31, 2008, there were five company-owned RMCF stores. These stores provided a training ground for company-owned store personnel and district managers and a controllable testing ground for new products and promotions, operating, and training methods and merchandising techniques, which might then be incorporated into the franchise store operations.

The cornerstone of RMCF's growth strategy was to aggressively pursue unit growth opportunities in locations where the company had traditionally been successful, to pursue new and developing real estate environments for franchisees that appeared promising based on early sales results, and to improve and expand the retail store concept, such that previously untapped and unfeasible environments (such as most regional centers) generated sufficient revenue to support a successful RMCF location.

Exhibit 1 shows the total number of RMCF stores in operation as well as those sold but not open as of February 29, 2008.

Company-owned and franchised stores were subject to licensing and regulation by the health, sanitation, safety, building, and fire agencies in the state or municipality where they were located as well as various federal agencies that regulate the manufacturing, packaging, and distribution of food products. RMCF was also subject to regulation by the Federal Trade Commission and must comply with state laws governing the fair treatment of franchisees including the offer, sale, and termination of franchises and the refusal to renew franchises.

**Products**

RMCF typically produced approximately 300 chocolate candies and other confectionery products at the company's manufacturing facility, using premium ingredients and proprietary recipes developed primarily by its Master Candy Maker. These products included many varieties of nut clusters, caramels, butter creams, mints, and truffles. During the Christmas, Easter, and Valentine's Day holiday seasons, the company may have made as many as 100 additional items, including many candies offered in packages specially designed for the holidays. RMCF continually strove to create and offer new confectionery products in order to maintain the excitement and appeal of its products and to encourage repeat business. RMCF developed a new line of sugar-free and no-sugar-added candies. According to the company, "results have been 'spectacular,' filling a need for those with special dietary requirements."

<table>
<thead>
<tr>
<th>EXHIBIT 1</th>
<th>Rocky Mountain Chocolate Factory Stores as of February 29, 2008</th>
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<tbody>
<tr>
<td></td>
<td>Sold, Not Yet Open</td>
</tr>
<tr>
<td>Company-Owned Stores</td>
<td>5</td>
</tr>
<tr>
<td>Franchise Stores—Domestic Stores</td>
<td>14</td>
</tr>
<tr>
<td>Franchise Stores—Domestic Kiosks</td>
<td>18</td>
</tr>
<tr>
<td>Franchised Stores—International</td>
<td>41</td>
</tr>
</tbody>
</table>

SOURCE: Rocky Mountain Chocolate Factory, Inc. 2008 Form 10-K, p. 34.
In addition to RMCF's traditional chocolates and candies, special treats were prepared in each store. Besides the caramel-covered apples (some stores feature over 30 varieties), fudge (more than fifteen varieties) was made fresh every day in each store using a marble slab to literally suck the heat out of the confection while the cook shaped it with paddles into a giant 22-pound "loaf." A variety of fruits, nuts, pretzels, and cookies were also dipped by hand in pots of melted milk, dark, and even white chocolate.23

One of RMCF's trademarks, big, chunky chocolate concoctions, were created somewhat by accident. According to Crail, "In the early days, my partners and I did not know how to make chocolate and had to literally learn on a ping pong table." Crail recalls that "from the start we made the candy centers too big, not compensating for the added size and weight when coating the pieces in chocolate. And if they didn't look quite right we would dip them again. But the huge pieces instantly caught on and have remained the RMCF benchmark ever since."24 One of these large-sized specialties was a king-sized peanut butter cup dubbed the Bucket™. Another signature piece, the Bear™ (turtles), was a paw-sized concoction of chewy caramel, roasted nuts and a heavy coating of chocolate. The best-selling items were caramel apples, followed by Bears.25

All products were produced consistent with the company's philosophy of using only the finest, highest quality ingredients with no artificial preservatives to achieve its marketing motto of "the Peak of Perfection in Handmade Chocolates."26

RMCF believed that, on average, approximately 40 percent of the revenues of RMCF stores were generated by products manufactured at the company's factory, 50% by products made in each store using company recipes and ingredients purchased from the company or approved suppliers, and the remaining 10% by products such as ice cream, coffee, and other sundries purchased from approved suppliers. Franchisees sales of products manufactured by the company's factory generated higher revenue than sales of store-made or other products. A significant decrease in the volume of products franchisees purchase from the company would adversely affect total revenue and the results of operations. Such a decrease could result from franchisees decisions to sell more store-made products or products purchased from third-party suppliers.27

Chocolate candies manufactured by the company were sold at prices ranging from $14.90 to $24.30 per pound, with an average price of $18.30 per pound. Franchisees were able to set their own retail prices, though the company recommended prices for all of its products.28

Packaging

RMCF developed special packaging for the Christmas, Valentine's Day, and Easter holidays and customers could have their purchases packaged in decorative boxes and fancy tins throughout the year.

In 2002, RMCF completed a project to completely redesign the packaging featured in its retail stores. The new packaging was designed to be more contemporary and capture the freshness, fun, and excitement of the RMCF retail store experience. Sleek, new copper gift boxes were designed to reinforce the association with copper cooking kettles. And the new logo was meant to represent swirling chocolate.29 This new line of packaging won three National Paperbox Association Gold Awards in 2002, representing the association's highest honors.30

Marketing

RMCF sought low-cost, high-return publicity opportunities through participation in local and regional events, sponsorships, and charitable causes. The company had no historically and did not intend to engage in national advertising. RMCF focused primarily on local in-store marketing and promotional efforts by providing customizable marketing materials, including
advertisements, coupons, flyers, and mail-order catalogs generated by its in-house Creative Services Department, and point-of-purchase materials. The Creative Services Department worked directly with franchisees to implement local store marketing programs. To cover its corporate marketing expenses, each franchised store paid a monthly marketing and promotions fee of 1 percent of its monthly gross sales.33

The trade name Rocky Mountain Chocolate Factory®, the phrases, The Peak of Perfection in Handmade Chocolates, America’s Chocolatier®, The World’s Chocolatier®, as well as other trademarks, service marks, symbols, slogans, emblems, logos, and designs used in the Rocky Mountain Chocolate factory system, were proprietary rights of the company. The registration for the trademark “Rocky Mountain Chocolate Factory” had been granted in the United States and Canada. Applications had been filed to register the Rocky Mountain Chocolate Factory trademark in certain foreign countries.34 The company had not attempted to obtain patent protection for the proprietary recipes developed by the company’s Master Candy Maker and was relying upon its ability to maintain confidentiality of those recipes.35

Operations and Distribution36

Manufacturing

RMCF sought to ensure the freshness of products sold in its stores with frequent shipments to distribution outlets from its 53,000-square-foot manufacturing facility in Durango, Colorado. Franchisees were encouraged to order from the company only the quantities they could reasonably expect to sell within two to four weeks because most stores did not have storage space for extra inventory.

RMCF believed that it should control the manufacturing of its own products in order to better maintain its high product quality standards, offer unique proprietary products, manage costs, control production and shipment schedules, and pursue new or underutilized distribution channels. The company believed its manufacturing expertise and reputation for quality had facilitated the sale of selected products through new distribution channels, including wholesaling, fundraising, corporate sales, mail order, and Internet sales.37

RMCF’s manufacturing process primarily involved cooking or preparing candy centers, including nuts, caramel, peanut butter, creams and jellies, and then coating them with chocolate or other toppings. All of these processes were conducted in carefully controlled temperature ranges, employing strict quality control procedures at every stage of the manufacturing process. RMCF used a combination of manual and automated processes at its factory. Although RMCF believed that it was preferable to perform certain manufacturing processes, such as dipping some large pieces by hand, automation increased the speed and efficiency of the manufacturing process. The company had from time to time automated processes formerly performed by hand where it had become cost-effective to do so without compromising product quality or appearance. Efforts in the last several years had included the purchase of additional automated factory equipment, implementation of a comprehensive advanced planning and scheduling system, and installation of enhanced point-of-sales systems in all of its company-owned and 182 of its franchised stores through March 31, 2008. These measures had improved the company’s ability to deliver its products to the stores safely, quickly, and cost effectively.

Chocolate manufacturing had been a similar process for all companies within the confectionary/chocolate industry up until 2005. In 2005, new chocolate manufacturing technology was introduced. This new manufacturing process, called NETZSCH’s ChocoEasy™, enabled chocolate makers of any size to cost-effectively manufacture all varieties of chocolate from scratch. For the first time, smaller chocolate companies were no longer dependant on large chocolate manufacturers and were now free to create their own chocolate recipes and to develop their own proprietary chocolate brands.38
During fiscal 2008, the RMCF’s manufacturing facility produced approximately 2.84 million pounds of chocolate candies, an increase of 4% from the approximately 2.73 million pounds produced in fiscal 2007. During fiscal 2008 the company conducted a study of factory capacity. As a result of this study, RMCF believed its factory had the capacity to produce approximately 5.3 million pounds per year. In January 1998, the company acquired a two-acre parcel adjacent to its factory to ensure the availability of adequate space to expand the factory as volume demands.39

**Ingredients**

RMCF maintained the taste and quality of its chocolate candies by using only the finest chocolate and other ingredients. The principal ingredients used by RMCF are chocolate, nuts, sugar, corn syrup, cream, and butter. Chocolate was purchased from the Guittard Chocolate company, known for 130 years as providing the finest, most intensely flavored chocolate.41 The factory received shipments of ingredients daily. To ensure the consistency of its products, ingredients were bought from a limited number of reliable suppliers. The company had one or more alternative sources for all essential ingredients. RMCF also purchased small amounts of finished candy from third parties on a private-label basis for sale in its stores.

Several of the principal ingredients used in RMCF’s candies, including chocolate and nuts, were subject to significant price fluctuations. Although cocoa beans, the primary raw material used in the production of chocolate, were grown commercially in Africa, Brazil, and several other countries around the world, cocoa beans were traded in the commodities market, and their supply and price were therefore subject to volatility. RMCF believed its principal chocolate supplier purchased most of its beans at negotiated prices from African growers, often at a premium to commodity prices. RMCF purchased most of its nut meats from domestic suppliers who procured their products from growers around the world. Although the price of chocolate and nut meats had been relatively stable in recent years, the supply and price of nut meats and cocoa beans, and, in turn, chocolate, were affected by many factors, including monetary fluctuations and economic, political, and weather conditions in countries in which both nut meats and cocoa beans were grown.

The Ivory Coast (Cote d’Ivoire) was responsible for producing 40 percent of the world’s cocoa beans that are necessary for the manufacturing of chocolate.42 In late 2006, there was a five-day strike in which laborers refused to enter the factories because of unbearable working conditions. These strikes led to an increase of 20 percent in the price of chocolate for most companies within the industry.43 Forty-seven percent of the total U.S. imports of cocoa beans came from the Ivory Coast.

RMCF did not engage in commodity futures trading or hedging activities. In order to assure a continuous supply of chocolate and certain nuts, the company entered into purchase contracts of between six to eighteen months for these products. These contracts permitted the company to purchase the specified commodity at a fixed price on an as-needed basis during the term of the contract.

**Trucking Operations**

Unable to find a suitable shipper, RMCF built its own fleet of brown and bronze semi’s.44 In 2008 RMCF operated eight refrigerated trucks and shipped a substantial portion of its products from its factory on its own fleet. The company’s trucking operations enabled it to deliver its products to the stores quickly and cost-effectively. In addition, the company back-hauled its own ingredients and supplies, as well as product from third parties to fill available space, on return trips as a basis for increasing trucking program economics.45 The company’s trucking operations are subject to various federal, state, and Canadian provincial regulations.46
Human Resources

On February 29, 2008, RMC&C employed approximately 190 people. Most employees, with the exception of store, factory, and corporate management, were paid on an hourly basis. RMC&C also employed some people on a temporary basis during peak periods of store and factory operations. The company sought to assure that participatory management processes, mutual respect and professionalism, and high performance expectations for the employee existed throughout the organization.

RMC&C believed that it provided working conditions, wages, and benefits that compared favorably with those of its competitors. The company’s employees were not covered by a collective bargaining agreement. The company considered its employee relations to be good.

Chocolate and Confectionary Industry

While people enjoy chocolate across cultures, there were certain cultures that valued chocolate sweets more than others. Per capita consumption of confectionary tended to be the highest in the established markets of Western Europe and North America, although these were also the most mature.

The sale of chocolate and confectionary products was affected by changes in consumer tastes and eating habits, including views regarding the consumption of chocolate. In addition, numerous other factors such as economic conditions, demographic trends, traffic patterns, and weather conditions could influence the sale of confectionary products. Consumer confidence, recessionary and inflationary trends, equity market levels, consumer credit availability, interest rates, consumer disposable income and spending levels, energy prices, job growth, and unemployment rates could impact the volume of customer traffic and level of chocolate and confectionary sales.

According to the National Confectioners Association, the total U.S. candy market approximated $29.1 billion of retail sales in 2007, up from $27.9 billion in 2005, with chocolate generating sales of approximately $16.3 billion up from $15.7 billion in 2005. Per capita consumption of chocolate in 2006 was approximately 14 pounds per person per year nationally, an increase of 1% when compared to 2005, according to Department of Commerce figures. The average U.S. consumer spent $93.92 on confectionary products in 2006, $52.16 on chocolate. Exhibit 2 shows 2007 U.S. confectionary market sales.

In 2007 the United States was the strongest market for chocolate. According to a 2004 survey, the U.S. chocolate market was far from being saturated, and considerable opportunities for growth remained, particularly in the gourmet, higher-priced premium segment. Consumers in

<table>
<thead>
<tr>
<th></th>
<th>$(in billions)</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail Sales</td>
<td>$29.1</td>
<td>+3.5%</td>
</tr>
<tr>
<td>Manufacturer Shipments</td>
<td>$16.9</td>
<td>+3.0%</td>
</tr>
<tr>
<td>Domestic Manufacturers</td>
<td>$17.5</td>
<td>+2.7%</td>
</tr>
<tr>
<td>Imports</td>
<td>$2.2</td>
<td>+4.0%</td>
</tr>
<tr>
<td>Exports</td>
<td>$0.9</td>
<td>+13.1%</td>
</tr>
</tbody>
</table>

Profit margin is approximately 35% for the confectionary category.

the United States were shifting away from mass-produced chocolates, of the type traditionally manufactured by Hershey Foods and Mars Inc., to more expensive gourmet varieties free from chemicals and preservatives. Hershey and Mars had recognized the trend and had been increasing their interest in premium brands. Some industry observers have predicted that by 2011, premium chocolate will account for 25% of the U.S. market, generating sales of $4.5 billion.52

The European chocolate market had also remained lucrative for manufacturers, although there had been some degree of slowdown over the past five years. Average annual per capita chocolate consumption was cited as being about 8 kg in Europe, but this varied considerably country by country.53 Chocolate was also used for other purposes (baking, snacks, etc.) that differed considerably across ethnic, social, regional, or religious subcultures. Exhibit 3 shows the leading countries for per capita consumption of chocolate and confectionary.

The leading manufacturers in the European market were Mars, Nestle, Cadbury, Ferrero, and Lindt & Sprungli. These companies saw a bright future in Europe, particularly the markets of the newer members of the EU where consumers had significantly increased their chocolate consumption since 2004. Some manufacturers also believed that Russia was a key market for European growth because its rising affluence had driven a demand for premium chocolate products.54

Confectionary manufacturers were also looking to break into new markets such as China and India because of their growing affluence. These markets were dominated by traditional sweets, but there was a growing demand for Western goods, including chocolate, with chocolate consumption increasing at a rate of 25% a year in the Asia-Pacific region and 30% in China.55 Many large chocolate and confectionary companies had undertaken marketing campaigns in order to lure customers in China, India, and Japan away from traditional sweets to chocolate.56 Exhibit 4 shows regional cocoa consumption.

<table>
<thead>
<tr>
<th></th>
<th>Chocolate</th>
<th>Sugar</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>8.6</td>
<td>8.0</td>
<td>16.6</td>
</tr>
<tr>
<td>Sweden</td>
<td>6.4</td>
<td>9.6</td>
<td>16.0</td>
</tr>
<tr>
<td>Ireland</td>
<td>8.8</td>
<td>6.0</td>
<td>14.8</td>
</tr>
<tr>
<td>Switzerland</td>
<td>10.7</td>
<td>3.3</td>
<td>14.0</td>
</tr>
<tr>
<td>UK</td>
<td>9.3</td>
<td>4.6</td>
<td>13.9</td>
</tr>
<tr>
<td>Norway</td>
<td>8.3</td>
<td>4.8</td>
<td>13.1</td>
</tr>
<tr>
<td>Germany</td>
<td>7.5</td>
<td>4.9</td>
<td>12.4</td>
</tr>
<tr>
<td>Finland</td>
<td>4.8</td>
<td>7.3</td>
<td>12.1</td>
</tr>
<tr>
<td>Belgium</td>
<td>8.0</td>
<td>3.5</td>
<td>11.5</td>
</tr>
<tr>
<td>Austria</td>
<td>8.2</td>
<td>3.2</td>
<td>11.4</td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage of global total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>42.8%</td>
</tr>
<tr>
<td>Americas</td>
<td>25.9%</td>
</tr>
<tr>
<td>Asia and Oceania</td>
<td>17.0%</td>
</tr>
<tr>
<td>Africa</td>
<td>14.3%</td>
</tr>
</tbody>
</table>

Consumer Tastes and Trends

The growth in the chocolate market was heavily dependent on manufacturers satisfying consumer tastes and being aware of consumer trends in each market in which they operated. In established markets, pressure was coming from consumers for lower-fat healthier snacks and higher quality chocolate. In addition, consumers had been showing an interest in the health-related benefits of chocolate. In emerging markets, chocolate manufacturers have had to compete with traditional confectionary products. In addition, consumers were increasingly becoming concerned with the exploitation of African workers and many were choosing not to do business with "unethical" organizations that were not engaged in fair trade practices.

Gourmet Chocolate and Organic Chocolate

According to industry expert Michelle Moran, "Gourmet chocolate is expected to experience delicious growth over the next four years. Indeed, it is expected to become a nearly $1.8 billion market. According to market analysts and manufacturers, consumers are seeking better-quality chocolate at a variety of market levels. Further evidence of this trend is the recent acquisitions of small artisan chocolatiers by large manufacturing powerhouses." Customers have been increasingly willing to pay higher prices for chocolates they felt were healthier; products made with quality ingredients and free from chemicals and preservatives.

In addition to growth in the gourmet segment of the chocolate industry, organic chocolate sales in the United States grew 65% to $129 million in 2006 according to Massachusetts-based Organic Trade Association, with similar growth forecasted for 2007.

Health Consciousness of Consumers

Throughout history many cultures had believed in the medicinal properties of cocoa. Most historians agree that chocolate was first consumed in Central America and some evidence suggest its use by the Mayan civilization as early 500 BCE. Following the Spanish conquest of Mexico, chocolate found its way to Europe in the 1500s. A number of the original European chocolate manufacturers were apothecaries (early chemists) who wanted to take advantage of the reported medicinal properties of cocoa. Dark chocolate is again being touted and researched for its health benefits. Studies have been reported in medical and scientific journals linking chocolate derived antioxidant flavonols and other compounds with the reduction in the risk of dementia, diabetes, heart-attacks, and strokes. In other studies, dark chocolate has shown health benefits such as decreased blood pressure, lower cholesterol levels, and improved sugar metabolism. Much additional research remains to be done before these health benefits can be confirmed.

According to the National Confectioners Association, dark-chocolate sales were up 50% in 2007. Between 2002 and 2006, Hershey reported an 11.2% increase in the sale of dark chocolate. As a result, Hershey had been concentrating almost half of its business in this area. Mars Inc. was thought to be conducting research trying to substantiate the health benefits of chocolate and had discussed partnerships with pharmaceutical companies to develop products from cocoa-derived compounds. Other manufacturers had been experimenting with low-fat, sugar-free products and chocolates fortified with minerals, vitamins, antioxidants, and probiotics.

Ethical and Fair Trade Chocolate:

Not only were consumers more health conscious and visbly consuming darker and more premium chocolates products, they were also showing concern for the exploitation of cocoa.
farmers in Western Africa, particularly the use of child labor and the prices that cocoa farmers were able to charge for their crop.

Many consumers were choosing to support organizations and purchase products from companies that supported both "ethical chocolates" as well as fair trade practices. These companies had reported rising demand for their products as consumer interest in fair trade had grown.63

Competitors

The global market for chocolate was highly competitive. With consumer attitudes changing and new markets offering opportunities for growth, chocolate manufacturers faced a number of challenges in keeping ahead of their rivals.

RMCF and its franchisees competed with numerous businesses that offered confectionery products, from large, publicly held, global conglomerates to small, private, local businesses. Many of the large competitors had greater name recognition, both domestically and globally, and greater financial, marketing, and other resources than RMCF. In addition, there was intense competition among retailers for prime locations, store personnel, and qualified franchisees.

Large confectionary companies that had traditionally concentrated on mass-produced candies, sought to make inroads into the premium market. For example, in 2005 Hershey Foods acquired two medium-sized gourmet chocolate companies, Scharfen Berger and Joseph Schmidt, for between $46.6 million and $61.1 million.64 Mars Inc. established its catalog/retail subsidiary, Ethel M Chocolates, in 1981 when billionaire candy maker Forrest Mars developed a chain of chocolate stores in the Western U.S., specializing in liquor-filled candies. In 2005 Ethel M’s launched an even more premium line of chocolates called ethel’s. Ethel’s chocolates were available on-line and could be purchased at upscale department stores, including Nieman Marcus, Macy’s, and Marshall Fields.65 Also in 2005, Ethel’s Chocolate Lounge was created as a place where sweets lovers could linger on sofas and order hot cocoa and chocolate fondue.

Principal competitors of RMCF included Alpine Confections Inc., Godiva Chocolatier Inc., See’s Candies Inc., Chocoladefabriken Lindt & Sprunghi AG, Fannie May (a wholly owned subsidiary of Alpine Confections), and Ethel M’s/ethel’s. These companies not only manufactured chocolate but also had their own retail outlets. Exhibit 5 shows the number of stores in operation for each of these competitors in 2006.

Godiva Chocolatier, the Belgian chocolate maker, with annual sales of approximately $200 million, was one of the world’s leading premium chocolate businesses. Godiva sold its products through company-owned and franchised retail stores, and wholesale distribution outlets, including specialty retailers and fine department stores and on the Internet. In January 2008, Campbell Soup company announced that it agreed to sell its Godiva Chocolatier unit to Yildiz Holdings of Turkey for $850 million. Godiva was to become part of the Ulker Group, which is owned by Yildiz. Ulker is the largest consumer goods company in the Turkish food industry.66

Chocoladefabriken Lindt & Sprunghi AG and its subsidiaries offered products under multiple brands names, including Lindt, Ghirardelli, Caffarel, Hofbauer, and Kufferle. The company was founded in 1845 and was based in Kilchberg, Switzerland, and had six production sites in Europe, two in the United States, and distribution sites and sales companies on four continents.67 Lindt & Sprunghi was a recognized leader in the market for premium chocolate, and offered a large selection of products in more than 80 countries around the world.68

See’s Candies, Ethel M’s/ethel’s, and Alpine Confections Inc. were privately held companies. Alpine Confections Inc. was based in Alpine, Utah, and had sales of approximately $125 million in 2005. Alpine owned a number of candy companies, including Maxfield Candy company, Kencraft Inc., and Harry London Candies Inc. Alpine acquired the Fanny Farmer
and Fannie May brands from bankrupt Archibald Candy Corporation in 2004. The company also produced confections under license for Hallmark and Mrs. Fields. Alpine’s Canadian brands included Dolce d’Or and Bottecelli, produced in British Columbia.67

See’s Candies was founded in 1921 and headquartered in San Francisco, and had manufacturing facilities in both Los Angeles and San Francisco. See’s Candies was purchased by Berkshire Hathaway Inc. (Warren Buffett) in 1972. The company manufactured over 100 varieties of candies and had over 290 retail candy shops throughout the western United States.70

A relatively new competitor founded in Oregon in 1993, acquired by Wayne Zink and Randy Deer in 2005, and moved to Indianapolis, Indiana, was the Endangered Species Chocolate Company. The company was the number-one seller of organic chocolate treats, with annual sales of $16 million in 2007. Its products were stocked at natural-foods stores such as Wild Oats and Whole Foods. Endangered Species Chocolate Co. was committed to making organic and healthy products that were easy on the environment, made with fair-traded ingredients, and with sustainable practices. One of Endangered Species main rivals, Oregon-based Dagoba Chocolate, sold out to Hershey in 2007.71

Financial Position72

In 2007 RMCF was ranked number 60 in Forbes annual listing of America’s 200 Best Small Companies (up from number 124 in 2006). The list was compiled from publically traded companies with sales between $5 million and $750 million. Qualifying candidates were ranked according to return on equity, as well as sustained sales and earnings growth over 12-month and five-year periods.73 Exhibits 6 and 7 show the income statements and balance sheets for RMCF for the fiscal years ended 2004 through 2008.

RMCF’s revenues were derived from three principal sources: 1) sales to franchisees and others of chocolates and other confectionery products manufactured by the company (75-72-69-68%); 2) sales at company-owned stores of chocolates and other confectionery products including product manufactured by the company (5-8-11-11%); and 3) the collection of initial franchise fees and royalties from franchisees (20-20-20-21%). The figures
### EXHIBIT 6
Balance Sheets: Rocky Mountain Chocolate Factory Inc.

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash &amp; cash equivalents</td>
<td>$675,642</td>
<td>$2,830,175</td>
<td>$3,489,750</td>
<td>$4,438,876</td>
<td>$4,552,283</td>
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<tr>
<td>Accounts receivable, less allowance for doubtful accounts of $144,271, $187,519, $46,929, $80,641, and $73,650 respectively</td>
<td>3,801,172</td>
<td>3,756,212</td>
<td>3,296,696</td>
<td>2,943,835</td>
<td>2,388,848</td>
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<td>Notes receivable</td>
<td>22,435</td>
<td>50,600</td>
<td>116,997</td>
<td>451,845</td>
<td>313,200</td>
</tr>
<tr>
<td>Refundable income taxes</td>
<td>63,357</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories, less reserve for slow moving inventory of $194,719, $147,700, $61,032, $127,345, and $73,269 respectively</td>
<td>4,015,459</td>
<td>3,482,139</td>
<td>2,938,234</td>
<td>2,513,212</td>
<td>2,471,810</td>
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<td>Deferred income taxes</td>
<td>117,846</td>
<td>272,871</td>
<td>117,715</td>
<td>156,623</td>
<td>149,304</td>
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<tr>
<td>Other current assets</td>
<td>267,184</td>
<td>267,420</td>
<td>481,091</td>
<td>250,886</td>
<td>335,733</td>
</tr>
<tr>
<td>Total current assets</td>
<td>8,965,905</td>
<td>10,759,417</td>
<td>10,440,477</td>
<td>11,124,907</td>
<td>10,229,178</td>
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<tr>
<td><strong>Property and Equipment, Net</strong></td>
<td>5,665,108</td>
<td>5,754,122</td>
<td>6,698,605</td>
<td>6,125,898</td>
<td>5,456,695</td>
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<td><strong>Other Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Notes receivable, gross</td>
<td>205,916</td>
<td>310,453</td>
<td>330,746</td>
<td>452,089</td>
<td>649,100</td>
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<tr>
<td>Less: Allowance</td>
<td>0</td>
<td>-32,065</td>
<td>-52,005</td>
<td>-47,005</td>
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<tr>
<td>Notes receivable, net</td>
<td>310,453</td>
<td>278,741</td>
<td>400,084</td>
<td>602,095</td>
<td></td>
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<td>Goodwill, net</td>
<td>939,074</td>
<td>933,074</td>
<td>1,133,751</td>
<td>1,133,751</td>
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<tr>
<td>Intangible assets, net</td>
<td>276,247</td>
<td>349,358</td>
<td>402,469</td>
<td>426,827</td>
<td>498,885</td>
</tr>
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<td>Other assets</td>
<td>98,020</td>
<td>343,745</td>
<td>103,438</td>
<td>36,424</td>
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<td>Total other assets</td>
<td>1,519,257</td>
<td>1,942,630</td>
<td>1,918,399</td>
<td>1,997,086</td>
<td>2,281,372</td>
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<td><strong>Total Assets</strong></td>
<td>16,147,460</td>
<td>18,456,169</td>
<td>19,057,480</td>
<td>19,247,974</td>
<td>17,967,245</td>
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<td><strong>Liabilities and Stockholders’ Equity</strong></td>
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<td></td>
<td></td>
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<td><strong>Current Liabilities</strong></td>
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<td>Line of Credit</td>
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<td></td>
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<td>Current maturities of long-term debt</td>
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<td></td>
<td></td>
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<td>Accounts payable</td>
<td>1,710,380</td>
<td>898,794</td>
<td>1,145,410</td>
<td>1,088,476</td>
<td>952,542</td>
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<td>Accrued salaries &amp; wages</td>
<td>430,498</td>
<td>931,614</td>
<td>507,480</td>
<td>1,160,937</td>
<td>1,091,596</td>
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<td>Other accrued expenses</td>
<td>467,243</td>
<td>585,402</td>
<td>750,733</td>
<td>324,215</td>
<td>474,906</td>
</tr>
<tr>
<td>Dividends payable</td>
<td>599,473</td>
<td>551,733</td>
<td>504,150</td>
<td>417,090</td>
<td>236,108</td>
</tr>
<tr>
<td>Deferred income</td>
<td>303,000</td>
<td>288,500</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>3,810,894</td>
<td>3,256,043</td>
<td>2,907,773</td>
<td>3,116,718</td>
<td>3,835,552</td>
</tr>
<tr>
<td>Long-term debt, less current maturities of $126,000 and $1,080,406 respectively</td>
<td></td>
<td></td>
<td></td>
<td>1,539,084</td>
<td>1,986,174</td>
</tr>
<tr>
<td><strong>Deferred Income Taxes</strong></td>
<td>681,529</td>
<td>685,613</td>
<td>663,889</td>
<td>698,602</td>
<td>555,567</td>
</tr>
<tr>
<td><strong>Stockholders’ Equity</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock, $.03 par value; 100,000,000 shares authorized; 100,000,000, 5,980,919, 6,418,905, 4,602,135 and 4,486,461 shares issued and outstanding, respectively</td>
<td>179,428</td>
<td>192,567</td>
<td>188,458</td>
<td>138,064</td>
<td>134,597</td>
</tr>
<tr>
<td>Additional paid-in capital</td>
<td>7,047,142</td>
<td>6,987,558</td>
<td>10,372,530</td>
<td>11,097,208</td>
<td>2,676,222</td>
</tr>
<tr>
<td>Retained earnings (accumulated deficit)</td>
<td>4,428,467</td>
<td>7,334,388</td>
<td>4,924,830</td>
<td>2,658,298</td>
<td>8,779,130</td>
</tr>
<tr>
<td>Total stockholders’ equity</td>
<td>11,655,037</td>
<td>14,514,513</td>
<td>15,485,818</td>
<td>13,893,570</td>
<td>11,589,952</td>
</tr>
<tr>
<td><strong>Total liabilities and stockholders’ equity</strong></td>
<td>$16,147,460</td>
<td>$18,456,169</td>
<td>$19,057,481</td>
<td>$19,247,891</td>
<td>$17,967,245</td>
</tr>
</tbody>
</table>

## EXHIBIT 7
Statements of Income: Rocky Mountain Chocolate Factory Inc.

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>$25,558,198</td>
<td>$253,357,39</td>
<td>$22,343,209</td>
<td>$19,380,861</td>
<td>$15,668,210</td>
</tr>
<tr>
<td>Franchise &amp; royalty fees</td>
<td>6,319,985</td>
<td>6,237,594</td>
<td>5,730,403</td>
<td>5,142,758</td>
<td>4,664,618</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>31,878,183</td>
<td>31,573,333</td>
<td>28,073,612</td>
<td>24,523,619</td>
<td>21,132,828</td>
</tr>
<tr>
<td><strong>Costs and Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of sales, exclusive of depreciation and amortization expense of $389,273, $412,546, $381,141, and $359,633, respectively</td>
<td>16,678,472</td>
<td>15,988,620</td>
<td>13,956,550</td>
<td>11,741,205</td>
<td>10,535,352</td>
</tr>
<tr>
<td>Franchise costs</td>
<td>1,498,709</td>
<td>1,570,026</td>
<td>1,466,322</td>
<td>1,411,901</td>
<td>1,135,686</td>
</tr>
<tr>
<td>Sales &amp; marketing expenses</td>
<td>1,503,224</td>
<td>1,538,476</td>
<td>1,320,979</td>
<td>1,294,702</td>
<td>1,220,585</td>
</tr>
<tr>
<td>General &amp; administrative expenses</td>
<td>2,505,675</td>
<td>2,538,667</td>
<td>2,239,109</td>
<td>2,497,718</td>
<td>2,235,499</td>
</tr>
<tr>
<td>Retail operating expenses</td>
<td>994,789</td>
<td>1,502,134</td>
<td>1,755,738</td>
<td>1,453,740</td>
<td>1,430,124</td>
</tr>
<tr>
<td>Depreciation &amp; amortization</td>
<td>782,951</td>
<td>873,988</td>
<td>875,940</td>
<td>785,083</td>
<td>796,271</td>
</tr>
<tr>
<td><strong>Total costs &amp; expenses</strong></td>
<td>23,663,821</td>
<td>24,911,911</td>
<td>21,614,638</td>
<td>19,184,349</td>
<td>17,353,517</td>
</tr>
<tr>
<td><strong>Operating Income (loss)</strong></td>
<td>7,914,362</td>
<td>7,561,422</td>
<td>6,458,974</td>
<td>5,339,270</td>
<td>3,779,311</td>
</tr>
<tr>
<td><strong>Other Income (Expense)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest expense</td>
<td>(1,566)</td>
<td>(19,652)</td>
<td>(99,988)</td>
<td>(144,787)</td>
<td>(93,847)</td>
</tr>
<tr>
<td>Interest income</td>
<td>102,360</td>
<td>67,071</td>
<td>95,560</td>
<td>92,938</td>
<td>93,847</td>
</tr>
<tr>
<td><strong>Total other income (expense), net</strong></td>
<td>100,794</td>
<td>67,071</td>
<td>75,708</td>
<td>71,900</td>
<td>50,940</td>
</tr>
<tr>
<td><strong>Income before Income Taxes</strong></td>
<td>8,615,156</td>
<td>7,028,493</td>
<td>6,334,682</td>
<td>5,232,220</td>
<td>3,728,371</td>
</tr>
<tr>
<td><strong>Income Tax Expense</strong></td>
<td>3,053,280</td>
<td>2,833,575</td>
<td>2,470,110</td>
<td>2,015,380</td>
<td>1,409,325</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>4,961,376</td>
<td>4,194,918</td>
<td>3,864,572</td>
<td>3,216,840</td>
<td>2,319,046</td>
</tr>
<tr>
<td><strong>Basic Earnings per Common Share</strong></td>
<td>0.78</td>
<td>0.74</td>
<td>0.62</td>
<td>0.53</td>
<td>0.38</td>
</tr>
<tr>
<td><strong>Diluted Earnings per Common Share</strong></td>
<td>0.76</td>
<td>0.71</td>
<td>0.58</td>
<td>0.49</td>
<td>0.35</td>
</tr>
<tr>
<td>Weighted average common shares outstanding</td>
<td>6,341,285</td>
<td>6,432,123</td>
<td>6,581,612</td>
<td>6,307,227</td>
<td>6,146,764</td>
</tr>
<tr>
<td>Dilutive effect of employee stock options</td>
<td>159,386</td>
<td>227,550</td>
<td>427,780</td>
<td>498,223</td>
<td>472,205</td>
</tr>
<tr>
<td>Weighted average shares outstanding-diluted</td>
<td>6,500,672</td>
<td>6,659,673</td>
<td>7,009,392</td>
<td>6,805,450</td>
<td>6,618,969</td>
</tr>
<tr>
<td>Year end shares outstanding</td>
<td>5,980,919</td>
<td>6,418,905</td>
<td>6,596,016</td>
<td>6,442,989</td>
<td>6,281,045</td>
</tr>
<tr>
<td><strong>Total number of employees</strong></td>
<td>199</td>
<td>200</td>
<td>235</td>
<td>185</td>
<td>159</td>
</tr>
<tr>
<td>Number common of stockholders</td>
<td>400</td>
<td>400</td>
<td>409</td>
<td>420</td>
<td>420</td>
</tr>
<tr>
<td>Number of beneficiary stockholders</td>
<td>800</td>
<td>800</td>
<td>800</td>
<td>800</td>
<td>800</td>
</tr>
<tr>
<td><strong>Total number of stockholders</strong></td>
<td>1,200</td>
<td>1,200</td>
<td>1,209</td>
<td>1,220</td>
<td>1,220</td>
</tr>
</tbody>
</table>

**SOURCE:** Rocky Mountain Chocolate Factory Inc., 2008 Form 10-K, p. 31 and 2005 Form 10-K, p. 29.

In parentheses show the percentage of total revenues attributable to each source for fiscal years ended February 28 (29), 2008, 2007, 2006, and 2005, respectively. Basic earnings per share increased 18.5% from fiscal 2006 to fiscal 2007 and from $0.74 in fiscal 2007 to $0.78 in fiscal 2008, an increase of 5.4%. Revenues increased 12.5% from fiscal 2006 to fiscal 2007, and 1% from 2007 to fiscal 2008. Operating income increased 17.1% from fiscal 2006 to fiscal 2007, and 4.7% (from $7.6 million in fiscal 2007 to $7.9 million) in fiscal 2008. Net income increased 16.7% from fiscal 2006 to fiscal 2007, and 4.6% from $4.7 million in fiscal 2007 to $5.0 million in fiscal 2008. The increase in revenue, earnings per share, operating income, and net income in fiscal 2008 compared to fiscal 2007 and 2006 was due primarily to the increased number of franchised stores in operation, the
increased sales to specialty markets, and the corresponding increases in revenue.\textsuperscript{15} Details can be found in Exhibit 8.

Factory sales increased in fiscal 2008 compared to fiscal 2007 due to an increase of 28.8\% in product shipments to specialty markets and growth in the average number of stores in operation to 324 in fiscal 2008 from 310 in fiscal 2007. Same-store pounds purchased in fiscal 2008 were down 9\% from fiscal 2007, more than offsetting the increase in the average number of franchised stores in operation and mostly offsetting the increase in specialty market sales. RMCF believed the decrease in same-store pounds purchased in fiscal 2008 was due primarily to a product mix shift from factory products to products made in the stores and also the softening in the retail sector of the economy.\textsuperscript{76}

The decrease in retail sales resulted primarily from a decrease in the average number of company-owned stores in operation from 8 in fiscal 2007 to 5 in fiscal 2008. Same-store sales at company-owned stores increased 1.1\% from fiscal 2007 to fiscal 2008 and 6.9\% from fiscal 2006 to fiscal 2007.\textsuperscript{77}

Under the domestic franchise agreement, franchisees paid the company 1) an initial franchise fee; 2) a marketing and promotion fee equal to 1\% of the monthly gross retail sales of the franchised store; and 3) a royalty fee based on gross retail sales. RMCF modified its royalty fee structure for any new franchised stores opening the third quarter of fiscal 2004 and later. Under the new structure no royalty was charged on franchised stores' retail sales of products purchased from the company and a 10\% royalty was charged on all other sales of products sold at franchised locations. For franchise stores opened prior to the third quarter of fiscal 2004, a 5\% royalty fee was charged on franchise stores gross retail sales. Franchise fee revenue was recognized upon opening of the franchise store.\textsuperscript{78}

The increase in royalties and marketing fees resulted from growth in the average number of domestic units in operation from 266 in fiscal 2007 to 281 in fiscal 2008 partially offset by a decrease in same store sales of 0.9\%. Franchise fee revenues decreased during the past two fiscal years due to a decrease in the number of franchises sold during the same period the previous year.\textsuperscript{79}

Cost of sales increased from fiscal 2007 to 2008 due primarily to increased costs and mix of products sold. Company-store margin declined during the same period due primarily to a change in mix of products sold associated with a decrease in the average number of company stores in operation.\textsuperscript{80}

As a percentage of total royalty and marketing fee revenue, franchised costs decreased to 23.7\% in fiscal 2008, 25.2\% in fiscal 2007, and 25.6\% in fiscal 2006 due to lower incentive compensation costs. During this same period, sales and marketing costs and general and administrative costs also decreased due primarily to lower incentive compensation costs.\textsuperscript{81}

In fiscal 2008 retail operating expenses decreased due primarily to a decrease in the average number of company-owned stores during fiscal 2008 versus fiscal 2007. Retail operating expenses, as a percentage of retail sales, decreased from 57.6\% in fiscal 2006, to 57.2\% in fiscal 2007, to 55.3\% in fiscal 2008 due to a larger decrease in costs relative to the decrease in
revenues associated with a decrease in the average number of company stores in operation during each fiscal year.\textsuperscript{62}

Depreciation and amortization of $783,000 in fiscal 2008 decreased 10.4% from the $874,000 incurred in fiscal 2007 due to the sale or closure of four company-owned stores and certain assets becoming fully depreciated. Depreciation and amortization of $874,000 in fiscal 2007 was essentially unchanged from the $876,000 incurred in fiscal 2006.\textsuperscript{63}

Other, net of $101,000 realized in fiscal 2008 represented an increase of $34,000 from the $67,000 realized in fiscal 2007, due primarily to higher average outstanding balances of invested cash during fiscal 2008. Notes receivable balances and related interest income declined in fiscal 2008 because of two notes maturing or being paid in full compared with fiscal 2007. RMCF also incurred interest expense in fiscal 2008 related to use of an operating line of credit. Other, net of $67,000 realized in fiscal 2007, represented a decrease of $9,000 from the $76,000 realized in fiscal 2006, due primarily to lower interest income on lower average outstanding balances of notes receivable and invested cash. RMCF paid its long-term debt in full during the first quarter of fiscal 2006.\textsuperscript{64}

RMCF's effective income tax rate in fiscal 2008 was 38.1%, which was an increase of 0.3% compared to fiscal 2007. The increase in the effective tax rate was primarily due to increased income in states with higher income tax rates.\textsuperscript{65}

In early 2008 RMCF repurchased 391,600 shares of its common stock at an average price of $11.94 because the company believed the stock was undervalued.\textsuperscript{66} During the past eight years, the company had repurchased approximately 3,909,000 shares of its common stock (adjusted for stock splits and stock dividends), at an average price of $5.09 per share.\textsuperscript{67} As of April 30, 2008, there were 5,980,919 shares of common stock outstanding.\textsuperscript{68}

As of February 29, 2008, working capital was $5.2 million compared with $7.5 million as of February 28, 2007. The change in working capital was due primarily to operating results less the payment of $2.4 million in cash dividends and the repurchase and retirement of $5.9 million of the company's common stock.\textsuperscript{69}

Cash and cash equivalent balances decreased from $2.8 million as of February 28, 2007, to $676,000 as of February 29, 2008, as a result of cash flows generated by operating and investing activities being less than cash flows used in financing activities. RMCF had a $5.0 million line of credit, of which $4.7 million was available as of February 29, 2008, that bears interest at a variable rate. For fiscal 2009, the company anticipated making capital expenditures of approximately $500,000, which would be used to maintain and improve existing factory and administrative infrastructure and update certain company-owned stores. The company believed that cash flow from operations would be sufficient to fund capital expenditures and working capital requirements for fiscal 2009. If necessary, the company had available bank lines of credit to help meet these requirements.\textsuperscript{70}

RMCF revenues and profitability were subject to seasonal fluctuations in sales because of the location of its franchisees, which had traditionally been located in resort or tourist locations. As the company had expanded its geographical diversity to include regional centers, it had seen some moderation to its seasonal sales mix. Historically the strongest sales of the company's products had occurred during the Christmas holiday and summer vacation seasons. Additionally, quarterly results had been, and in the future are likely to be, affected by the timing of new store openings and sales of franchises.\textsuperscript{71}

The most important factors in continued growth in the RMCF's earnings were ongoing unit growth, increased same-store sales and increased same-store pounds purchased from the factory. Historically, unit growth more than offset decreases in same-store sales and same-store pounds purchased.\textsuperscript{72} RMCF's ability to successfully achieve expansion of its franchise system depended 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.\textsuperscript{73}
**EXHIBIT 9**

<table>
<thead>
<tr>
<th>Changes in Sales (in millions)</th>
<th>2003</th>
<th>(3.4%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Systemwide</td>
<td>2004</td>
<td>(0.6%)</td>
</tr>
<tr>
<td>Domestic</td>
<td>2005</td>
<td>4.8%</td>
</tr>
<tr>
<td>Same-Store Sales</td>
<td>2006</td>
<td>2.4%</td>
</tr>
<tr>
<td></td>
<td>2007</td>
<td>0.3%</td>
</tr>
<tr>
<td></td>
<td>2008</td>
<td>(0.9%)</td>
</tr>
</tbody>
</table>


For the fiscal year ended February 29, 2008, same-store pounds purchased from the factory by franchised stores decreased 9.1% from the previous fiscal year. Fiscal 2007 showed a similar trend with same-store pounds purchased by franchisees decreasing 2.6% from fiscal 2006. RMCF believed the decrease in same-store pounds purchased was due to a product mix shift from factory-made products to products made in the store, such as caramel apples and fudge. Company efforts to reverse the decline in same-store pounds purchased from the factory by franchised stores and to increase total factory sales depended on many factors, including new store openings, competition, and the receptivity of the company's franchise system to new product introductions and promotional programs.

In addition to efforts to increase the purchases by franchisees of company manufactured products, RMCF was also sought to increase profitability of its store system through increasing overall sales at existing store locations. Changes in systemwide domestic same-store sales can be found in Exhibit 9. The company believed that the negative trend in fiscal 2008 was due to the overall weakening of the economy and retail environment.

According to Bryan Merryman, COO and CFO, "Sales at most RMCF stores are greatly influenced by the levels of 'foot traffic' in regional shopping malls and other retail environments where the stores are located, and widely reported declines in such traffic resulted in lower revenues and earnings in the fourth quarter of our 2008 fiscal year. In light of the significant uncertainties surrounding the U.S. economy and retail trends in coming months, combined with decreasing same-store pounds purchased by franchisees, we do not feel comfortable providing specific earnings guidance for fiscal 2009 at the present time. If recent economic and consumer trends continue but do not deteriorate further, we are likely to report a modest decline in earnings for the (2009) fiscal year. Fortunately, we believe we are in excellent financial position and well able to withstand the recessionary forces currently buffeting the U.S. economy." *98*

**NOTES**


8. Ibid.

9. Rocky Mountain Chocolate Factory, Inc., 2008 Form 10-K, p. 10. This section was directly quoted with minor editing.


11. Rocky Mountain Chocolate Factory, Inc., Proxy Statement, August 17, 2007, pp. 3-4, and Rocky Mountain Chocolate Factory, Inc., 2008 Form 10-K, pp. 11-12. These sections were directly quoted with minor editing.