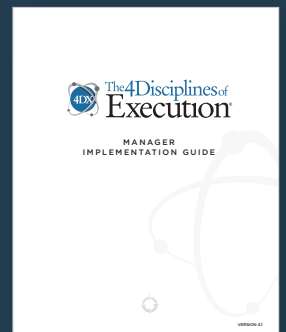
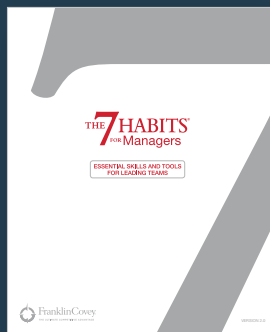
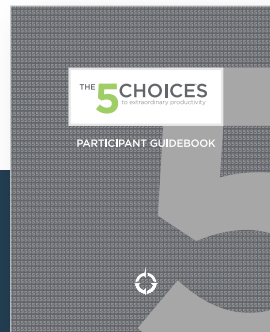
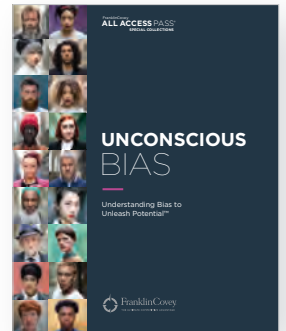
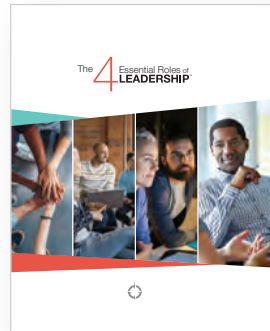
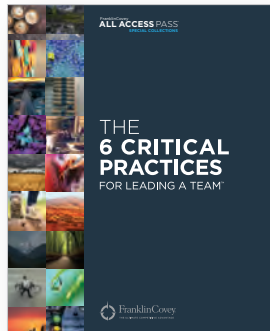


# FranklinCovey

# Annual Report 2019



## Mission Statement

We enable greatness in people and organizations everywhere.

## Vision

Our vision is to profoundly impact the way billions of people throughout the world live, work, and achieve their own great purposes.

## Foundational Beliefs

We believe:

1. People are inherently capable, aspire to greatness, and have the power to choose.
2. Principles are timeless and universal and the foundation for lasting effectiveness.
3. Leadership is a choice, built inside out on a foundation of character. Great leaders unleash the collective talent and passion of people toward the right goal.
4. Habits of effectiveness come only from the committed use of integrated processes and tools.
5. Sustained superior performance requires P/PC Balance—a focus on achieving results and building capability.

## Values

1. Commitment to Principles  
We are passionate about our content and strive to be models of the principles and practices we teach.
2. Lasting Customer Impact  
We are relentless about delivering on our promise to our customers. Our success comes only with their success.
3. Respect for the Whole Person  
We value each other and treat each person with whom we work as a true partner.
4. Profitable Growth  
We embrace profitability and growth as the lifeblood of our organization; they give us the freedom to fulfill our mission and vision.



## **TABLE OF CONTENTS**

Letter from the Chairman . . . . .	2
Financial Highlights . . . . .	5
Proxy Statement . . . . .	7
Form 10-K . . . . .	56
Management's Discussion and Analysis . . . . .	75
Report of Independent Registered Public Accounting Firm . . . . .	94
Consolidated Financial Statements . . . . .	96
Notes to Consolidated Financial Statements . . . . .	100
Corporate Information . . . . .	Inside Back Cover





## Fellow Shareholders —

Four years ago, when we began the transition to our subscription-based business model, we believed that we had the chance to become a new kind of company. A company which would be able to engage with clients in a powerful new way which would allow us to have thousands of loyal clients for life. A company which would become the leader in the most lucrative and valuable space in the performance improvement industry. A company with tens of millions of dollars in recurring, high margin subscription revenue. A company with hundreds of sales people, providing broad reach and deep market penetration.

We are really pleased that during fiscal 2019 we made significant progress toward each of these major objectives. We care deeply about our mission to “enable greatness in people and organizations everywhere” and today, our impact, reach and influence are being felt at a greater scale than at any other time in our company’s history. And strong financial results have followed.

As shown in Figure 1, our:

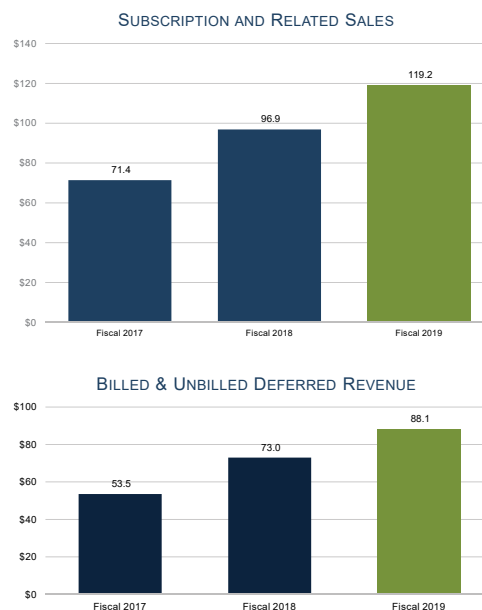
- Total subscription and related sales grew 23.1%, or \$22.4 million for the year, from \$96.9 million to \$119.2 million.
- Balance of Billed and Unbilled Deferred Revenue, all related to subscription sales, grew 21%, or \$15.1 million, to \$88.1 million, at the end of Fiscal 2019 from \$73.0 million at the end of the fourth quarter of fiscal 2018.

These strong results are being driven by the combined impact of three key factors:

***FACTOR #1:*** A significant percent of every dollar of increased sales is flowing-through to increases in Adjusted EBITDA and Cash Flow. The combination of high single-digit revenue growth, high gross margins, and declining SG&A as a percent of sales resulted in significant growth in Adjusted EBITDA and Cash Flow again in fiscal 2019.

During Fiscal 2019, approximately 56% of every dollar of increased revenue flowed-through to increases in Adjusted EBITDA. This resulted in growth in Adjusted EBITDA of \$9.7 million, or 82% in constant currency. Our growth in cash flow was also very significant: Our Net

Figure 1



Cash Generated increased \$7.2 million, or 48% to \$22.2 million, and Cash Flows Provided by Operating Activities increased \$13.6 million, or 81%, to \$30.5 million, compared with \$16.9 million last year.

We believe this high flow-through has put us on a great trajectory for an accelerated “march up the mountain” to achieving significant continued growth in Adjusted EBITDA and cash flow in fiscal 2020, and beyond.

***FACTOR #2: The high growth rate of our subscription revenue, with its stickiness and strong gross margins, is creating high lifetime customer value.*** It is also establishing strategic and structural durability, and increasing the trajectory, predictability, and visibility of our future revenue.

This high lifetime customer value is being driven by the effectiveness of our solutions at addressing our customers’ most intractable performance challenges...challenges which require significant and lasting change in human behavior. At scale. Helping organizations successfully address these important challenges creates strategic durability and long-term customer value.

A couple of client examples:

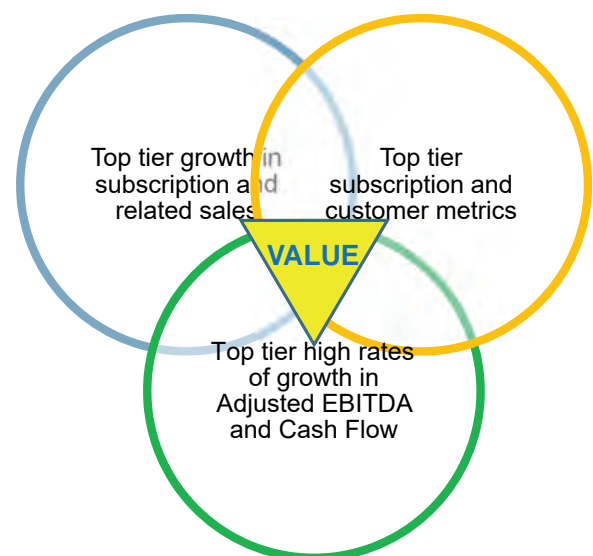
***In our Enterprise Division:*** A major financial services institution partners with us to provide leadership development to their leaders all over the world. In 2019, they had expanded their All Access Pass to a 1,000 leader, multi-year pass, and also purchased over \$100,000 in additional add-on services. Upon the launch of our new *Unconscious Bias* offering, they recently decided to add on a single-content pass to their existing All Access Pass to take the *Unconscious Bias* offering to over 10,000 employees. They also extended the term of both their All Access Pass and their *Unconscious Bias* add-on pass for another three years.

***In our Education Division:*** In Lehigh Valley, Pennsylvania, in an effort to reinvent the former steel-based economy, the business community and the United Way partnered with local school districts to bring the *Leader in Me* to all of its schools for workforce development and to improve literacy. The project began with a single *Leader in Me* school with 450 students, and over the past 8 years has expanded to 33 schools, with 24,634 students. They have a stated plan to bring *Leader in Me* to all 50 of its schools with approximately 74,000 students. The community is thrilled with the results they are seeing, as evidenced by their desire to bring *Leader in Me* to all of its schools and to expand it to other neighboring districts.

As illustrated in Figure 2, simultaneously achieving the combination of: (a) top tier growth in subscription and related sales; (b) top tier subscription economic and customer metrics; and (c) top tier rates of growth in Adjusted EBITDA and Cash Flow is rare. For us, achieving the intersection of these three factors accelerates our opportunity to create significant increases in value for our shareholders.

***FACTOR #3: We are also aggressively taking advantage of a compelling sales force expansion opportunity.*** We have a lot of headroom for sales force growth in both the Enterprise and Education Divisions. Both have very large Total Addressable Markets. And, with only an approximately one-year payback period on our investment in a new sales person, our sales force growth economics are very compelling.

Figure 2




As shown in Figure 3, we have been, and are, aggressively taking advantage of this opportunity. Last year at this time, we said that we expected to add at least 20 net new client partners in fiscal 2019, and add a total of 75 net new client partners by the end of fiscal 2021, increasing our total base of client partners from 214 at the end of fiscal 2018, to 234 by the end of fiscal 2019, and to 289 by the end of fiscal 2021. We made a lot of progress toward these objectives in fiscal 2019, where we added 31 net new client partners and ended the year with 245 client partners.

Our various cohorts of sales hires are benefitting from the high lifetime customer value generated by our subscription offerings and are achieving a ramp rate higher than the targeted ramp rate shown in Figure 4.

This is an exciting time to be at FranklinCovey. We believe that the combination of these three factors has put us on the path to becoming the new kind of company that we envisioned four years ago when we began this transition. We are on a great trajectory to achieve continued high growth in Adjusted EBITDA and Cash-flow in fiscal 2020, fiscal 2021 and beyond, and believe that these factors will continue to drive significant shareholder value.

We express our deep appreciation to our thousands of clients worldwide who provide us the opportunity to work hand in hand with them in pursuit of the achievement of their critical objectives; to our associates and partners, who with great competency, character, and passion, represent our mission throughout the world; and to you, our shareholders, for your continued trust and support.

Sincerely,



Robert A. Whitman  
Chairman and Chief Executive Officer  
Franklin Covey Co.

Figure 3

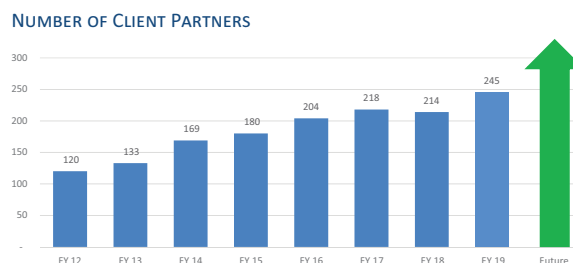
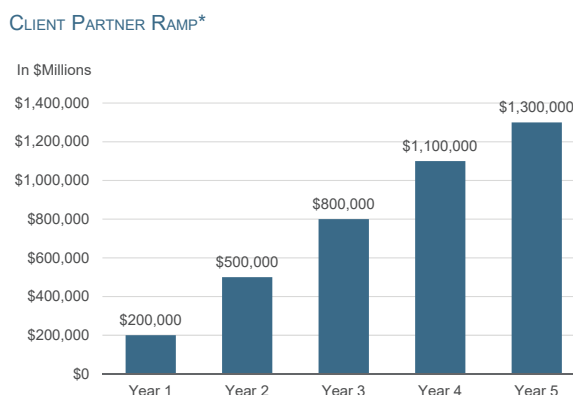


Figure 4



## Financial Highlights

August 31,  
*In thousands, except per share data*

### Income Statement Data:

	2019	2018	2017	2016	2015
Net sales	\$ 225,356	\$ 209,758	\$ 185,256	\$ 200,055	\$ 209,941
Gross profit	159,314	148,289	122,667	133,154	138,089
Income (loss) from operations	2,655	(3,366)	(8,880)	13,849	19,529
Income (loss) before income taxes	592	(5,520)	(10,909)	11,911	17,412
Income tax benefit (provision)	(1,615)	(367)	3,737	(4,895)	(6,296)
Net income (loss)	(1,023)	(5,887)	(7,172)	7,016	11,116
Net income (loss) per share:					
Basic and diluted	\$ (.07)	\$ (.43)	\$ (.52)	\$ .47	\$ .66

### Balance Sheet and Cash Flow Data:

Total current assets	\$ 119,340	\$ 100,163	\$ 91,835	\$ 89,741	\$ 95,425
Other long-term assets	10,039	12,935	16,005	13,713	14,807
Total assets	224,913	213,875	210,731	190,871	200,645
Long-term obligations	46,690	50,936	53,158	48,511	36,978
Total liabilities	142,899	133,375	125,666	97,156	75,139
Shareholders' equity	82,014	80,500	85,065	93,715	125,506
Cash flows from operating activities	\$ 30,452	\$ 16,861	\$ 17,357	\$ 32,665	\$ 26,190

[This page intentionally left blank]



# Proxy Statement





## **Notice Of Annual Meeting Of Shareholders**

**To Be Held January 24, 2020**

**Franklin Covey Co.**

You are cordially invited to attend the Annual Meeting of Shareholders of Franklin Covey Co. (the Company), which will be held on Friday, January 24, 2020 at 8:30 a.m., in the Hyrum W. Smith Auditorium, 2200 West Parkway Boulevard, Salt Lake City, Utah 84119-2331 (the Annual Meeting), for the following purposes:

- (i) To elect nine directors to serve until the 2021 annual meeting of shareholders;
- (ii) To hold an advisory vote on executive compensation;
- (iii) To ratify the appointment of Deloitte & Touche, LLP as the Company's independent registered public accountants for fiscal 2020; and
- (iv) To transact such other business as may properly come before the Annual Meeting or at any adjournment or postponement thereof.

**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting to be Held on January 24, 2020.** The proxy statement and annual report to shareholders are available at <http://www.viewproxy.com/FranklinCovey/2020>.

The Board of Directors has fixed the close of business on Friday, November 29, 2019 as the record date for the determination of shareholders entitled to receive notice of and to vote at the Annual Meeting and at any adjournment or postponement thereof.

You are cordially invited to attend the Annual Meeting in person. To ensure that your vote is counted at the Annual Meeting, however, please vote as promptly as possible.

By Order of the Board of Directors,

/s/ Robert A. Whitman

Robert A. Whitman  
Chairman of the Board of Directors  
December 19, 2019

### **IMPORTANT**

**Whether or not you expect to attend the Annual Meeting in person, to assure that your shares will be represented, please promptly complete your proxy. Your proxy will not be used if you are present at the Annual Meeting and desire to vote your shares personally.**

Franklin Covey Co.  
2200 West Parkway Boulevard  
Salt Lake City, Utah 84119-2331

---

## PROXY STATEMENT

---

Annual Meeting of Shareholders  
January 24, 2020

### SOLICITATION OF PROXIES

This Proxy Statement is being made available to the shareholders of Franklin Covey Co., a Utah corporation (us, our, we, FranklinCovey, or the Company), in connection with the solicitation by the board of directors (the Board or Board of Directors) of the Company of proxies from holders of outstanding shares of our Common Stock, \$0.05 par value per share (the Common Stock), for use at our Annual Meeting of Shareholders to be held on Friday, January 24, 2020, at 8:30 a.m., at the Hyrum W. Smith Auditorium, 2200 West Parkway Boulevard, Salt Lake City, Utah 84119-2331, and at any adjournment or postponement thereof. This Proxy Statement, the Notice of Annual Meeting of Shareholders, and the accompanying form of proxy are first being mailed to shareholders of the Company on or about December 20, 2019.

### PURPOSE OF THE ANNUAL MEETING

Shareholders of the Company will consider and vote on the following proposals: (i) to elect nine directors to serve until the next annual meeting; (ii) to hold an advisory vote on executive compensation; (iii) to ratify the appointment of Deloitte & Touche, LLP (Deloitte) as our independent registered public accountants for the fiscal year ending August 31, 2020; and (iv) to transact such other business as may properly come before the Annual Meeting or at any adjournment or postponement thereof.

### COSTS OF SOLICITATION

We will bear all costs and expenses relating to the solicitation of proxies, including the costs of preparation, assembly, printing, and mailing to shareholders this Proxy Statement and accompanying materials. In addition to the solicitation of proxies by use of the mails, our directors, officers, and employees, without receiving additional compensation, may solicit proxies personally or by telephone, facsimile, or electronic mail. Arrangements will be made with brokerage firms and other custodians, nominees, and fiduciaries for the forwarding of solicitation materials to the beneficial owners of the shares of Common Stock held by such persons, and we will reimburse such brokerage firms, custodians, nominees, and fiduciaries for reasonable out-of-pocket expenses incurred by them in connection therewith.

### INFORMATION ABOUT VOTING

#### Who can vote?

The only voting securities that we have outstanding are shares of our Common Stock. Our Board of Directors has fixed the close of business on Friday, November 29, 2019 as the record date for determination of shareholders entitled to notice of, and to vote at, the Annual Meeting (the Record Date). Only shareholders of record at the close of business on the Record Date are entitled to vote at the Annual Meeting. As of the Record Date, there were 13,982,268 shares of our Common Stock issued and outstanding. The holders of record of the shares of our Common Stock on the Record Date are entitled to cast one vote per share on each matter submitted to a vote at the Annual Meeting.

**What is the difference between a shareholder of record and a “street name” holder?**

If your shares are registered directly in your name with Zions Bank, our stock transfer agent, you are considered a shareholder of record with respect to those shares. If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial owner of those shares, but not the shareholder of record, and your shares are held in “street name.” You are entitled to vote your shares whether you are the shareholder of record or you hold the shares in street name.

**How can you vote?**

You may submit your proxy by mail, telephone, or the Internet. If you are submitting your proxy by mail, you should complete, sign, and date your proxy card and return it in the envelope provided. Sign your name exactly as it appears on the proxy card. If you plan to vote by telephone or the Internet, voting instructions are printed on your proxy card. If you hold your shares through an account with a brokerage firm, bank, or other nominee, please follow the instructions you receive from them to vote your shares. If you provide specific voting instructions, your shares will be voted as you have instructed. Proxy cards submitted by mail must be received by our voting tabulator no later than January 23, 2020 to be voted at the Annual Meeting. You may also vote in person at the Annual Meeting.

**What if I do not specify on my proxy card how I want my shares voted?**

Shares of Common Stock which are entitled to be voted at the Annual Meeting and which are represented by properly executed proxies will be voted in accordance with the instructions indicated on such proxies. If no instructions are indicated, such shares will be voted (i) **FOR** the election of each of the nine director nominees (Proposal No. 1); (ii) **FOR** the proposal regarding an advisory vote on executive compensation (Proposal No. 2); (iii) **FOR** the ratification of the appointment of Deloitte as our independent registered public accountants for the fiscal year ending August 31, 2020 (Proposal No. 3); and in the discretion of the proxy holders as to any other matters as may properly come before the Annual Meeting or at any adjournment or postponement thereof. It is not currently anticipated that any other matters will be presented at the Annual Meeting.

**How do I vote at the Annual Meeting?**

You may vote in person by written ballot at the Annual Meeting. However, if your shares are held in street name, you must bring a legal proxy or other proof from that broker, trust, bank, or other nominee of your beneficial ownership of those shares as of the record date in order to vote at the Annual Meeting. If you vote by proxy and also attend the Annual Meeting, you do not need to vote again at the Annual Meeting.

**What are broker non-votes?**

When a broker, bank, or other nominee has discretion to vote on one or more proposals at a meeting but does not have discretion to vote on other matters at the meeting, the broker, bank, or other nominee will inform the inspector of election that it does not have the authority to vote on the “non-discretionary” matters with respect to shares held for beneficial owners which did not provide voting instructions with respect to the “non-discretionary” matters. This situation is commonly referred to as a “broker non-vote.”

**If my shares are held in street name, will my broker, bank or other nominee vote my shares for me?**

Generally no. If you hold your shares in street name and do not give voting instructions to your broker, bank, or other nominee, then your broker, bank, or other nominee may only vote your shares with respect to “discretionary” matters, but may not vote your shares with respect to “non-discretionary” matters. Each of our proposals, except for Proposal No. 3, the ratification of the appointment of our independent registered public accounting firm, are considered “non-discretionary” matters. As a result, if you hold your shares in street name, your broker, bank, or other nominee

will not have discretion to vote your shares at the Annual Meeting, except for Proposal No. 3, if you do not provide voting instructions. Accordingly, it is important that street name holders give instructions to their broker, bank, or other nominee by following the voting instructions received from their broker, banker, or other nominee.

### **May I revoke my vote prior to the Annual Meeting?**

Yes. A shareholder who has completed a proxy may revoke it at any time prior to its exercise at the Annual Meeting by returning a proxy bearing a later date, by filing with the Secretary of the Company, at the address set forth below, a written notice of revocation bearing a later date than the proxy being revoked, or by voting the Common Stock covered thereby in person at the Annual Meeting.

### **What is a Quorum?**

A quorum is the presence, in person or by proxy, of at least a majority of the shares of our Common Stock outstanding as of the close of business on the Record Date. A quorum is necessary to transact business at the Annual Meeting. Abstentions and “broker non-votes” will be included in determining the presence of a quorum at the Annual Meeting. Holders of common stock will vote as a single class. If there are not sufficient shares represented for a quorum, then the Annual Meeting may be adjourned or postponed from time to time until a quorum is established.

### **What Vote is Required for a Proposal to be Approved?**

Subject to the paragraph below, the nine nominees receiving the highest number of affirmative votes of the shares entitled to be voted for them, up to the nine directors to be elected by those shares, will be elected as directors to serve until the next annual meeting of shareholders and until their successors are duly elected and qualified. Abstentions and broker non-votes will have no effect on the election of directors.

Pursuant to the Company’s bylaws, any nominee for director who receives a greater number of votes “withheld” or “against” from his or her election than votes “for” his or her election shall immediately offer to tender his or her resignation following certification of such shareholder vote. The Nominating and Governance Committee shall promptly consider the director’s resignation offer and make a recommendation to the Board of Directors on whether to accept or reject the offer. The Board of Directors shall act on the recommendation of the Nominating and Governance Committee and publicly disclose its decision within 90 days following certification of the shareholder vote.

Approval of Proposal No. 2, the advisory vote on executive compensation, requires that the number of votes cast in favor of the proposal exceeds the number of votes cast in opposition. Abstentions and broker non-votes are not considered votes cast for the foregoing purpose and will not have any effect on the outcome of this proposal.

The ratification of the appointment of Deloitte as our independent registered public accountants (Proposal No. 3) requires that the number of votes cast in favor of the proposal exceeds the number of votes cast in opposition. Abstentions and broker non-votes will not have any effect on the outcome of this proposal.

### **What are the Board’s voting recommendations?**

The Board of Directors recommends that you vote “**FOR**” proposal nos. 1, 2, and 3, as further described in this Proxy Statement.

### **The Company’s Principal Office and Main Telephone Number**

Our principal executive offices are located at 2200 West Parkway Blvd., Salt Lake City, Utah 84119-2331 and our main telephone number is (801) 817-1776.

## BOARD OF DIRECTORS AND CORPORATE GOVERNANCE

### Nominees for Election to the Board of Directors

Our Board currently consists of nine directors, seven of whom are considered independent. Nominees for election to the board of directors shall be elected to serve until the next annual meeting of shareholders or until their successors shall have been elected and qualified or until such director's earlier death, resignation, or removal. At the Annual Meeting, proxies cannot be voted for a greater number of individuals than the nine nominees named in this Proxy Statement.

Our directors have significant experience with our business and are familiar with the risks and competition we face, which allow them to participate actively and effectively in Board and committee discussions and deliberations. Our directors meet and speak frequently with each other and with members of our senior management team. These formal meetings and informal discussions occur based on the needs of our business and the market environment.

The Nominating and Governance Committee of the Board (the Nominating Committee) and the Board believe the skills, qualities, attributes, and experiences of its directors provide the Company with the business acumen and range of perspectives to engage each other and management to effectively address our evolving needs and represent the best interests of our shareholders. In addition, the Board firmly believes that the experience, attributes, and skills of any single director should not be viewed in isolation, but rather in the context of the experience, attributes, and skills that all director nominees bring to the Board as a whole, each of whom contributes to the function of an effective Board. The biographies below describe the skills, qualities, attributes, and experiences of each of the nominees that led the Board to determine that it is appropriate to nominate these directors for election.



#### **Anne H. Chow, 53**

Independent Director

*Director Since:* March 2016

*Committees:* Chair of Growth Committee and member of the Nominating and Governance and Innovations committees

*Other Directorships:* None

Ms. Chow is currently Chief Executive Officer (CEO) of AT&T Business at AT&T Communications. As CEO of AT&T Business, Anne is responsible for the company's Business Solutions organization, which serves nearly 3 million business customers in more than 200 countries and territories around the world, including nearly all of the world's Fortune 1000 companies. Ms. Chow's responsibilities include all of AT&T's business services across wireless, networking, cybersecurity, and advanced solutions, covering more than \$35 billion in revenues. Since 2000, Ms. Chow has held a variety of leadership positions at AT&T, including Senior Vice President – Global Solutions and Sales Operations and Senior Vice President – Premier Client Group. With decades of experience in the industry, Ms. Chow has led many global organizations through major transformations, developing and executing innovative growth strategies while building role model relationships. Anne is passionate about education, diversity and inclusion, advancing women in technology, and cultivating next generation leaders.

A long standing, active member of the community, Anne has previously served on the boards of the AT&T Foundation, Hunterdon Healthcare System, New Jersey Chamber of Commerce, Asian and Pacific Islander American Scholarship Fund, Asian American Justice Center, and the Joint Center for Political and Economic Studies. Ms. Chow currently serves on the Georgia Tech Parents Board, and as a member of the National Board of Directors for the Girl Scouts of the USA.

Ms. Chow holds a Master's Degree in Business Administration with Distinction from The Johnson School at Cornell University, as well as a Bachelor of Science Degree and Masters of Engineering Degree in Electrical Engineering from Cornell University. Anne is also a graduate of the Pre-College Division of the Juilliard School of Music.

**Director Qualifications:** The Company believes that Ms. Chow's strong sales and enterprise relationship background as well as her extensive distribution and global leadership experience provide valuable insight and skills to our Board of Directors. Ms. Chow's significant involvement with various other entities throughout her career provides her with wide-ranging perspective and experience in the areas of management, operations, and marketing.



**Clayton M. Christensen, 67**

Independent Director

*Director Since:* March 2004

*Committees:* None

*Other Directorships:* None

Dr. Christensen is the Kim B. Clark Professor of Business Administration at the Harvard Business School, where he has been a faculty member since 1992. Clayton's research and teaching interests center on building new growth businesses and sustaining the success of companies. Dr. Christensen was a Rhodes Scholar and received his Masters of Philosophy Degree from Oxford and his MBA and DBA from the Harvard Business School. Clayton also served as President and Chairman of CPS Technologies from 1984 to 1989, and from 1979 to 1984 he worked as a consultant and project manager for the Boston Consulting Group. Dr. Christensen is the founder of Rose Park Advisors, Innosight LLC, and the Christensen Institute.

**Director Qualifications:** Dr. Christensen is widely recognized as a leader in developing organizational capabilities of companies, and his research, knowledge, and valuable insights enable him to make significant contributions to our strategic direction and to the development of new training and consulting services. Additionally, Clayton's previous work with various companies provides him with a broad perspective in the areas of management and operations.



**Michael Fung, 69**

Independent Director

*Director Since:* July 2012

*Committees:* Chair of the Audit Committee and a member of all other standing committees

*Other Directorships:* 99 Cents Only Stores, LLC, and Floor and Décor Holdings, Inc.

Mr. Fung served as the interim Chief Financial Officer for JC Penney Co. from October 2018 through April 2019 and as the interim Chief Operating Officer and Chief Financial Officer for the Neiman Marcus Group from November 2016 through June 2017. Prior to these appointments, Michael retired from Wal-Mart Stores, Inc. in 2012, after 11 years of service. Mr. Fung was the Senior Vice-President and Chief Financial Officer of Wal-Mart U.S., a position he held from 2006 through his retirement in February 2012. From 2001 to 2003, Mr. Fung served as Vice President of Finance and Administration for Global Procurement and was promoted in 2003 to Senior Vice President and Chief Audit Executive. In his previous roles with Wal-Mart, Michael was responsible for U.S. finance operations, including strategy, merchandising, logistics, real estate, operations, professional services, and financial planning and analysis. Prior to his experience at Wal-Mart, Mr. Fung held financial leadership positions at Universal Foods Corporation, Vanstar Corporation, Bass Pro Shops, Inc., and Beatrice Company. Michael received his bachelor's degree in accounting from the University of Illinois and an MBA from the University of Chicago. Mr. Fung is a Certified Public Accountant (inactive) in the state of Illinois, a member of The Committee of 100, and the University of Illinois Foundation. Michael is also a Board Leadership Fellow with the National Association of Corporate Directors.



**Director Qualifications:** Mr. Fung's extensive financial background and expertise, as well as international leadership experience, provides him with wide-ranging knowledge and experience. His professional involvement in various capacities during his career enabled Mr. Fung to gain experience in many areas including auditing, internal control, financial planning, organizational development, strategic planning, and corporate governance. Michael's substantial financial knowledge and leadership experience qualify him to be an audit committee financial expert and enable him to make valuable contributions to our Board of Directors and on the Audit Committee.



**Dennis G. Heiner, 76**

Lead Independent Director

*Director Since:* January 1997

*Committees:* Chair of the Nominating Committee and member of all other standing committees

*Other Directorships:* None

Mr. Heiner currently serves as a Managing Member of Sunrise Oaks Capital Fund, LLC, a small private bridge loan financing fund. Mr. Heiner served from 1999 to 2004 as President and Chief Executive Officer of Werner Holding Co., a leading manufacturer of climbing products and aluminum extrusions. Prior to joining Werner, he was employed by Black & Decker Corporation from 1985 to 1999 where he served for 6 years as Senior Vice President and President Worldwide Small Electric Appliances, and later as Executive Vice President and President of the Hardware and Home Improvement Group, a world leader in residential door hardware and plumbing fixtures. From 1979 to 1985, Mr. Heiner was employed by Beatrice Foods where he served as a Division President. From 1972 to 1979, Dennis was employed by Conroy Inc., a manufacturer of recreational vehicles, where he held the positions of Director of Marketing and Vice President of Finance and International Marketing. Mr. Heiner has also served on several other boards including Rayteck, Shell Oil's AERA Board, and Werner Holdings. Mr. Heiner received his Bachelor of Arts degree from Weber State University and his MBA degree from Brigham Young University. He also completed executive programs at Northwestern's Kellogg School of Management and the Harvard Business School.

**Director Qualifications:** Mr. Heiner brings to the Board of Directors chief executive leadership and business management experience, as well as strong operational knowledge and expertise. Mr. Heiner's broad industry experience, including previous roles in leadership, finance, and marketing, provides the Board of Directors with valuable contributions in the areas of management, strategy, leadership, governance, growth, and long-term planning. Mr. Heiner's executive leadership experience and strong business background enable him to provide strong and independent leadership on the Board of Directors in his role as Lead Independent Director. Dennis also makes important contributions to our Company in the areas of board and business leadership development and succession planning.



**Donald J. McNamara, 66**

Independent Director

*Director Since:* June 1999

*Committees:* None

*Other Directorships:* Crow Holdings and A&O Hotels & Hostels

Mr. McNamara is the founder of The Hampstead Group, LLC (The Hampstead Group), a private equity investor based in Dallas, Texas, and has served as its Chairman since its inception in 1989. He has over 35 years of successful investment experience, including Bass Brothers Enterprises, Marriott Corporation, and JMB Realty. Mr. McNamara currently serves as a Senior Advisor to TPG's real estate platform, which includes \$8 billion of assets collectively in its equity and debt platforms. Mr. McNamara received an undergraduate degree in architecture from Virginia Tech in 1976 and an MBA from Harvard University in 1978.

**Director Qualifications:** Mr. McNamara's experience in private equity provides him with considerable expertise in financial and strategic matters. This expertise enables him to make valuable contributions to the Company in the areas of raising capital, capital deployment, acquisitions and dispositions, and other major financial decisions. Don's involvement with other entities throughout his career provides him with wide-ranging perspective and experience in the areas of management, operations, and strategy. In addition, Mr. McNamara has a meaningful understanding of our operations having served on our Board of Directors for over 20 years, enabling him to make contributions to our strategy, innovation, and long-range plans.



**Joel C. Peterson, 72**

Director

*Director Since:* May 1997

*Committees:* None

*Other Directorships:* Chairman of the Board at JetBlue Airways (NASDAQ), and Director at Packsized

Mr. Peterson has been on the faculty of the Graduate School of Business at Stanford University since 1992, teaching courses in real estate investment, entrepreneurship, and leadership. Joel is the former Chairman of the Board of Overseers at the Hoover Institution at Stanford, and is the Founding Partner and Chairman of Peterson Partners, a Salt Lake City-based investment management firm which has invested in over 200 companies through 13 funds in four primary asset classes: growth-oriented private equity, venture capital, real estate, and search funds. Prior to Stanford Business School and founding Peterson Partners, Mr. Peterson was Chief Executive Officer of Trammell Crow Company, then the world's largest private commercial real estate development firm. Mr. Peterson earned an MBA from Harvard University and received his bachelor's degree from Brigham Young University.

**Director Qualifications:** Mr. Peterson brings chief executive leadership, extensive financial experience, and strong academic skills to our Board of Directors. Mr. Peterson's roles in executive leadership, financial management, and private equity enable him to make key contributions in the areas of leadership, raising capital, capital deployment, strategy, operations, and growth. His experience with Peterson Partners and teaching courses on entrepreneurship adds valuable knowledge in growth and long-term strategic planning as well as accessing and deploying capital. Joel also has a deep understanding of the Company's operations and background with over 20 years of experience on our Board of Directors. Further, prior to the FranklinCovey merger, Mr. Peterson served as a director of Covey Leadership Center from 1993 to 1997.



### **E. Kay Stepp, 74**

Independent Director

*Director Since:* May 1997

*Committees:* Chair of the Organization and Compensation Committee and member of all other standing committees

*Other Directorships:* None

Ms. Stepp, a retired executive, is the former Chairperson of the Board of Providence Health and Services, and served as President and Chief Operating Officer of Portland General Electric, an electric utility, from 1978 to 1992. She formerly was principal of Executive Solutions, an executive coaching firm, from 1994 to 2001, and was a director of the Federal Reserve Bank of San Francisco from 1991 to 1995. Ms. Stepp also served as a director of the Covey Leadership Center from 1992 to 1997 and has served as a director of numerous other public and private company boards. Kay received her Bachelor of Arts degree from Stanford University and a Master of Arts in Management from the University of Portland. Ms. Stepp also attended the Stanford Executive Program and the University of Michigan Executive Program.

***Director Qualifications:*** Ms. Stepp's experience in management and as chief operating officer brings valuable knowledge to the Board of Directors in areas such as marketing, distribution, human resources, technology, and administration. Ms. Stepp also brings the Company extensive governance experience with public corporations, private corporations, and non-profit organizations. This background and experience allow Ms. Stepp to make valuable contributions to the Board of Directors in the areas of operations, management, compensation, and organizational development. Kay also brings special expertise and experience in human resource management and compensation from her consulting career, which provides her with the knowledge to serve as the chairperson of the Board's Compensation and Organization Committee. Ms. Stepp has a deep understanding of our operations and long-term goals from her years of experience on the Board of Directors.



### **Derek C.M. van Bever, 62**

Independent Director

*Director Since:* September 2019

*Committees:* Chair of the Innovations Committee and member of the Growth Committee

*Other Directorships:* None

On September 9, 2019, Mr. Derek C.M. van Bever was appointed to our Board of Directors. Mr. van Bever is a Senior Lecturer in the General Management Unit at the Harvard Business School. Derek teaches courses in the Harvard MBA program, including "Leadership and Corporate Accountability" and "Building and Sustaining a Successful Enterprise," and he is the faculty lead for Dr. Clay Christensen's Executive Education course entitled "Disruptive Innovation." Mr. van Bever is also the Director of the Forum for Growth and Innovation, a research project sponsored by Professor Christensen that is focused on discovering, developing, and disseminating predictive theory on management and innovation.

In 1983, Derek co-founded The Advisory Board Company (NASDAQ: ABCO), a global research, consulting, and technology firm serving hospital and university executives, and was a member of the founding executive team of The Corporate Executive Board (NYSE: CEB), a global thought leadership and advisory network, which spun out of the Advisory Board Company in a 1999 Initial Public Offering. Following the IPO, Mr. van Bever oversaw the development and launch of Corporate Executive Board's new practice areas and he led the development of the firm's internal corporate academy. Derek also co-authored the book *Stall Points*, an analysis of the growth experience of the Fortune 100 across the past half-century, which was published by Yale University Press in 2008.

Derek received his Masters of Business Administration from the Harvard Business School in 1988, and is a 2011 graduate of Harvard Divinity School. His divinity school thesis, “A Mission Beyond Commerce,” examines the challenges to personal and corporate mission posed by pivot points such as a change of ownership or leadership transition and suggests practices and disciplines for retaining a sense of perspective in the “high hurry” of business life.

**Director Qualifications:** Mr. van Bever brings experience in thought leadership and expertise in business growth, innovation, subscription businesses, and strategy to our Board of Directors. In his role as Chief Research Officer for the Corporate Executive Board, Derek directed teams studying best practices in strategy, innovation, talent management, finance, and governance in the large-corporate sector worldwide. The Company believes Mr. van Bever’s experience and thought leadership make him a valuable addition to its Board of Directors. Mr. Whitman recommended Mr. van Bever to the Nominating Committee for consideration as a Board member.



---

**Robert A. Whitman, 66**

Chair of the Board of Directors and Chief Executive Officer

*Director Since:* May 1997

*Committees:* None

*Other Directorships:* Charles River Associates (NASDAQ), and Greystar Real Estate

Mr. Whitman has served as the Chairman of the Board of Directors since June 1999 and as our Chief Executive Officer since January 2000. Mr. Whitman previously served as a director of the Covey Leadership Center from 1994 to 1997. Prior to joining us, Mr. Whitman served as President and Co-Chief Executive Officer of The Hampstead Group from 1992 to 2000 and is a founding partner at Whitman Peterson. Bob received his Bachelor of Arts Degree in Finance from the University of Utah and his MBA from the Harvard Business School.

**Director Qualifications:** Mr. Whitman’s leadership experience as the Chief Executive Officer of the Company and his in-depth knowledge of our strategic priorities and operations enable him to provide valuable contributions and facilitate effective communication between management and the Board of Directors. Mr. Whitman’s role as Chief Executive Officer also enables him to provide important contributions to strengthening our leadership, operations, strategy, growth and long-range plans. Mr. Whitman’s extensive experience in finance, private equity investing, and leadership also provides him with the knowledge to make valuable contributions to the Board of Directors in the areas of finance, raising capital, and capital deployment.

---

## Corporate Governance

FranklinCovey upholds a set of basic values and principles to guide our actions, and we are committed to maintaining the highest standards of business conduct and corporate governance. Our emphasis on corporate governance begins at the top, with our directors, who are elected by, and are accountable to you, our shareholders. This commitment to governance extends to our management team and to all of our employees. We have adopted a Code of Business Conduct and Ethics for our directors, officers, and senior financial officers that include the Chief Executive Officer and Chief Financial Officer (CFO) and other members of our financial leadership team. The Corporate Governance Guidelines and Code of Business Conduct and Ethics are available on our website at [www.franklincovey.com](http://www.franklincovey.com). In addition, each of the Corporate Governance Guidelines and the Code of Business Conduct and Ethics are available in print free of charge to any shareholder by making a written request to Investor Relations, Franklin Covey Co., 2200 West Parkway Boulevard, Salt Lake City, Utah 84119-2331. The Code of Business Conduct and Ethics applies to all directors, officers, and employees of FranklinCovey.

A feature of our corporate governance is that our standing committees are comprised of independent directors, as discussed below. We believe this structure allows for a collective focus by a majority of our independent directors on the various complex matters that come before Board committees. The overlap inherent in this structure assists these independent directors in the execution of their responsibilities.

### Board Oversight

Our Board is responsible for and committed to the independent oversight of the business and affairs of our Company, including financial performance, CEO performance, succession planning, strategy, risk management, and compensation. In carrying out this responsibility, the Board advises our CEO and other members of our senior management team to help drive success for our clients and long-term value creation for our shareholders.

### Affirmative Determination Regarding Board Independence

The Board of Directors has determined each of the following directors to be an “independent director” under the listing standards of the New York Stock Exchange (NYSE): Anne H. Chow, Clayton M. Christensen, Michael Fung, Dennis G. Heiner, Donald J. McNamara, E. Kay Stepp, and Derek Van Bever.

In assessing the independence of the directors, the Board of Directors determines whether or not any director has a material relationship with us (either directly, or as a partner, shareholder, or officer of an organization that has a relationship with us). The Board of Directors considers all relevant facts and circumstances in making independence determinations, including the director independence standards adopted by the Board of Directors and the existence of related party transactions as described in the section entitled “Certain Relationships and Related Transactions” found in this report.

### Board Leadership Structure

Under our current leadership structure, we have a combined position of Chairman and CEO and an independent director serving as a Lead Independent Director. The Board of Directors does not have a policy on whether the roles of Chairman and CEO should be separate or combined. Our Board assesses these roles and deliberates the merits of its leadership structure to ensure that the most efficient and appropriate structure is in place. The Board of Directors has determined that if the Chairman is not an independent director, then there should also be a Lead Independent Director.

Our Board believes that combining the roles of Chairman and CEO is currently the most effective leadership structure for our Company. Combining these roles ensures that our Company has a single leader who speaks with one voice to our shareholders, clients, employees, regulators, other stakeholders, and to the broader public. Our current CEO, Mr. Whitman, has significant knowledge of, and experience in, our business, industry, operations, and risks, which affords him the insight necessary to guide discussions at Board meetings. Mr. Whitman also provides our Board with updates on significant business developments and other time-sensitive matters.

As CEO, Mr. Whitman is directly accountable to our Board and, through our Board, to our shareholders. His role as Chairman is both counterbalanced and enhanced by the overall independence of the Board and independent leadership provided by our Lead Independent Director, Mr. Heiner. Mr. Heiner, as Chairman of our Nominating Committee, was designated as the Lead Independent Director by our Board. Our independent directors may elect another independent director as Lead Independent Director at any time. Mr. Whitman and Mr. Heiner meet and speak frequently regarding our Board and our Company.

### **The Board of Director's Role in Risk Management Oversight**

The Audit Committee of our Board of Directors has responsibility for the oversight of risk management, while our management team is responsible for the day-to-day risk management process. With the oversight of the Board of Directors, management has developed an enterprise risk management strategy, whereby management identifies the top individual risks that we face with respect to our business, operations, strategy, and other factors that were recognized after discussions with key business and functional leaders and reviews of external information. In addition to evaluating various key risks, management identifies ways to manage and mitigate such risks. During fiscal 2019, management met regularly with the Audit Committee to discuss the identified risks and the efforts that are designed to mitigate and manage these risks. These risks are allocated to the various committees of the Board of Directors to allow the committees to examine a particular risk in detail and assess its potential impact to our operations. For example, the Audit Committee reviews compliance and risk management processes and practices related to accounting and financial reporting matters; the Nominating Committee reviews the risks related to succession planning and the independence of the Board of Directors; and the Organization and Compensation Committee (the Compensation Committee) reviews the risks related to our various compensation plans. In the event that a committee is allocated responsibility for examining and analyzing a specific risk, such committee reports on the relevant risk exposure during its regular reports to the entire Board of Directors.

As part of its responsibilities, the Compensation Committee periodically reviews our compensation policies and programs to ensure that the compensation programs offer appropriate performance incentives for employees, including executive officers, while mitigating excessive risk taking. We believe that our various compensation programs contain provisions that discourage excessive risk taking. These provisions include:

- An appropriate balance between annual cash compensation and equity compensation that may be earned over several years.
- Metrics that are weighted between the achievement of overall financial goals and individual objectives.
- Stock ownership guidelines that encourage executive officers to accumulate meaningful levels of equity ownership, which align the interests of executives with those of long-term shareholders.

Based on a review of the nature of our operations by the Compensation Committee, we do not believe that any areas of the Company are incented to take excessive risks that would likely have a material adverse effect on our operations.

### **BOARD OF DIRECTOR COMMITTEES AND MEETINGS**

Our Board has three standing committees: Audit, Corporate Governance and Nominating, and Organization and Compensation. The specific membership of each committee allows us to take advantage of our directors' diverse skill sets, which enables deep focus on committee matters.

The following table shows the current membership of each of our standing committees.

Director	Audit	Nominating	Compensation
Anne H. Chow	—	● ■	—
Clayton M. Christensen	—	—	—
Michael Fung	● ■	● ■	● ■
Dennis G. Heiner	● ■	● ■	● ■
Donald J. McNamara	—	—	—
Joel C. Peterson	—	—	—
E. Kay Stepp	● ■	● ■	● ■
Derek van Bever	—	—	—
Robert A. Whitman	—	—	—

- ■ Committee Chairperson
- ■ Committee Member

The Board of Directors has adopted a written charter for each of the standing committees, which are reviewed annually. These charters are available on our website at [www.franklincovey.com](http://www.franklincovey.com). Shareholders may obtain a printed copy of any of these charters free of charge by making a written request to Investor Relations, Franklin Covey Co., 2200 West Parkway Boulevard, Salt Lake City, Utah 84119-2331.

### The Audit Committee

The Audit Committee functions on behalf of the Board of Directors in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the Exchange Act). The Audit Committee's primary functions are to:

- assist our Board in its oversight of our financial statements, legal and regulatory compliance, independent auditors' qualification, independence, internal audit function performance, and internal controls over financial reporting;
- decide whether to appoint, retain, or terminate our independent auditors;
- pre-approve all audit, audit-related, tax, and other services, if any, to be provided by the independent auditors; and
- prepare the Audit Committee Report.

The Audit Committee is chaired by Mr. Fung, and each of the members of the Audit Committee is independent as described under NYSE rules and meets the enhanced independence standards established by Rule 10A-3 promulgated under the Exchange Act. The Board of Directors has determined that one of the Audit Committee members, Michael Fung, is an "audit committee financial expert" as defined in Item 407(d)(5)(ii) of Regulation S-K.

### The Nominating Committee

The Corporate Governance and Nominating Committee is chaired by Mr. Heiner. The primary purposes of the Nominating Committee are to:

- recommend individuals for nomination, election, or appointment as members of our Board and its committees;

- oversee the evaluation of the performance of our Board and its committees and our management;
- ensure that our committees are comprised of qualified and experienced independent directors;
- review and concur in the succession plans for our CEO and other members of senior management; and
- take a leadership role in shaping our corporate governance, including developing, recommending to the Board, and reviewing on an ongoing basis the corporate governance principles and practices that apply to our Company.

In carrying out the responsibilities of the Nominating Committee, Mr. Heiner frequently met or had discussions with our CEO during the fiscal year. All of the members of the Nominating Committee are “independent” as defined under NYSE rules.

### **The Organization and Compensation Committee**

We are in a business that relies heavily on our people for a competitive advantage. As a result, our Organization and Compensation Committee plays a pivotal role in enabling us to attract and retain the best talent for the growth and strategic needs of our Company.

The Compensation Committee is chaired by Ms. Stepp and regularly met without any employees present to discuss executive compensation matters, including Mr. Whitman’s compensation package, during fiscal 2019. The primary functions of the Compensation Committee are to:

- determine and approve the compensation of our CEO and other executive officers;
- review and make recommendations to the Board for any incentive compensation and equity-based plans that are subject to Board approval;
- assist our Board in its oversight of the development, implementation, and effectiveness of our policies and strategies relating to our human capital management, including recruiting, retention, career development and progression, diversity, and employment practices;
- review management development plans and succession plans to ensure business continuity (other than that within the purview of the Nominating Committee);
- provide risk oversight of all Company compensation plans;
- review periodically the form and amount of non-employee director compensation and make recommendations to our Board with respect thereto; and
- prepare the Compensation Committee Report.

All of the Compensation Committee members are “independent” as defined under the NYSE enhanced independence standards. As described below in “Compensation Committee Interlocks and Insider Participation” and “Certain Relationships and Related Transactions,” none of the Compensation Committee members had any material business relationships with the Company, other than the share repurchase transaction with Ms. Stepp described under “Related Party Transactions” below.

The Compensation Committee administers all elements of our executive compensation program, including our stock-based long-term incentive plans. In consultation with the Compensation Committee, Mr. Whitman annually reviews and establishes compensation for the other Named Executive Officers (as defined below). The Compensation Committee regularly reports to the full Board on decisions related to the executive compensation program.

### ***Compensation Consultants***

Within its charter, the Compensation Committee has the authority to engage the services of outside advisors, experts, and others to assist the committee. During fiscal 2019, the Compensation Committee engaged Mercer as compensation consultants. These compensation consultants provided information to the Compensation Committee regarding



stock-based compensation plans, executive compensation, and director compensation that were used as components of the overall mix of information used to evaluate our compensation plans. The Compensation Committee reviewed its relationship with Mercer and has determined that its work has not raised any conflicts of interest. Further information regarding the role of these compensation consultants can be found in the Compensation Discussion and Analysis.

### *Compensation Committee Interlocks and Insider Participation*

No member of the Compensation Committee was or is an officer or employee of the Company or any of our subsidiaries.

### **New Board Committees**

During late fiscal 2019, our Board of Directors established two new supplemental committees to leverage the skills and abilities of our Directors to achieve specific objectives. These new committees do not have a charter and are not required by Securities and Exchange Commission rules or Company bylaws. The following is a brief description of these new committees.

#### *Growth Committee*

We believe that our best-in-class offerings, combined with flexible delivery modalities and worldwide sales and distribution capabilities are the foundation for future growth at Franklin Covey. Our Growth Committee is designed to assist our management with strategic guidance over growth initiatives and the execution of these initiatives to drive increased sales and shareholder return. Ms. Chow is the Chair of the Growth Committee and will be joined by Mr. van Bever as a member of the committee. We believe the experience and skills of these directors will provide valuable strategic direction to the Company's growth objectives.

#### *Innovations Committee*

Franklin Covey's vision is to profoundly impact the way billions of people throughout the world live, work, and achieve their own great purposes. We believe ongoing investment in our existing content and new offerings is key to our efforts to achieve this vision. The Innovations Committee is designed to provide strategic direction in our efforts to expand our content and offerings into areas that will provide meaningful results for clients and new growth opportunities. Mr. van Bever is the Chair of the Innovations Committee and Ms. Chow and Mr. Heiner are members of this new committee. We believe the knowledge and experience of the directors on the Innovations Committee will provide meaningful direction to the development of our offerings and services.

### **Commitment of our Directors**

Our Board and its standing committees met regularly during fiscal 2019 as shown below.

	Meetings
Board	4
Audit	8
Nominating	4
Compensation	5

In addition to the formal meetings shown above, our Board regularly participated in informal update calls with members of our executive management as necessary throughout fiscal 2019.

Our Lead Independent Director plays an active role on our Board of Directors. Mr. Heiner reviews the agenda, schedule, and materials for each Board and Nominating Committee meeting and presides over executive sessions of the independent directors. Any independent director may call for an executive session and suggest agenda items for Board or committee meetings.

All of the members of our Board of Directors were able to attend at least 75 percent of the Board and committee meetings for which they were entitled to participate except for Ms. Chow and Mr. Christensen. Ms. Chow was unable to attend some committee meetings during fiscal 2019 due to scheduling conflicts associated with her significant new responsibilities as CEO of AT&T Business, but was in attendance for at least 75 percent of full Board meetings. Mr. Christensen was unable to attend the Board meetings due to ongoing serious health challenges. We believe that these Board members continue to provide meaningful insight and experience to our Board of Directors. Although we encourage Board members to attend our Annual Meeting, we do not have a formal policy regarding director attendance at our annual shareholder meetings. Seven members of our Board of Directors attended our most recent annual meeting of shareholders, which was held in January 2019.

### **Director Nomination Process**

As indicated above, the Nominating Committee of the Board of Directors oversees the director nomination process. The Nominating Committee is responsible for identifying and evaluating candidates for membership on the Board of Directors and recommending to the Board of Directors nominees to stand for election. Each candidate to serve on the Board of Directors must be able to fulfill the responsibilities for directors set out in the Corporate Governance Guidelines approved by the Board of Directors. These Corporate Governance Guidelines may be found on our website at [www.franklincovey.com](http://www.franklincovey.com). In addition to the qualifications set forth in the Corporate Governance Guidelines, nominees for director will be selected on the basis of such attributes as their integrity, experience, achievements, judgment, intelligence, personal character, ability to make independent analytical inquiries, willingness to devote adequate time to Board duties, and the likelihood that he or she will be able to serve on the Board for a sustained period. In connection with the selection of nominees for director, consideration will be given to the Board's overall balance of diversity of perspectives, backgrounds, and experiences. We believe it is important to have an appropriate mix of diversity for the optimal functionality of the Board of Directors. Although we do not have a formal diversity policy relating to the identification and evaluation of nominees for director, the Nominating Committee considers all of the criteria described above in identifying and selecting nominees and in the future may establish additional minimum criteria for nominees.

Although not an automatically disqualifying factor, the inability of a director candidate to meet independence standards of the NYSE will weigh negatively in any assessment of a candidate's suitability.

The Nominating Committee intends to use a variety of means of identifying nominees for director, including outside search firms, recommendations from current Board members, and recommendations from shareholders. In determining whether to nominate a candidate, the Nominating Committee will consider the current composition and capabilities of serving Board members, as well as additional capabilities considered necessary or desirable in light of existing Company needs and then assess the need for new or additional members to provide those capabilities.

Unless well known to one or more members of the Nominating Committee, normally at least one member of the Nominating Committee will interview a prospective candidate who is identified as having high potential to satisfy the expectations, requirements, qualities, and capabilities for Board membership.

### **Shareholder Nominations**

The Nominating Committee, which is responsible for the nomination of candidates for appointment or election to the Board of Directors, will consider, but shall not be required to nominate, candidates recommended by our shareholders who beneficially own at the time of the recommendation not less than one percent of our outstanding stock (Qualifying Shareholders).

Generally speaking, the manner in which the Nominating Committee evaluates nominees for director recommended by a Qualifying Shareholder will be the same as for nominees from other nominating sources. However, the Nominating Committee will seek and consider information concerning the relationship between a Qualifying Shareholder's nominee and that Qualifying Shareholder to determine whether the nominee can effectively represent the interests of all shareholders.

Qualifying Shareholders wishing to make recommendations to the Nominating Committee for its consideration may do so by submitting a written recommendation, including detailed information on the proposed candidate, including education, professional experience, and expertise, via mail addressed as follows:

Franklin Covey Co.  
 c/o Stephen D. Young, Corporate Secretary  
 2200 West Parkway Boulevard  
 Salt Lake City, UT 84119-2331

### Communications with Directors

Shareholders or other interested parties wishing to communicate directly with the Board of Directors or the non-management directors as a group, may contact the Lead Independent Director directly via e-mail at [lead.director@franklincovey.com](mailto:lead.director@franklincovey.com). Our audit committee chairman may also be contacted directly via e-mail at [audit.committee@franklincovey.com](mailto:audit.committee@franklincovey.com). You may also contact members of the Board in writing by addressing the correspondence to that individual or group, c/o Stephen D. Young, Corporate Secretary, Franklin Covey Co., 2200 West Parkway Boulevard, Salt Lake City, Utah 84119-2331. All such written communications will initially be received and processed by the office of the Corporate Secretary. Depending on the nature of the correspondence, the Secretary or Assistant Secretary will initially review such correspondence and either (i) immediately forward the correspondence to the indicated director and to the Chair of the Nominating Committee, or (ii) hold for review during the next regular meeting of the Board of Directors.

### Fiscal 2019 Director Compensation

Director compensation is set by the Organization and Compensation Committee and approved by the Board of Directors. The Company's management does not play a role in setting Board Compensation. We compensate members of the Board of Directors using a combination of cash and equity-based compensation. Robert A. Whitman, our Chairman of the Board of Directors and CEO, does not currently receive compensation for his service as a director. The compensation received by Mr. Whitman for his role as Chairman and CEO is shown in the Fiscal 2019 Summary Compensation Table, contained in the Executive Compensation section of this proxy statement.

During fiscal 2019, the other directors were paid the following amounts for services provided:

Compensation Element	Amount
Annual restricted stock award	\$100,000
Annual cash retainer	40,000
Committee retainer, paid for service on each committee	10,000
Lead independent director annual retainer	30,000
Audit committee chairperson annual retainer	15,000
Compensation committee chairperson annual retainer	10,000
Nominating committee chairperson annual retainer	5,000

Directors were reimbursed by the Company for their out-of-pocket travel and related expenses incurred in attending all Board and committee meetings.

**Fiscal 2019 Director Compensation Table**

A	B	C	D	E	F	G	H
Name	Fees earned or paid in cash (\$)	Stock awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in pension value and nonqualified deferred compensation earnings (\$)	All other Comp (\$)	Total (\$)
Anne H. Chow	70,000	100,000	—	—	—	—	170,000
Clayton M. Christensen	40,000	100,000	—	—	—	—	140,000
Michael Fung	85,000	100,000	—	—	—	—	185,000
Dennis G. Heiner	105,000	100,000	—	—	—	—	205,000
Joel C. Peterson	40,000	100,000	—	—	—	—	140,000
E. Kay Stepp	80,000	100,000	—	—	—	—	180,000
Donald J. McNamara	40,000	100,000	—	—	—	—	140,000

Amounts reported in column C represent the fair value of stock-based compensation granted to each non-employee member of the Board of Directors. All Board of Director restricted stock awards are made annually in January following the Annual Meeting and have one-year vesting terms. In January 2019, each non-employee member of the Board received a restricted share award of 4,075 shares that had a fair value of \$100,000. The fair value of the stock awards presented in column C was based on a share price of \$24.54 per share, which was the closing price of our common stock on the date that the award was granted. At August 31, 2019, the directors held a total of 28,525 shares of restricted stock. For further information on the calculation used to value the stock awards presented in Column C, refer to Note 12 to our Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended August 31, 2019 as filed with the SEC on November 14, 2019.

**Fiscal 2020 Director Compensation**

There are no anticipated changes to fiscal 2020 director compensation from amounts previously described.

**PRINCIPAL HOLDERS OF VOTING SECURITIES**

The following table sets forth information as of November 30, 2019, with respect to the beneficial ownership of shares of Common Stock by each person known by us to be the beneficial owner of more than five percent of our Common Stock, by each director, by the Named Executive Officers, and by all directors and officers as a group. Unless noted otherwise, each person named has sole voting and investment power with respect to the shares indicated. In computing the number of shares of Common Stock beneficially owned by a person or entity and the percentage ownership of that person or entity, we deemed outstanding shares of Common Stock subject to options held by that person or entity that are currently exercisable or exercisable within 60 days of November 30, 2019. We did not deem these shares outstanding, however, for the purpose of computing the percentage ownership of any other person or entity. The percentages set forth below have been computed without taking into account treasury shares held by us and are based on 13,982,268 shares of Common Stock outstanding as of November 30, 2019. At the date of this report, there were no shares of Series A or B Preferred Stock outstanding.

As of November 30, 2019	Number of Common Shares	Percentage of Class
Donald J. McNamara <sup>(1)(2)(4)</sup> c/o Franklin Covey Co. 2200 West Parkway Blvd. Salt Lake City, UT 84119-2331	3,225,079	23.1%
Knowledge Capital Investment Group <sup>(1)</sup> 3899 Maple Ave., Suite 300 Dallas, TX 75219	2,812,805	20.1%
Dimensional Fund Advisors, Inc. <sup>(3)</sup> 1299 Ocean Avenue Santa Monica, CA 90401	817,535	5.8%
Pembroke Management, LTD <sup>(3)</sup> 1002 Sherbrooke Street West Suite 1700 Montreal, Canada A8 H3A 354	810,759	5.8%
Blackrock, Inc. <sup>(3)</sup> 55 East 52 <sup>nd</sup> Street New York, NY 10055	800,693	5.7%
Robert A. Whitman <sup>(5)(6)</sup>	677,640	4.7%
Stephen D. Young <sup>(5)</sup>	283,994	2.0%
Joel C. Peterson <sup>(4)</sup>	226,821	1.6%
M. Sean Covey	188,600	1.3%
Dennis G. Heiner <sup>(4)</sup>	65,797	*%
E. Kay Stepp <sup>(4)</sup>	53,294	*%
Clayton M. Christensen <sup>(4)</sup>	28,588	*%
Michael Fung <sup>(4)</sup>	28,388	*%
Colleen Dom	19,081	*%
C. Todd Davis	17,699	*%
Scott J. Miller	9,130	*%
Paul S. Walker	8,883	*%
Anne H. Chow <sup>(4)</sup>	4,262	*%
Derek C.M. van Bever	—	*%
All directors and executive officers as a group (14 persons) <sup>(4)(5)</sup>	4,837,256	33.2%

- (1) Mr. McNamara, who is a director of the Company, is a principal of The Hampstead Group, the private investment firm that sponsors Knowledge Capital Investment Group (Knowledge Capital), and therefore may be deemed the beneficial owner of the Common Stock held by Knowledge Capital. Mr. McNamara disclaims beneficial ownership of the Common Stock held by Knowledge Capital. In December 2019, Knowledge Capital (i) sold 284,608 shares of our Common Stock to the Company and (ii) distributed all of its remaining shares of the Company's common stock to Knowledge Capital's investors. Mr. McNamara, as an investor in Knowledge Capital, received 19,620 shares of our Common Stock in the distribution from Knowledge Capital. As a result of these transactions, as of the date hereof, Knowledge Capital does not beneficially own any of the Company's Common Stock.
- (2) The share amounts include those held for Donald J. McNamara by the Donald J. and Joan P. McNamara Foundation with respect to 23,000 shares. Mr. McNamara is the trustee of his foundation, having sole voting and dispositive control of all shares held by the foundation, and may be deemed to have beneficial ownership of such shares.
- (3) Information for Dimensional Fund Advisors Inc., Blackrock Inc., and Pembroke Management LTD is provided as of September 30, 2019, the filing of their last 13F Reports.
- (4) The share amounts indicated exclude restricted stock awards currently held by the following persons in the following amounts: Anne H. Chow, 4,075 shares; Clayton M. Christensen, 4,075 shares; Michael Fung, 4,075 shares;

Dennis G. Heiner, 4,075 shares; Donald J. McNamara, 4,075 shares; Joel C. Peterson, 4,075 shares; E. Kay Stepp, 4,075 shares; and all directors as a group, 28,525 shares. These restricted stock awards do not have voting power or dividend rights until the shares actually vest to members of the Board of Directors.

- (5) The share amounts indicated include shares subject to options currently exercisable held by the following persons in the following amounts: Robert A. Whitman 437,500 shares; Stephen D. Young 131,250 shares; and all executive officers and directors as a group, 568,750 shares.
- (6) In December 2019, Knowledge Capital distributed all of its remaining shares of our Common Stock to Knowledge Capital's investors. Mr. Whitman, as an investor in Knowledge Capital, received 214,108 shares of our Common Stock in the distribution from Knowledge Capital.

## **CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

### **Review and Approval of Related Party Transactions**

We review all relationships and transactions in which the Company and certain related persons, including our directors, Named Executive Officers, and their immediate family members, are participants, to determine whether such persons have a direct or indirect material interest. Our legal and accounting departments have responsibility for the development and implementation of processes and controls to obtain information from the directors and Named Executive Officers with respect to related party transactions and for then determining, based upon the facts and circumstances, whether the Company or a related party has a direct or indirect material interest in the transaction. As required under SEC rules, transactions that are determined to be directly or indirectly material to us or the related party are disclosed in our Proxy Statement. In addition, a disinterested majority of the full Board of Directors or Audit Committee reviews and approves any related party transaction that is required to be disclosed.

### **Related Party Transactions**

We previously acquired CoveyLink Worldwide, LLC (CoveyLink). CoveyLink conducts seminars and training courses and provides consulting based upon the book *The Speed of Trust* by Stephen M.R. Covey, who is the brother of M. Sean Covey. Prior to the acquisition date, CoveyLink granted us a non-exclusive license related to *The Speed of Trust* book and related training courses for which we paid CoveyLink specified royalties. As part of the CoveyLink acquisition, we obtained an amended and restated license of intellectual property that granted us an exclusive, perpetual, worldwide, transferable, royalty-bearing license to use, sell, and perform the licensed material in any format or medium and through any market or distribution channel. The amount expensed for these royalties due to Stephen M.R. Covey under the amended and restated license agreement totaled \$1.7 million during the fiscal year ended August 31, 2019. In connection with the CoveyLink acquisition, we also signed a speaking services agreement that pays Stephen M.R. Covey a portion of the speaking revenues received for his presentations. During fiscal 2019 we expensed \$1.2 million for these presentations.

We pay M. Sean Covey, who is also an executive officer of the Company, a percentage of the royalty proceeds received from the sales of certain books authored by him in addition to his salary. During the fiscal year ended August 31, 2019, we expensed \$0.1 million for these royalty payments.

During fiscal 2019, we employed Joshua M.R. Covey, who is the brother of M. Sean Covey, and paid him compensation totaling \$202,117. We also employed Dr. John Covey, an uncle of M. Sean Covey, and paid him compensation totaling \$151,073 in fiscal 2019.

We employ John Harding, who is the brother-in-law of Stephen D. Young, and paid him compensation totaling \$347,961 during fiscal 2019. We also employed Jonathan Lofgren, who is Scott J. Miller's brother-in-law, and paid him compensation totaling \$147,689 in fiscal 2019.

Robert A. Whitman, our Chairman of the Board of Directors and CEO, beneficially owns a partnership interest in Knowledge Capital. Donald J. McNamara, a member of our Board of Directors, also beneficially owns a partnership interest in Knowledge Capital and serves as a principal of The Hampstead Group, the private investment firm that sponsors Knowledge Capital. Knowledge Capital beneficially owned 2,812,805 shares of our Common Stock at November 30, 2019. In December 2019, Knowledge Capital distributed all of its shares of our Common Stock to its investors. Immediately prior to the distribution, we repurchased 284,608 shares of our Common Stock from Knowledge Capital, at \$35.1361 per share, for an aggregate purchase price of approximately \$10 million. As of the date hereof, Knowledge Capital does not own any shares of our Common Stock.

On December 10, 2019, the Company repurchased 5,000 shares of its Common Stock from E. Kay Stepp, a member of our Board of Directors, at \$35.1361 per share for an aggregate purchase price of approximately \$0.2 million. The repurchase from Ms. Stepp was made under the Company's existing share repurchase plan.

Each of these listed transactions was approved according to the procedures cited above.

## COMPENSATION DISCUSSION AND ANALYSIS

Our Compensation Committee, composed of four independent directors, determined the fiscal 2019 compensation for our named executive officers (NEOs):

- **Robert A. Whitman** — Chairman and Chief Executive Officer (CEO);
- **Stephen D. Young** — Chief Financial Officer (CFO);
- **Paul S. Walker** — President of Enterprise Division and Global Partnerships;
- **M. Sean Covey** — President of Education Division; and
- **Colleen Dom** — Executive Vice President of Operations.

The material elements of our executive compensation programs and policies, including program objectives, reasons for paying each element and the specific amounts of our NEOs' compensation for fiscal 2019, are explained below. Following this description, you will find a series of tables containing more specific information about our NEOs' compensation. We begin with an executive summary to provide a framework for analysis of this information.

### Executive Summary

#### *Overview*

The Company's transition from selling engagement-by-engagement training and performance solutions to selling training and performance content and solutions delivered through a subscription-based business model continued in fiscal 2019. Our subscription-based business model:

- (1) provides clients with unlimited access to Franklin Covey's entire collection of best-in-class content for a defined population;
- (2) enables content to be delivered through an almost unlimited combination of delivery modalities, and in 19 languages worldwide;
- (3) includes the services of an implementation specialist to help clients design "impact journeys" to help them achieve their performance objectives; and
- (4) offers a price per population trained that is equivalent to that typically charged in the industry for just a single course in a single delivery modality.

We anticipated that this value proposition would be compelling to our customers. We also expected that it would be disruptive to both our historical course-by-course business model, and our financial reporting, since the recognition of a significant portion of the value of contracts sold in a given period would be deferred into future periods, rather than being recognized in the initial period.

*Fiscal 2019 Performance*

The significant growth of our subscription business is increasingly offsetting the ongoing declines in our historical sales channels. As a result, we expect both our reported and economic revenue growth to continue to accelerate in fiscal 2020 and beyond.

Subscription and subscription-related revenue accounts for over 55% of all revenue in our English speaking direct offices, and the All Access Pass (AAP) subscription offering was also launched in Japan this past year. In addition, more than 80% of our Education business is now subscription or subscription-related. The value proposition of our AAP offering is continuing to drive a higher initial sale, a higher rate of revenue renewal, and more add-on sales of services, resulting in a significantly higher lifetime value of our customers. This higher lifetime customer value is driving accelerated growth for our subscription model.

*Key Compensation Decisions and Actions for Fiscal 2019*

The Compensation Committee made the following key executive compensation decisions and took the following key executive compensation actions for fiscal 2019:

- **Salaries** — Fiscal 2019 salaries for all NEOs remained at substantially the same levels as in the prior year.
- **Annual Incentive Payments** — Consistent with prior years, the Compensation Committee approved an annual incentive plan for fiscal 2019 that provided for potential cash incentives based on (1) the annual financial performance of the Company, based on Qualified Adjusted EBITDA, which is defined in the Analysis of Fiscal 2019 Compensation Decisions and Actions section of this document (70% of payout) and (2) executive team performance objectives (30% of payout). Based on actual performance against the financial targets set, the NEOs received 191% of the 70% portion of this payout for exceeding the target achievement under the Qualified Adjusted EBITDA performance objectives for the fiscal 2019 annual incentive plan. In addition, the NEOs received 84% of the 30% portion of the metric-based executive team performance objectives for fiscal 2019. These amounts are reflected in the Fiscal Year 2019 Summary Compensation Table found in this document under the heading “Non-Equity Incentive Plan Compensation.” No other annual variable cash compensation awards were earned during fiscal 2019. Further details of our annual incentive plan for fiscal 2019 are explained in the section below entitled “Annual Performance-Based Variable Pay.”
- **Long-Term Incentive Awards** — The Compensation Committee again granted to each of the NEOs performance and service-based restricted stock units (RSUs). There are three tranches in the fiscal 2019 LTIP awards: (1) a tranche for Qualified Adjusted EBITDA performance, (2) a tranche for “subscription sales” performance, and (3) a tranche that vests after three years of service. The number of shares that vest in each of the Qualified Adjusted EBITDA and subscription sale tranches is based on fiscal 2021 financial results. As of August 31, 2019, all three tranches of the fiscal 2019 RSUs remain unvested. Further details of the performance-based RSUs granted in fiscal 2019 are explained in the section below entitled “Equity Compensation.”

The Compensation Committee also granted a restricted stock unit awards to our CEO and CFO as partial replacement for equity awards received in fiscal 2012 and fiscal 2013 which were forfeited or did not fully vest largely as a result of the change in Franklin Covey’s business model to emphasize subscription services. These awards vest after the completion of a two-year service period ending January 25, 2021. These equity awards are reflected in the 2019 Fiscal Year Summary Compensation Table found in this document under the caption “Stock Awards.”

*Shareholder-Minded Compensation Practices*

The Compensation Committee reviews and considers the views of shareholders and proxy advisory firms on corporate pay practices. In this regard, we reach out to key shareholders to solicit their views on executive compensation and consider the results of our annual “say-on-pay” voting. Taking these, and other inputs into account, the Compensation Committee implemented and maintains the following policies:

- **Clawback Policy** — The Board has authority to require reimbursement of any annual or long-term incentive payment made to an executive officer where: (1) the payment was based on achieving financial results that were subsequently



the subject of a substantial restatement of Company financial statements filed with the SEC; (2) the Board determines the executive engaged in misconduct that caused the need for the substantial restatement; and (3) a lower payment would have been made to the executive based on the restated financial results. In such instance, the Company expects that it will seek to recover from the individual executive the amount by which the individual executive's incentive payments for the relevant period exceeded the lower payment that would have been made based on the restated financial results.

- **Hedging Policy** — Our directors and executive officers are prohibited from buying or selling publicly traded options, puts, calls or other derivative instruments related to Company stock. All other employees are discouraged from engaging in hedging transactions related to Company stock.
- **No Option Repricing Without Shareholder Approval** — Our equity plans expressly prohibit option repricing without shareholder approval.
- **No Excise Tax Gross-ups** — Excise tax gross-ups for our NEOs are prohibited.
- **Stock Ownership Guidelines** — Our stock ownership guidelines require an ownership threshold of five times base salary for our CEO, three times base salary for our CFO and two times base salary for our other NEOs. Each NEO is targeted to reach the applicable threshold within five years of the policy becoming applicable to the NEO and from the date the NEO first has shares awarded as part of his or her annual compensation. Unvested share awards are included in calculating whether the required threshold has been achieved. NEOs are prohibited from selling any shares until after these guidelines are met. The Compensation Committee annually reviews executives' progress toward meeting these guidelines. Currently, the stock ownership of each of our CEO, our CFO, Mr. Covey, and Ms. Dom meets or exceeds the applicable threshold, and Mr. Walker is also currently expected to meet his ownership threshold within the allotted time. In addition, a Board policy requires that each director who is not an employee of the Company maintain beneficial ownership of the Company's common stock and/or vested RSUs equal in value to at least four times the Board cash retainer at all times during his or her tenure on the Board. New directors have up to three years of service on the Board in which to meet this ownership requirement.
- **No Significant Perquisites** — No significant "corporate perquisites" such as country club memberships or automobile allowances are provided to our NEOs.
- **No Employment Agreements for NEOs and Limited Change-in-Control Benefits** — The Company does not enter into employment agreements with its NEOs, and has a change-in-control policy for its NEOs that provides for a potential change-in-control severance benefit of only one times total targeted annual cash compensation without any excise tax gross-ups. Our NEOs are subject to the same general (non-change-in-control) severance policies as all Company employees.
- **Pay for Performance Awards** — The 2019 long-term incentive plan (LTIP) performance-based stock awards were designed to incentivize even greater achievement levels in the Company's results of operations, and pay out only if these operating improvements are achieved.
- **Efficient Share Utilization** — The Compensation Committee believes that the Company's historical share utilization for compensation purposes has been relatively low; this utilization rate is expected to remain relatively low in the future.

#### *Consideration of 2019 "Say-On-Pay" Voting Results*

At our 2019 Annual Meeting, we held our annual advisory "say-on-pay" vote with respect to the compensation of our NEOs. Over 99% of the votes cast were in favor of the compensation of our NEOs. Our Board of Directors and the Compensation Committee considered and discussed this shareholder vote result during fiscal 2019 and determined not to make significant changes to the existing program for fiscal 2019 specifically as a result of the 2019 say-on-pay vote. The Compensation Committee will, from time to time, explore various executive pay and corporate governance changes to the extent appropriate in an effort to keep our executive compensation program aligned with best practices in our competitive market and the Company's particular circumstances, and expects to consider shareholder views

in so doing. The Compensation Committee intends to continue holding say-on-pay votes with shareholders on an annual basis, consistent with our shareholders' recommendation from our 2019 Annual Meeting, and the next such vote is scheduled for the 2020 Annual Meeting.

### Guiding Philosophy, Principles, and Objectives of Our Executive Compensation Program

To fulfill our mission and implement our strategy, Franklin Covey must attract, motivate, and retain highly qualified employees. We achieve this, in part, through working to ensure that we have both a winning culture and a competitive performance-based total compensation program. We align our executives' interests with those of our shareholders by tying almost all short- and long-term incentive compensation to the Company's achievement of key measures of growth and key strategic objectives.

We believe variable, performance-based compensation should constitute a significant percentage of our executives' overall compensation opportunity. All executive base salary, short-term incentive, and long-term incentive compensation is designed to be market-based. Variable pay and long-term incentive pay is linked to, and designed to reward the achievement of, specific performance targets.

The philosophy and objectives of our executive compensation program are reflected in the compensation principles listed below, which guide the Compensation Committee in its oversight of our compensation practices and plans. The specific objectives of our executive compensation program are to reward achievement of our strategic and annual business plans and to link a major portion of pay directly to performance. The key principles that guide the Compensation Committee are that the Company's executive compensation program should:

- *Reflect Performance:* To align compensation with performance over both the short and long term, we establish multi-year objectives for the Company relating to both growth and the achievement of key strategic objectives. Annual performance targets are established in the context of these multi-year objectives, and for fiscal 2019 consisted primarily of goals for growth in revenue, Adjusted EBITDA, and deferred revenue. NEO performance pay levels for the year are generally determined by assessing the Company's level of achievement compared to these objectives. Since our NEOs have responsibility for overall Company performance against these objectives, their compensation can vary (and has varied) significantly from year to year.
- *Encourage Long-Term Company-Wide Focus:* We believe that compensation should encourage and reward both the achievement of annual objectives and longer-term, Company-wide performance improvement. We use a service-based and performance-based RSU program to focus NEO efforts on long-term growth in shareholder value. We believe that paying a significant portion of variable compensation to our NEOs in the form of equity-based compensation that vests over a period of time, based on performance, also encourages a long-term, Company-wide focus. Value is realized through delivering results today, but in a way that builds the foundation for delivering even stronger results in the future. We believe that this practice will lead to our NEOs having a considerable investment in our shares over time. This investment in turn advances both a culture of teamwork and partnership, and encourages a stewardship mentality for the Company among our key leaders.
- *Attract and Retain Talent:* We understand the importance of hiring and retaining the best people. Retention of talented employees is critical to successfully executing our business strategy. We seek to be what we refer to internally as "the workplace of choice for achievers with heart." Successful execution of our business strategy requires that our management team be in place, engaged and focusing their best energy and talents on achieving our business goals and strategies. For us, compensation is not just an overhead expense; it is a key component of the investments we make and costs we incur to generate our revenues. For our delivery consultants, the majority of this compensation cost is reflected as cost of goods sold. In determining the compensation of our NEOs and in reviewing the effectiveness of our compensation program for attracting and retaining talent, the Compensation Committee generally considers the competitive market for talent. We believe that our compensation programs should enable us to attract and retain talented people, and incentivize them to contribute their finest talents to achieving our objectives. We are pleased that our executive officers have an average tenure of over 23 years with our Company (ranging from 18 to 34 years).

In addition to aligning our compensation programs with the achievement of objectives that drive shareholder value, the Compensation Committee also considers the consistency of our compensation programs and works to ensure that our variable compensation does not encourage imprudent risk-taking. We have determined that our Company's approach to the compensation process addresses the need to balance prudence and pay-for-performance through a combination of:

- Controls on the allocation and overall management of risk-taking;
- Comprehensive profit and loss and other management information, that provides ongoing performance feedback;
- Rigorous, multi-party performance assessments and compensation decisions; and
- A Company-wide compensation structure that strives to meet industry best practice standards, including a business model that is based on compensating our associates in direct proportion to the revenue and profit contribution they generate.

Our compensation framework seeks to balance risk and reward. Our executive team is involved in identifying relevant risks and performance metrics for our business. We work to create a cadence of accountability within our organization through continuous evaluation and measurement of performance compared to what we refer to internally as our "Wildly Important Goals" of achieving profitable growth, meeting strategic objectives, and building a winning culture. Based on the considerations discussed above, in connection with its compensation decisions for fiscal 2019, our Compensation Committee concluded that our Company's compensation program and policies are structured such that they do not encourage imprudent risk-taking, and that there are no risks arising from such programs and policies that are reasonably likely to have a material adverse effect on the Company.

### **2019 Executive Compensation Program**

Our fiscal 2019 executive compensation program incorporated five main elements:

- Base salary;
- Short-term, performance-based cash variable pay plan;
- Long-term incentive equity awards in the form of ongoing service-based and performance-based RSUs;
- Other benefits (primarily insurance, as discussed below) that are generally available to all employees on similar terms, except as specifically described below; and
- Severance and change-in-control benefits, which are substantially the same for our NEOs as they are for other employees.

### **Analysis of Fiscal 2019 Compensation Decisions and Actions**

#### *Fiscal 2019 Executive Compensation Determination Process*

The Compensation Committee determined the form and amount of fixed compensation and established specific performance metrics for determining year-end variable compensation to be awarded to our NEOs for fiscal 2019 considering: (1) our financial performance over the prior year and past several years and, expectations for fiscal 2019; (2) the individual and collective performance of our NEOs relative to the achievement of metric-based strategic objectives related to growth in key areas; and (3) in connection with our goal of attracting and retaining the best talent, a general understanding of market compensation practices. In particular, the Compensation Committee reviewed at a general level the following financial metrics and related growth rates in connection with making its key compensation decisions:

- Revenue;
- Adjusted EBITDA and operating income;
- Multi-year changes in operating income, Adjusted EBITDA, and specific revenue targets; and

- Achieving high rates of retention for subscription-based revenue.

*Management Input Regarding Compensation Decisions:* Our Compensation Committee meets in executive session to discuss the performance of our CEO and each of the other NEOs. Our CEO submitted year-end variable compensation calculations (certified by our CFO) and recommendations to the Committee for our other NEOs. These calculations and recommendations precisely followed the payout guidelines established for incentive compensation relating to financial performance.

*Market Assessment:* Our Compensation Committee evaluates our NEO compensation program at a high level against market practices. In 2019, the Committee asked Mercer, the Committee's compensation consultant, to assess our NEO compensation program, identify considerations that could inform compensation decisions, and advise as to current market practices, trends, and plan designs. Mercer reviewed data from its own research and databases and used this information primarily as supplemental data to assist the Compensation Committee in understanding current market practices related to executive compensation. In its assessment of our compensation program, Mercer confirmed that the compensation amounts are consistent with market compensation for similar-sized and comparable professional services and content companies, and that the program has been aligned with corporate performance. Further, Mercer advised us that the compensation program contains features that reinforce significant alignment with shareholders and a long-term focus, and blends subjective assessment and policies in a way that addresses known and perceived risks.

The Compensation Committee has assessed Mercer's independence, as required under NYSE rules, and considered and assessed all relevant factors, including those required by the SEC that could give rise to a potential conflict of interest during fiscal 2019. The Compensation Committee did not identify any conflicts of interest raised by the work performed by Mercer.

In making pay decisions for fiscal 2019, the Compensation Committee considered how executive compensation should drive desired performance toward our business objectives. The Compensation Committee also took into consideration the specific business opportunities and challenges facing the Company compared to those of our competitors and similar-sized companies. However, the Compensation Committee did not specifically benchmark elements of compensation when making its fiscal 2019 executive compensation decisions. Finally, the Compensation Committee generally considered the past performance of our NEOs, including performance against previous individual and corporate objectives, expected contribution to future corporate objectives, and whether the NEOs' performance was achieved consistent with our governing values. The Compensation Committee made final judgments regarding the appropriate compensation level for each NEO based on these additional inputs.

The following peer group was used for fiscal 2019. These companies were selected based on size, industry and types of professional services offered. Annual revenues for the peer group (which is one of several factors considered in selecting the peers) range from approximately \$175 million to \$806 million. The data for this peer group was discounted due to the overall revenue of the peer group, to be more comparable with our revenue. Since our fiscal 2019 revenues totaled \$225.4 million, we believe with the previously stated discounts, this peer group is appropriate for comparison purposes. This peer group is one of many tools used by the Compensation Committee for assessing executive compensation and was comprised of the following companies for fiscal 2019:

- CRA International, Inc.
- Exponent, Inc.
- Forrester Research, Inc.
- GP Strategies Corporation
- The Hackett Group, Inc.
- HealthStream, Inc.
- Heidrick & Struggles International, Inc.
- Huron Consulting Group, Inc.

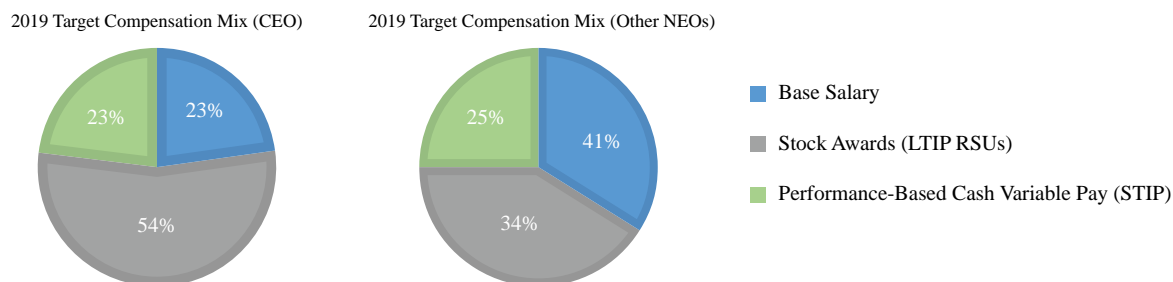
- Information Services Group, Inc.
- RCM Technologies, Inc.
- Resources Connection, Inc.
- Rosetta Stone, Inc.

As compared to the peer group for fiscal 2018, this peer group added Rosetta Stone, Inc. and eliminated Cambium Learning Group, Inc. based on application of the criteria described above.

#### *Decisions on Key Elements of Fiscal 2019 Executive Compensation*

**Total Compensation:** In addition to the specific elements of compensation discussed below, we establish annual targets for the total compensation provided to our NEOs. Based on the key factors described above, the Compensation Committee established fiscal 2019 total compensation targets of approximately \$2.6 million for our CEO and approximately \$836,000, on average, for our other NEOs, assuming achievement of targeted results under our short- and long-term performance-based variable pay plans. The calculation excludes book royalty payments made to Mr. Covey, as noted in the Fiscal 2019 Summary Compensation Table.

**Total Compensation Mix:** The following charts identify the fiscal 2019 target compensation mix for our CEO and average mix for our other NEOs.



#### *Base Salaries*

The Company pays a base salary to each of our NEOs to provide a base level of fixed income for services rendered. The Compensation Committee annually reviews base salary market data and if appropriate, will adjust base salaries to remain at competitive levels. Based primarily on the Compensation Committee's subjective consideration of the 2019 market data, salaries for all NEOs remained at substantially the same levels as in the prior year. The Committee continues to emphasize performance-based variable pay as the means by which NEOs may increase their total compensation.

#### *Annual Performance-Based Variable Pay*

**Fiscal 2019 Performance-Based Cash Variable Pay Plan:** The Company provides annual performance-based cash incentive opportunities to link our NEOs compensation interests to specific financial and strategic goals established by the Compensation Committee. In fiscal 2019, the Performance-Based Cash Variable Pay Plan (STIP) for our NEOs included two components for the payout calculation: (1) Annual financial performance objectives (70% of payout) and (2) metric-based executive team performance objectives (30% of payout). The target STIP payout opportunities for our NEOs were determined by the Compensation Committee based on the considerations described above as follows: \$575,000 for Mr. Whitman; \$235,000 for Mr. Young; and \$200,000 for each of Mr. Covey, Mr. Walker, and Ms. Dom. These target STIP payout opportunities remained the same for our NEOs from fiscal 2018. The STIP reinforces our strong pay-for-performance philosophy and rewards the achievement of specific business and financial goals during the fiscal year.

**Financial Performance Component:** The financial performance threshold necessary for NEOs to earn 100% of the financial performance component of their target STIP payout opportunity in fiscal 2019 was to increase Qualified

Adjusted EBITDA from \$11.9 million in fiscal 2018, to \$19.0 million of Qualified Adjusted EBITDA in fiscal 2019, growth of 59.7%. Qualified Adjusted EBITDA is calculated as reported Adjusted EBITDA which is adjusted for the impact of foreign exchange, STIP, and other items.

The Company utilizes Adjusted EBITDA in its analysis and decision making because it provides supplemental information that facilitates consistent internal comparisons to the historical operating performance of prior periods and we believe the measure provides greater transparency to evaluate operational activities and financial results. Adjusted EBITDA is also the primary measure by which internal business segment performance is evaluated and is regularly communicated to our analysts. Refer to the table in Appendix A for the reconciliation of Adjusted EBITDA, to consolidated net income (loss), a comparable GAAP financial measure.

In fiscal 2019, Qualified Adjusted EBITDA equaled \$20.9 million, after being adjusted for foreign exchange. Accordingly, the Company exceeded the \$19.0 million threshold of Qualified Adjusted EBITDA and, as a result, 191% of the 70% financial performance component of the fiscal 2019 annual incentive for each of the NEOs was paid. As further described below, our NEOs also received a payout of 84% of the 30% metric-based component of targeted annual incentive pay, based on the degree of achievement of the specified strategic objectives as evaluated by the Compensation Committee.

The following table shows the potential payouts to our NEOs based on the degree of attainment of fiscal 2019 STIP Qualified Adjusted EBITDA objectives (and assuming metric-based executive team performance objectives were achieved).

Qualified Adjusted EBITDA less than \$14.0 million and not meeting performance objectives	Pro-rata share of 70% financial performance metric for achieving Qualified Adjusted EBITDA as calculated if > \$14.0 million and < \$19.0 million and meeting performance objectives	Targeted Qualified Adjusted EBITDA of \$19.0 million and meeting performance objectives	Pro-rata share of total target opportunity for achieving Qualified Adjusted EBITDA (including STIP expense) if > \$19.0 million and < \$22.0 million and meeting performance objectives	Qualified Adjusted EBITDA (including STIP expense) equal to or greater than \$22 million and meeting performance objectives
0%	Pro-rata calculation	100%	Pro-rata calculation	200%

**Performance Objectives Component:** The Performance Objectives Component of the STIP represents 30% of the STIP award and in fiscal 2019 it was paid out at 84% of the target for executive team performance objectives based on achievement of key strategic goals established by the Compensation Committee at the beginning of fiscal 2019. While these goals were strategic in nature, and disclosing all details could cause potential competitive harm, they were objectives with specific measures related to the transition to a subscription-based business model as well as recurring AAP revenue. Each key strategic goal was individually weighted based on difficulty and on the effort required to achieve the goal, with most goals weighted between 30% and 40% of this portion of the STIP award opportunity. We believe that the goals established for each NEO were “stretch” goals tied to over-achieving compared to our annual plan in support of the Company’s long-term strategy of building its subscription business. Each goal was typically linked to what we refer to internally as our “Wildly Important Goals” that are cascaded throughout the Company, and progress toward each of these goals was tracked regularly. For fiscal 2019, the metric-based executive team performance objectives component of the STIP were not all met. Accordingly, despite significant gains in each of the key metrics on which this component of STIP was based, the NEOs received only a portion of the target level of cash compensation for the executive team performance objectives, which cash payment reflected 84% of the 30% of the total targeted STIP opportunity.

These amounts are reflected in the Fiscal Year 2019 Summary Compensation Table found in this document under the heading “Non-Equity Incentive Plan Compensation.” No other annual variable cash compensation awards were earned by the NEOs during fiscal 2019.

### *Equity Compensation*

We believe that the granting of long-term equity awards over the years has created strong alignment of interest between NEOs and shareholders, as reflected in our strong financial performance from fiscal 2010 through fiscal 2019. The same program and philosophy were reflected in our use of equity awards in fiscal 2019.

*Fiscal 2019 Long-Term Incentive Plan (LTIP) — Service-Based and Performance-Based Equity Grants:* A significant portion of our NEOs' total targeted compensation for fiscal 2019 was provided in the form of service-based RSUs and performance-based RSUs that vest solely upon the achievement of key financial objectives included in our long-term financial plan over a period of years. If the performance targets are not achieved within the allotted time frame, then the performance-based RSUs are forfeited.

During fiscal 2019, the Compensation Committee granted service-based and performance-based RSU awards to our NEOs. Shares may be earned under the fiscal 2019 RSU award based on three components over a three-year vesting period, ending August 31, 2021, as identified below:

- (1) 25% of the fiscal 2019 RSU award is time-vested and in general will vest on August 31, 2021;
- (2) 70% of the remaining 75% of the fiscal 2019 RSU award is based on Qualified Adjusted EBITDA performance, as previously defined. Because Adjusted EBITDA is important in the short term and in the long term, the measure is utilized in both our STIP and LTIP awards. Qualified adjusted EBITDA for purposes of fiscal 2019 LTIP is based on the highest qualified adjusted EBITDA achieved for any four quarter period during the three years ended August 31, 2021; and
- (3) 30% of the remaining 75% of the fiscal 2019 RSU award is based on fiscal 2021 subscription sales results.

In addition to payout levels of 50%, 100%, and 200% for the achievement of applicable performance goals, the number of shares paid in settlement of the RSU tranches with financial targets is a pro-rata calculation between a 50% target and a 100% target, and a different pro rata calculation between 100% target and 200% target. As of August 31, 2019, all three tranches of RSUs granted in fiscal 2019 remain unvested. The targets for the RSUs granted in fiscal 2019 (and the corresponding payout levels for achieving the targets) are identified below:

#### Fiscal 2021 Qualified Adjusted EBITDA

- \$28.0 million (50% of target — minimum threshold);
- \$35.0 million (100% of target); and
- \$40.0 million (200% of target — maximum threshold).

#### Fiscal 2021 Subscription and Related Sales

- \$145.0 million (50% of target — minimum threshold);
- \$165.0 million (100% of target); and
- \$185.0 million (200% of target — maximum threshold).

We believe that our RSU program aligns a significant portion of our executive compensation with increasing value realized by our shareholders. For further information regarding our LTIP awards and other share-based compensation instruments (including applicable performance achievement), please refer to the notes to our financial statements found in our Annual Report on Form 10-K for the fiscal year ended August 31, 2019 and the footnotes to the Outstanding Equity Awards at Fiscal 2019 Year-End table that are provided further below. None of the outstanding RSUs as reported in the fiscal 2018 Compensation Discussion and Analysis were earned during fiscal 2019. Please see the outstanding equity awards section below for additional details relating to the outstanding awards.

*Qualified Retirement Benefits:* Each of our NEOs participates in our 401(k) plan, which is our tax-qualified retirement plan available to all eligible U.S. employees. We match participant contributions dollar-for-dollar on the first 1% of salary contributed to the 401(k) plan and 50 cents on the dollar for the next 4% of salary contributed. Our match for executives is the same received by all associates who participate in the 401(k) plan. Contributions to the 401(k) plan from highly compensated employees are currently limited to a maximum of 10% of compensation, subject to statutory limits.

*Other Benefits:* The Compensation Committee evaluated the market competitiveness of the executive benefit package to determine the most critical and essential benefits necessary to retain executives. Based on information received from Mercer, the Compensation Committee determined to include executive life insurance for certain NEOs. In addition, the Company agreed to provide our CEO with supplemental disability insurance after he voluntarily terminated his employment agreement with the Company, and in consideration of previous years during which our CEO accepted no compensation. For fiscal 2019, our Compensation Committee was provided with the estimated value of these items (which value is included in the Fiscal 2019 Summary Compensation Table below), and determined, as in prior years, that these amounts were not material in determining our NEOs' fiscal 2019 compensation.

- *Term Life Insurance:* Franklin Covey provides a portable 20-year term life policy for the CEO and CFO. The coverage amount is approximately 2.5 times each NEO's target annual cash compensation (base salary plus target performance-based cash variable pay).
- *Supplemental Disability Insurance:* We provide our CEO with long-term disability insurance which, combined with our current group policy, provides, in the aggregate, monthly long-term disability benefits equal to approximately 75% of his fiscal 2019 target cash compensation. Our other NEOs may purchase voluntary supplemental disability insurance at their own expense.

We maintain a number of other broad-based employee benefit plans in which, consistent with our values, our NEOs participate on the same terms as other employees who meet the eligibility requirements, subject to any legal limitations on amounts that may be contributed to or benefits payable under the plans. These benefits include:

- Our High Deductible Health Plans and Health Savings Accounts administered pursuant to Sections 125 and 223 of the Internal Revenue Code of 1986, as amended (the Code).
- Our Employee Stock Purchase Plan implemented and administered pursuant to Section 423 of the Code.

*Severance Policy:* We have implemented a severance policy to establish, in advance, the appropriate treatment for terminated NEOs and to help ensure market competitiveness. The severance policy uses the same benefit formula for our NEOs as it uses for all of our employees. We do not "gross-up" severance payments to compensate for taxes. For more information about the terms of the severance policy, see the section below entitled "Executive Compensation — Potential Payments Upon Termination or Change-in-Control."

*Employment Agreements and Change-in-Control Severance Agreements:* We do not have employment agreements with any of our NEOs, but we are a party to change-in-control severance agreements with each of our NEOs. These agreements are designed to retain our NEOs in the event a change-in-control transaction is proposed. In such situations, the change-in-control benefit may alleviate some of the financial and career concerns often associated with a change-in-control, and enable our NEOs to focus on the proposed transaction. For more information about the terms of these change-in-control severance agreements, see the section below entitled "Executive Compensation — Potential Payments Upon Termination or Change-in-Control."

*Section 162(m):* U.S. federal tax law generally prohibits us from taking a tax deduction for certain compensation paid in excess of \$1 million to certain executive officers (and, beginning in 2018, certain former executive officers). Historically, compensation that qualified as "performance-based compensation" could be excluded from this \$1 million limit. This exception was repealed, effective for taxable years beginning after December 31, 2017, except for certain compensation arrangements in place as of and not modified after November 2, 2017 for which transition relief is available. We continue to evaluate the impact of the revisions to Section 162(m) of the Code for their potential impact on the Company. Regardless of that impact, the Compensation Committee believes that the tax deduction limitation should not be permitted to compromise our ability to design and maintain executive compensation arrangements that will attract, retain, motivate and reward executive talent needed to compete successfully. Accordingly, achieving the desired flexibility in the design and delivery of compensation may result in compensation that in certain cases is not deductible for federal tax purposes. In addition, because of the uncertainties associated with the application and interpretation of Section 162(m) and the regulations issued thereunder, there can be no assurance that compensation intended to satisfy the requirements for deductibility under Section 162(m), as in effect prior to 2018, will in fact be deductible.



## EXECUTIVE COMPENSATION

The Fiscal 2019 Summary Compensation Table below sets forth compensation information for our NEOs relating to fiscal 2019, fiscal 2018 and fiscal 2017 as applicable.

### Fiscal 2019 Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	All Other Compensation (\$)	Total (\$)
Robert A. Whitman Chairman and CEO	2019	575,000	—	1,369,289	914,250	73,863	2,932,402
	2018	566,442	367,500	1,150,000	575,000	70,666	2,729,608
	2017	525,000	309,136	1,050,000	157,500	64,906	2,106,542
Stephen D. Young CFO	2019	350,000	—	404,822	373,650	16,697	1,145,169
	2018	351,347	164,500	350,000	235,000	16,407	1,117,254
	2017	350,000	126,598	350,000	70,500	15,652	912,750
Paul S. Walker President of Enterprise Division & Global Partnerships	2019	400,000	—	300,000	315,600	12,259	1,027,859
	2018	379,546	140,000	300,000	200,000	13,160	1,032,706
	2017	309,500	117,766	200,000	60,000	10,493	697,759
M. Sean Covey President of Education Division	2019	300,000	—	200,000	324,600	135,523	960,123
	2018	301,153	140,000	200,000	200,000	213,103	1,054,256
	2017	300,000	117,766	200,000	60,000	206,340	884,106
Colleen Dom Executive Vice President of Operations	2019	300,000	—	200,000	315,600	10,592	826,192

**Salary:** The amounts reported in the “Salary” column for fiscal 2019 represent base salaries paid to each NEO for fiscal 2019.

**Stock Awards:** The amounts reported in the “Stock Awards” column for fiscal 2019 represent the aggregate grant date fair value (computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, or ASC Topic 718), based on the probable outcome of any applicable performance criteria, excluding the effect of estimated forfeitures, for the RSUs granted to NEOs as LTIP awards during fiscal 2019. The probable outcome of the RSUs granted during fiscal 2019 with performance conditions were based on the Company meeting the 100% target for both tranches with financial performance conditions (in other words, fiscal 2021 Qualified Adjusted EBITDA and fiscal 2021 Subscription Sales). Assuming the maximum performance level was achieved, the reported value of the aggregate LTIP RSUs for each of the NEOs in this column would be 200% of target as follows: Mr. Whitman, to \$2,012,500; Mr. Young, to \$612,500; Mr. Walker, to \$525,000; Mr. Covey, to \$350,000; and Ms. Dom, to \$350,000 (for further information regarding these stock awards and the assumptions made in their valuation, refer to Note 12, *Stock-Based Compensation Plans*, to our consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended August 31, 2019). Also included in the “Stock Awards” column is an incentive award for the CEO and CFO which have a two-year time based vesting condition.

**Non-Equity Incentive Plan Compensation:** The amounts reported in the “Non-Equity Incentive Plan Compensation” column for fiscal 2019 represent the amounts paid to each NEO under the STIP for formulaic fiscal 2019 achievement, which is discussed above in the section entitled “Compensation Discussion and Analysis — Analysis of Fiscal 2019 Compensation Decisions and Actions.” Payouts are based on achieving objectives established annually and meeting annual financial targets. Incentive amounts were approved by the Compensation Committee and were paid following the conclusion of the fiscal year.

*All Other Compensation:* The amounts reported for fiscal 2019 in the “All Other Compensation” column are set forth in the “Fiscal 2019 All Other Compensation Table” below.

Name	Year	Company Contributions to 401(k) Plan <sup>(a)</sup> (\$)	Executive Life Insurance Premiums <sup>(b)</sup> (\$)	Executive Disability Premiums <sup>(c)</sup> (\$)	Other (\$)	Total (\$)
Mr. Whitman	2019	8,284	8,084	50,778	6,717	73,863
Mr. Young	2019	8,250	4,409	—	4,038	16,697
Mr. Walker	2019	8,269	—	—	3,990	12,259
Mr. Covey	2019	8,479	—	—	127,044 <sup>(d)</sup>	135,523
Ms. Dom	2019	6,231	—	—	4,361	10,592

- (a) We match dollar-for-dollar the first 1% of salary contributed to the 401(k) plan and 50 cents on the dollar of the next 4% of salary contributed. Our match for executives is the same match received by all associates who participate in the 401(k) plan.
- (b) For the CEO and CFO, we maintain an executive life insurance policy with a face value of approximately 2.5 times their target annual cash compensation. These amounts show the annual premiums paid for each 20-year term executive life insurance policy.
- (c) We provide Mr. Whitman with long-term disability insurance which, combined with our current group policy, provides, in the aggregate, monthly long-term disability benefits equal to approximately 75% of his fiscal 2019 target cash compensation. The amount shows the premiums paid for Mr. Whitman’s supplemental long-term disability coverage.
- (d) For Mr. Covey, this amount includes \$122,780 of royalties earned during fiscal 2019 from books he authored that are used in our training and education businesses.

### Fiscal 2019 Grants of Plan-Based Awards

The following table sets forth the plan-based awards that were granted to our NEOs during fiscal 2019. We granted three types of awards in fiscal 2019: annual incentive-based cash awards identified in the table as STIP; long-term LTIP equity awards in the form of service-based RSUs and long-term LTIP equity awards in the form of performance-based RSUs.

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (#)	Grant Date Fair Value of Stock and Option Awards <sup>(e)</sup> (\$)
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)		
Mr. Whitman									
STIP <sup>(a)</sup>	—	—	575,000	1,150,000	—	—	—	—	—
LTIP RSUs <sup>(b)</sup>	1/25/2019	—	—	—	—	—	—	8,936	219,289
LTIP RSUs <sup>(c)</sup>	10/01/2018	—	—	—	18,423	36,844	73,688	—	862,500
LTIP RSUs <sup>(d)</sup>	10/01/2018	—	—	—	—	—	—	12,282	287,500
Mr. Young									
STIP <sup>(a)</sup>	—	—	235,000	470,000	—	—	—	—	—
LTIP RSUs <sup>(b)</sup>	1/25/2019	—	—	—	—	—	—	2,234	54,822
LTIP RSUs <sup>(c)</sup>	10/01/2018	—	—	—	5,607	11,214	22,428	—	262,500
LTIP RSUs <sup>(d)</sup>	10/01/2018	—	—	—	—	—	—	3,738	87,500
Mr. Walker									
STIP <sup>(a)</sup>	—	—	200,000	400,000	—	—	—	—	—
LTIP RSUs <sup>(c)</sup>	10/01/2018	—	—	—	4,806	9,612	19,223	—	225,000
LTIP RSUs <sup>(d)</sup>	10/01/2018	—	—	—	—	—	—	3,204	75,000
Mr. Covey									
STIP <sup>(a)</sup>	—	—	200,000	400,000	—	—	—	—	—
LTIP RSUs <sup>(c)</sup>	10/01/2018	—	—	—	3,205	6,410	12,816	—	150,000
LTIP RSUs <sup>(d)</sup>	10/01/2018	—	—	—	—	—	—	2,136	50,000
Ms. Dom									
STIP <sup>(a)</sup>	—	—	200,000	400,000	—	—	—	—	—
LTIP RSUs <sup>(c)</sup>	10/01/2018	—	—	—	3,205	6,410	12,816	—	150,000
LTIP RSUs <sup>(d)</sup>	10/01/2018	—	—	—	—	—	—	2,136	50,000

- (a) These amounts relate to the STIP for the annual performance period ending August 31, 2019. For additional information regarding the STIP, see the section above entitled “Compensation Discussion and Analysis — Analysis of Fiscal 2019 Compensation Decisions and Actions.” The actual payouts made to the NEOs for this program are reflected in the “Non-Equity Incentive Plan Compensation” column of the Fiscal 2019 Summary Compensation Table above.
- (b) On January 25, 2019, Mr. Whitman and Mr. Young each received a supplemental time-based LTIP award, which vests two years from the grant date, or January 25, 2021. For additional information about these equity awards, see the section entitled “Compensation Discussion and Analysis — Analysis of Fiscal 2019 Compensation Decisions and Actions” above.
- (c) These amounts relate to the LTIP awards granted to the NEOs in the form of performance-based RSUs, which vest based on fiscal 2021 Qualified Adjusted EBITDA and fiscal 2021 subscription sales. Payout for these awards is expected, if at all, after August 31, 2021. For additional information about these equity awards, see the section entitled “Compensation Discussion and Analysis — Analysis of Fiscal 2019 Compensation Decisions and Actions” above.
- (d) These amounts relate to the LTIP awards granted to the NEOs in the form of service-based RSUs, which vest on August 31, 2021. For additional information about these equity awards, see the section entitled “Compensation Discussion and Analysis — Analysis of Fiscal 2019 Compensation Decisions and Actions” above.

- (e) The amounts reported in the “Grant Date Fair Value of Stock and Option Awards” column for fiscal 2019 represent the aggregate grant date fair values (computed in accordance with ASC Topic 718), based on the probable outcome of any applicable performance conditions, excluding the effect of estimated forfeitures, for the RSUs granted to NEOs as LTIP awards. For the performance-based RSUs, the fair value on the grant date was based on the probable outcome that only the target award would vest.

### Employment and Change-in-Control Severance Agreements

We do not maintain employment agreements with any of our NEOs, but we do maintain change-in-control severance agreements with each of our NEOs. For more information about the terms of these change-in-control severance agreements, see the section below entitled “Executive Compensation — Potential Payments Upon Termination or Change-in-Control.” Also see the section above entitled “Compensation Discussion and Analysis — Total Compensation Mix” for more information about the mix of compensation elements for our NEOs.

### Outstanding Equity Awards at Fiscal 2019 Year-End

The following equity awards granted to our NEOs were outstanding as of August 31, 2019.

Name	Grant Date	Option Awards			Stock Awards			Equity Incentive Plan Awards: Market or Payout Value of Un-earned Shares, Units or Other Rights That Have Not Vested (\$) <sup>(j)</sup>
		Number of Securities Underlying Unexercised Options (#) Exercisable <sup>(a)</sup>	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$) <sup>(h)</sup>	Equity Incentive Plan Awards: Number of Shares, Units or Other Rights That Have Not Vested (#)	
Mr. Whitman	1/25/19	—	—	—	8,936 <sup>(b)</sup>	328,755	—	—
	10/01/18	—	—	—	—	—	73,688 <sup>(c)</sup>	2,710,982
	10/01/18	—	—	—	12,282 <sup>(d)</sup>	451,855	—	—
	11/14/17	—	—	—	—	—	89,610 <sup>(e)</sup>	3,296,752
	11/14/17	—	—	—	14,935 <sup>(f)</sup>	549,459	—	—
	10/18/16	—	—	—	—	—	27,146 <sup>(g)</sup>	998,701
	11/12/15	—	—	—	—	—	33,980 <sup>(h)</sup>	1,250,124
	11/21/14	—	—	—	—	—	25,350 <sup>(i)</sup>	932,627
	9/28/11	—	—	—	—	—	—	—
	1/28/11	62,500	9.00	1/28/2021	—	—	—	—
	1/28/11	62,500	10.00	1/28/2021	—	—	—	—
	1/28/11	62,500	12.00	1/28/2021	—	—	—	—
	1/28/11	62,500	14.00	1/28/2021	—	—	—	—
	1/28/10	62,500	10.00	1/28/2020	—	—	—	—
	1/28/10	62,500	12.00	1/28/2020	—	—	—	—
1/28/10	62,500	14.00	1/28/2020	—	—	—	—	
Mr. Young	1/25/19	—	—	—	2,234 <sup>(b)</sup>	82,189	—	—
	10/01/18	—	—	—	—	—	22,428 <sup>(c)</sup>	825,126
	10/01/18	—	—	—	3,738 <sup>(d)</sup>	137,521	—	—
	11/14/17	—	—	—	—	—	27,273 <sup>(e)</sup>	1,003,374
	11/14/17	—	—	—	4,545 <sup>(f)</sup>	167,211	—	—
	10/18/16	—	—	—	—	—	9,048 <sup>(g)</sup>	332,876
	11/12/15	—	—	—	—	—	11,326 <sup>(h)</sup>	416,684
	11/21/14	—	—	—	—	—	8,450 <sup>(i)</sup>	310,876
	9/28/11	—	—	—	—	—	—	—
	1/28/10	43,750	10.00	1/28/2020	—	—	—	—
	1/28/10	43,750	12.00	1/28/2020	—	—	—	—
	1/28/10	43,750	14.00	1/28/2020	—	—	—	—

Name	Grant Date	Option Awards			Stock Awards			Equity Incentive Plan Awards:
		Number of Securities Underlying Unexercised Options (#) Exercisable <sup>(a)</sup>	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$) <sup>(h)</sup>	Equity Incentive Plan Awards: Number of Shares, Units or Other Rights That Have Not Vested (#)	Market or Payout Value of Un-earned Shares, Units or Other Rights That Have Not Vested (\$) <sup>(i)</sup>
Mr. Walker	10/01/18	—	—	—	—	—	19,223 <sup>(c)</sup>	707,214
	10/01/18	—	—	—	3,204 <sup>(d)</sup>	117,875	—	—
	01/25/18	—	—	—	—	—	2,714 <sup>(e)</sup>	99,848
	01/25/18	—	—	—	452 <sup>(f)</sup>	16,629	—	—
	11/14/17	—	—	—	—	—	19,091 <sup>(e)</sup>	702,358
	11/14/17	—	—	—	3,182 <sup>(f)</sup>	117,066	—	—
	10/18/16	—	—	—	—	—	5,170 <sup>(g)</sup>	190,204
	11/12/15	—	—	—	—	—	6,472 <sup>(h)</sup>	238,105
Mr. Covey	10/01/18	—	—	—	—	—	12,816 <sup>(c)</sup>	471,501
	10/01/18	—	—	—	2,136 <sup>(d)</sup>	78,583	—	—
	11/14/17	—	—	—	—	—	15,584 <sup>(e)</sup>	573,335
	11/14/17	—	—	—	2,597 <sup>(f)</sup>	95,544	—	—
	10/18/16	—	—	—	—	—	5,170 <sup>(g)</sup>	190,204
	11/12/15	—	—	—	—	—	6,472 <sup>(h)</sup>	238,105
	11/21/14	—	—	—	—	—	4,828 <sup>(i)</sup>	177,622
Ms. Dom	10/01/18	—	—	—	—	—	12,816 <sup>(c)</sup>	471,501
	10/01/18	—	—	—	2,136 <sup>(d)</sup>	78,583	—	—
	11/14/17	—	—	—	—	—	15,584 <sup>(e)</sup>	573,335
	11/14/17	—	—	—	2,597 <sup>(f)</sup>	95,544	—	—
	10/18/16	—	—	—	—	—	3,232 <sup>(g)</sup>	118,905
	11/12/15	—	—	—	—	—	4,046 <sup>(h)</sup>	148,852
	11/21/14	—	—	—	—	—	2,172 <sup>(i)</sup>	79,908

- (a) These options had a market vesting condition related to the resolution of a management stock loan program when the share price reached the breakeven amount for participants. In 2013, the stock price exceeded the required threshold and the management stock loan program was extinguished, resulting in these options vesting for both the CEO and CFO.
- (b) On January 25, 2019, Mr. Whitman and Mr. Young each received a supplemental service-based LTIP award, which vests two years from the grant date, or January 25, 2021. For additional information about these equity awards, see the section entitled “Compensation Discussion and Analysis — Analysis of Fiscal 2019 Compensation Decisions and Actions” above.
- (c) These awards are LTIP awards granted in the form of performance-based RSUs in fiscal 2019 (October 1, 2018). For additional information regarding the fiscal 2019 LTIP award, including the vesting requirements, see the section above entitled “Compensation Discussion and Analysis — Equity Compensation.”
- (d) These awards are LTIP awards granted in the form of service-based RSUs in fiscal 2019 (October 1, 2018) that generally vest on August 31, 2021. For additional information regarding the fiscal 2019 LTIP award, see the section above entitled “Compensation Discussion and Analysis — Equity Compensation.”
- (e) These awards are LTIP awards granted in the form of performance-based RSUs in fiscal 2018 (November 14, 2017 and, for Mr. Walker, January 25, 2018). For additional information regarding the fiscal 2018 LTIP award, including the vesting requirements, see the section above entitled “Compensation Discussion and Analysis — Equity Compensation.”

- (f) These awards are LTIP awards granted in the form of service-based RSUs in fiscal 2018 (November 14, 2017 and, for Mr. Walker, January 25, 2018) that generally vest on August 31, 2020. For additional information regarding the fiscal 2018 LTIP award, see the section above entitled “Compensation Discussion and Analysis — Equity Compensation.”
- (g) These awards are LTIP awards granted in fiscal 2017 (October 18, 2016). The number of shares that may be awarded under the RSUs to the participants is based on six individual vesting conditions that are divided into two performance measures: (1) trailing four-quarter LTIP Adjusted EBITDA, which equals Adjusted EBITDA plus the change in deferred revenue (less certain costs), and excludes the impact of foreign exchange and (2) increased All Access Pass sales. Multi-year LTIP Adjusted EBITDA targets for this award (excluding the impact of fluctuations in foreign currency exchange rates and STIP) are \$36.7 million, \$41.8 million and \$47.7 million (70% of the award shares), and the targets related to All Access Pass sales are \$30.1 million, \$35.4 million and \$40.8 million (30% of the award shares). As of August 31, 2019, participants had vested in all three tranches of 18,338 shares related to All Access Pass sales and the first tranche of 42,789 shares related to LTIP Adjusted EBITDA. All other tranches of this award remain unvested.
- (h) These awards are LTIP awards granted in fiscal 2016 (November 12, 2015). The number of shares that may be awarded under the RSUs to the participants is based on six individual vesting conditions that are divided into two performance measures: (1) trailing four-quarter LTIP Adjusted EBITDA, which equals Adjusted EBITDA plus the change in deferred revenue (less certain costs), and excludes the impact of foreign exchange and (2) increased sales of the Organization Development Suite (OD Suite) of offerings. The OD Suite is defined as Leadership, Productivity and Trust offerings. Multi-year LTIP Adjusted EBITDA targets for this award (excluding the impact of fluctuations in foreign currency exchange rates and STIP) are \$36.0 million, \$40.0 million and \$44.0 million (70% of the award shares), and the targets related to increased sales of the OD Suite are \$107.0 million, \$116.0 million and \$125.0 million (30% of the award shares). As of August 31, 2019, participants had vested in all three tranches of 23,128 shares related to increased OD Suite sales and the first tranche of 53,964 shares related to LTIP Adjusted EBITDA. All other tranches of this award remain unvested.
- (i) These awards are LTIP awards granted in fiscal 2015 (November 21, 2014). The number of shares that may be awarded to the participants is based on six individual vesting conditions that are divided into two performance measures: (1) trailing four-quarter LTIP Adjusted EBITDA and (2) increased sales of the OD Suite of offerings. Multi-year LTIP Adjusted EBITDA targets for this award are \$39.6 million, \$45.5 million and \$52.3 million (70% of the award shares), and the targets related to increased sales of the OD Suite are \$107.0 million, \$118.0 million and \$130.0 million (30% of the award shares). As of August 31, 2019, participants had vested in all three tranches of 11,247 shares related to increased OD Suite sales and the first tranche of 26,241 shares related to LTIP Adjusted EBITDA. All other tranches of this award remain unvested and it is anticipated that at least one tranche will not vest prior to the expiration date.
- (j) Values were determined by multiplying the target number of RSUs or other performance awards, or the number of service-based RSUs, by the closing price per share of the Company’s common stock on the NYSE on August 31, 2019 of \$36.79.

### **Fiscal 2019 Option Exercises and Stock Vested**

There were no options exercised or stock awards that vested during fiscal 2019.

### **Potential Payments Upon Termination or Change-in-Control**

#### *Severance Benefits Upon Termination Without Cause*

Our NEOs are subject to the same general (non-change-in-control) severance policies as all Franklin Covey employees. Under our severance policy, Company employees, including each of the NEOs, who are terminated involuntarily by the Company without cause receive a lump-sum payment equal to one week’s salary for every \$10,000 of their annual total targeted cash compensation. Additionally, we pay COBRA medical and dental premiums for the term of the

severance period. As a condition to receipt of severance benefits, the NEO must agree to abide by specific non-compete, non-solicitation and confidentiality requirements. The target total severance payment equals the target annual cash compensation plus target COBRA premiums for the severance period. The COBRA benefits are generally limited to 18 months for all NEOs. The amounts below assume that each NEO experienced a qualifying termination of employment on August 31, 2019 (the last business day of fiscal 2019).

### Estimated Severance Amounts as of August 31, 2019

Name	Year	Target Total Severance Payment (\$)	Base Salary (\$)	Target Annual STIP (\$)	Target Annual Cash Compensation (\$)	Target Severance Compensation (Excluding COBRA) (\$)	Target COBRA Premiums (\$)
Mr. Whitman	2019	2,578,872	575,000	575,000	1,150,000	2,543,269	35,603
Mr. Young	2019	682,016	350,000	235,000	585,000	663,750	18,266
Mr. Covey	2019	503,407	300,000	200,000	500,000	480,769	22,638
Mr. Walker	2019	719,474	400,000	200,000	600,000	692,308	27,166
Ms. Dom	2019	503,407	300,000	200,000	500,000	480,769	22,638

### Change-in-Control Severance Benefit

The Company has entered into a change-in-control severance agreement with each NEO. Under the terms of the agreements, upon the occurrence of a change-in-control and a qualifying termination, each NEO is entitled to a lump-sum severance payment equal to one time his or her current annual total targeted cash compensation, plus reimbursement of premiums to secure medical benefit continuation coverage for a period of one year. The target total severance payment equals the target annual cash compensation plus target COBRA premiums for the severance period. There are no excise tax gross-ups provided under the agreements. The amounts below assume that each NEO experienced a qualifying termination of employment on August 31, 2019.

### Estimated Change-in-Control Severance Amounts as of August 31, 2019

Name	Year	Target Total Severance Payment (\$)	Base Salary (\$)	Target Annual STIP (\$)	Target Annual Cash Compensation (\$)	Target COBRA Premiums for 12 Months (\$)
Mr. Whitman	2019	1,166,099	575,000	575,000	1,150,000	16,099
Mr. Young	2019	601,099	350,000	235,000	585,000	16,099
Mr. Covey	2019	523,544	300,000	200,000	500,000	23,544
Mr. Walker	2019	533,404	400,000	200,000	600,000	23,544
Ms. Dom	2019	523,544	300,000	200,000	500,000	23,544

## Compensation Committee Report

Our Compensation Committee reviewed the Compensation Discussion and Analysis (CD&A), as prepared by management of Franklin Covey, and discussed the CD&A with management of Franklin Covey. Based on the Committee's review and discussions, the Committee recommended to the Board that the CD&A be included in this Proxy Statement and in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2019.

### COMPENSATION COMMITTEE:

E. Kay Stepp, Chair  
Dennis Heiner  
Michael Fung  
Anne Chow

## CEO Pay Ratio Disclosure

- The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) requires the Company to disclose the ratio of the CEO's annual total compensation (under the Summary Compensation Table definition) to that of the Company's median employee (excluding the CEO) using the same methodology.
- Our CEO's compensation for fiscal 2019, as disclosed in the Summary Compensation Table, is \$2,932,402. The annual total compensation for our median employee is \$91,996. The ratio between the CEO's and median employee's annual total compensation as of August 31, 2019 is 32:1.
- We did not experience any change in our employee population or compensation arrangements during fiscal 2019 compared to fiscal 2018 that we reasonably believe would significantly impact our pay ratio disclosure. Therefore, as permitted under SEC rules, we have used the same median employee compensation as we did in fiscal 2018. To determine the median employee, we prepared a list of our full employee population as of June 30, 2018. The population included all US and non-US employees, whether employed on a full-time, part-time, temporary or seasonal basis.
- We established a consistently applied compensation measure inclusive of total cash paid from July 1, 2017 through June 30, 2018. We annualized compensation for employees hired during that time. Non-US employee compensation was converted to US dollars based on applicable exchange rates as of June 30, 2018.
- We believe that the ratio is a reasonable estimate calculated in a manner consistent with Item 402(u) of SEC Regulation S-K. Given the rule's flexibility, the method the Company used to determine the median employee may be different from its peers, so the ratios may not be comparable.



## AUDIT COMMITTEE REPORT

*The following is the report of the Audit Committee with respect to our audited financial statements for the fiscal year ended August 31, 2019. The information contained in this report shall not be deemed "soliciting material" or otherwise considered "filed" with the SEC, and such information shall not be incorporated by reference under the Exchange Act except to the extent that we specifically incorporate such information by reference in such filing.*

The Audit Committee assists the Board of Directors in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing, and reporting practices of the Company. The Audit Committee is comprised entirely of independent directors and operates in accordance with a written charter, which was adopted by the Board of Directors. A copy of that charter is available on our website at [www.franklincovey.com](http://www.franklincovey.com). Each member of the Audit Committee is "independent," as required by the applicable listing standards of the New York Stock Exchange and the rules of the SEC.

The Audit Committee oversees the Company's financial reporting process on behalf of the Board of Directors. The Company's management has primary responsibility for the financial statements and reporting process, including the Company's internal control over financial reporting. The independent registered public accounting firm is responsible for performing an integrated audit of the Company's financial statements and internal control over financial reporting in accordance with the auditing standards of the Public Company Accounting Oversight Board.

In fulfilling its oversight responsibilities, the Audit Committee reviewed and discussed with management the audited financial statements to be included in the Annual Report on Form 10-K for the fiscal year ended August 31, 2019. This review included a discussion of the quality and the acceptability of the Company's financial reporting and system of internal controls, including the clarity of disclosures in the financial statements. The Audit Committee also reviewed and discussed with the Company's independent registered public accounting firm the audited financial statements of the Company for the fiscal year ended August 31, 2019, their judgments as to the quality and acceptability of the Company's financial reporting, and such other matters as are required to be discussed by Public Company Accounting Oversight Board standards.

The Audit Committee obtained from the independent registered public accountants a formal written statement describing all relationships between the auditors and the Company that might bear on the auditors' independence consistent with applicable requirements of the Public Company Accounting Oversight Board and discussed with the auditors any relationships that may impact their objectivity and independence, and satisfied itself as to the auditors' independence. The Audit Committee meets periodically with the independent registered public accounting firm, with and without management present, to discuss the results of the independent registered public accounting firm's examinations and evaluations of the Company's internal control and the overall quality of the Company's financial reporting.

Based upon the review and discussions referred to above, the Audit Committee recommended that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2019, for filing with the SEC.

Date: November 6, 2019

Michael Fung, Chairman  
Anne H. Chow  
Dennis G. Heiner  
E. Kay Stepp

## OVERVIEW OF PROPOSALS

This Proxy Statement includes three proposals requiring shareholder action. Proposal No. 1 requests the election of nine directors to the Board of Directors. Proposal No. 2 requests an advisory vote on executive compensation. Proposal No. 3 requests the ratification of Deloitte & Touche, LLP as our independent registered public accounting firm for fiscal 2020. Each of these proposals is discussed in more detail in the pages that follow.

### Proposal No. 1

#### ELECTION OF DIRECTORS

At the Annual Meeting, nine directors are to be elected to serve until the next annual meeting of shareholders and until their successors shall be duly elected and qualified. Our director nominees have a great diversity of experiences and bring to our Board a wide variety of skills, qualifications, and viewpoints that strengthen their ability to carry out their oversight role on behalf of our shareholders. They have developed their skills and gained experience across a broad range of industries and disciplines in both established and growth markets. The biographies contained in the section of this Proxy Statement entitled, “Nominees for Election to the Board of Directors” describe the many areas of individual expertise that each director nominee brings to our board.

Unless the shareholder indicates otherwise, each proxy will be voted in favor of the nine nominees listed below. Each of the nominees is currently serving as a Director of the Company. If any of the nominees should be unavailable to serve, which is not now anticipated, the proxies solicited hereby will be voted for such other persons as shall be designated by the present Board of Directors.

#### Vote Required

The nine nominees receiving the highest number of affirmative votes of the shares entitled to be voted for them, up to the nine directors to be elected by those shares, will be elected as directors to serve until the next annual meeting of shareholders and until their successors are duly elected and qualified. Abstentions and broker non-votes will have no effect on the election of directors.

Pursuant to the Company’s bylaws, any nominee for director who receives a greater number of votes “withheld” or “against” from his or her election than votes “for” his or her election shall immediately offer to tender his or her resignation following certification of such shareholder vote. The Nominating Committee shall promptly consider the director’s resignation offer and make a recommendation to the Board of Directors on whether to accept or reject the offer. The Board of Directors shall act on the recommendation of the Nominating Committee and publicly disclose its decision within 90 days following certification of the shareholder vote.

#### Recommendation of the Board

**The Board of Directors recommends that shareholders vote FOR the election of Anne H. Chow, Clayton M. Christensen, Michael Fung, Dennis G. Heiner, Donald J. McNamara, Joel C. Peterson, E. Kay Stepp, Derek C.M. Van Bever, and Robert A. Whitman.**

## **Proposal No. 2**

### **ADVISORY VOTE ON EXECUTIVE COMPENSATION**

In accordance with the requirements of Section 14A of the Exchange Act (which was added by the Dodd-Frank Wall Street Reform and Consumer Protection Act) and the related rules of the SEC, the Company is providing its shareholders with the opportunity to cast an advisory vote on executive compensation as described below. We believe that it is appropriate to seek the views of shareholders on the design and effectiveness of our executive compensation program.

The overall goal of our executive compensation program is to attract, motivate, and retain a talented and creative team of executives who will provide leadership for our success in dynamic and competitive markets. The Company seeks to accomplish this goal in a way that rewards performance and that is aligned with shareholders' long-term interests. We believe that our executive compensation program, which utilizes both short-term cash awards and long-term equity awards, satisfies this goal and is strongly aligned with the long-term interest of our shareholders.

The Compensation Discussion and Analysis, as presented within this Proxy Statement, describes the Company's executive compensation program and the decisions made by the Compensation Committee during fiscal 2019 in more detail. We believe that the compensation program for the Named Executive Officers is instrumental in helping the Company achieve financial goals. Please refer to the information contained in the Compensation Discussion and Analysis as you consider this proposal.

We are asking the shareholders to vote on the following resolution:

RESOLVED, that the shareholders hereby approve the compensation of the Company's Named Executive Officers, as disclosed in this Proxy Statement pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables, and narrative disclosure.

As an advisory vote, this proposal is not binding upon the Company. However, the Compensation Committee, which is responsible for designing and administering our executive compensation program, values the opinions expressed by shareholders in their vote on this proposal and will consider the outcome of the vote when making future compensation decisions for the Named Executive Officers. We currently intend to include a shareholder advisory vote on our executive compensation program each year at our annual meeting of shareholders.

### **Vote Required**

Approval of Proposal No. 2 requires that the number of votes cast in favor of the proposal exceeds the number of votes cast in opposition. Abstentions and broker non-votes will not have any effect on the outcome of this proposal.

### **Recommendation of the Board**

**The Board recommends that shareholders vote FOR Proposal No. 2.**

**Proposal No. 3****RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee has selected the independent registered public accounting firm Deloitte & Touche, LLP to audit our financial statements for fiscal 2020. Deloitte began serving as our independent registered public accounting firm in the third quarter of fiscal 2016. The Board of Directors anticipates that one or more representatives of Deloitte will be present at the Annual Meeting, will have the opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions.

**Principal Accountant Fees**

The following table shows the fees accrued or paid to our independent registered public accounting firm for the fiscal years ended August 31, 2019 and 2018:

	Fiscal 2019	Fiscal 2018
Audit Fees <sup>(1)</sup>	\$648,414	\$708,979
Audit-Related Fees <sup>(2)</sup>	13,500	—
Tax Fees <sup>(3)</sup>	48,694	29,400
All Other Fees <sup>(4)</sup>	—	—
	\$710,608	\$738,379

- (1) Audit fees represent fees and expenses for professional services provided in connection with the audit of our consolidated financial statements and the effectiveness of internal controls over financial reporting found in the Annual Report on Form 10-K and reviews of our financial statements contained in Quarterly Reports on Form 10-Q, procedures related to registration statements, accounting consultations on actual transactions, and audit services provided in connection with other statutory filings.
- (2) Audit-Related Fees consist of fees for services on a registration statement on Form S-8.
- (3) Tax Fees consisted primarily of fees and expenses for services related to tax compliance, tax planning, and tax consulting.
- (4) Deloitte did not provide any “other services” during the periods presented.

The Audit Committee pre-approves all services to be performed by our independent registered public accountants and subsequently reviews the actual fees and expenses paid to them. All of the audit-related services and tax services provided by our independent registered public accounting firm during the fiscal years ended August 31, 2019 and 2018 were pre-approved by the Audit Committee. The Audit Committee has determined that the fees paid for non-audit services are compatible with maintaining independence as our independent registered public accountants.

**Vote Required**

The ratification of the appointment of Deloitte & Touche, LLP as our independent registered public accountants requires that the number of votes cast in favor of the proposal exceeds the number of votes cast in opposition. Abstentions and broker non-votes will not have any effect on the outcome of this proposal.

**Board Recommendation**

**The Board recommends that shareholders vote FOR the appointment of Deloitte & Touche, LLP as the Company’s independent registered public accountants.**

## OTHER MATTERS

As of the date of this Proxy Statement, the Board of Directors knows of no other matters to be presented for action at the meeting. However, if any further business should properly come before the meeting, the persons named as proxies in the accompanying form of proxy will vote on such business in accordance with their best judgment.

## PROPOSALS OF SHAREHOLDERS

### Requirements for Shareholder Proposals to be Considered for Inclusion in Our Proxy Materials

Shareholders may present proposals for inclusion in our proxy statement and form of proxy for the annual meeting of shareholders to be held in calendar year 2021, provided that such proposals must be received by us, at our executive offices (2200 West Parkway Boulevard, Salt Lake City, Utah 84119-2331) no later than August 22, 2020, provided that this date may be changed in the event that the date of the annual meeting of shareholders to be held in calendar year 2021 is changed by more than 30 days from the date of the annual meeting of shareholders to be held in calendar year 2020. Such proposals must also comply with the requirements as to form and substance established by the SEC if such proposals are to be included in our proxy statement and form of proxy.

### Requirements for Shareholder Proposals to be Brought Before the Annual Meeting

Our bylaws provide that, except in the case of proposals made in accordance with Rule 14a-8, for shareholder nominations to the Board of Directors or other proposals to be considered at an annual meeting of shareholders, the shareholder must have given timely notice thereof in writing to the Secretary of Franklin Covey not less than 60 nor more than 90 calendar days prior to the anniversary of the date of the immediately preceding annual meeting. To be timely for the annual meeting of shareholders to be held in calendar year 2021, a shareholder's notice must be delivered or mailed to, and received by, our Secretary at our executive offices (2200 West Parkway Boulevard, Salt Lake City, Utah 84119-2331) between October 27, 2020 and November 25, 2020. However, in the event that the annual meeting is called for a date that is not within 30 calendar days of the anniversary of the date on which the immediately preceding annual meeting of shareholders was called, to be timely, notice by the shareholder must be so received not earlier than the close of business on the 90<sup>th</sup> day prior to such annual meeting and not later than the close of business on the later of either (i) the 60<sup>th</sup> day prior to such annual meeting, or (ii) the close of business on the tenth day following the day on which notice of the date of the meeting was mailed or public disclosure of the date of the meeting was made by the Company, whichever occurs first. In no event will the public announcement of an adjournment of an annual meeting of shareholders commence a new time period for the giving of a shareholder's notice as provided above. A shareholder's notice to our Secretary must set forth the information required by our bylaws with respect to each matter the shareholder proposes to bring before the annual meeting.

Pursuant to rules adopted by the SEC, if a shareholder intends to propose any matter for a vote at our annual meeting to be held in calendar year 2020 but fails to notify us of that intention prior to November 6, 2019, then a proxy solicited by the Board of Directors may be voted on that matter in the discretion of the proxy holder, provided that this date may be changed in the event that the date of the annual meeting of shareholders to be held in calendar year 2020 is changed by more than 30 days from the date of the annual meeting of shareholders held in calendar year 2019.

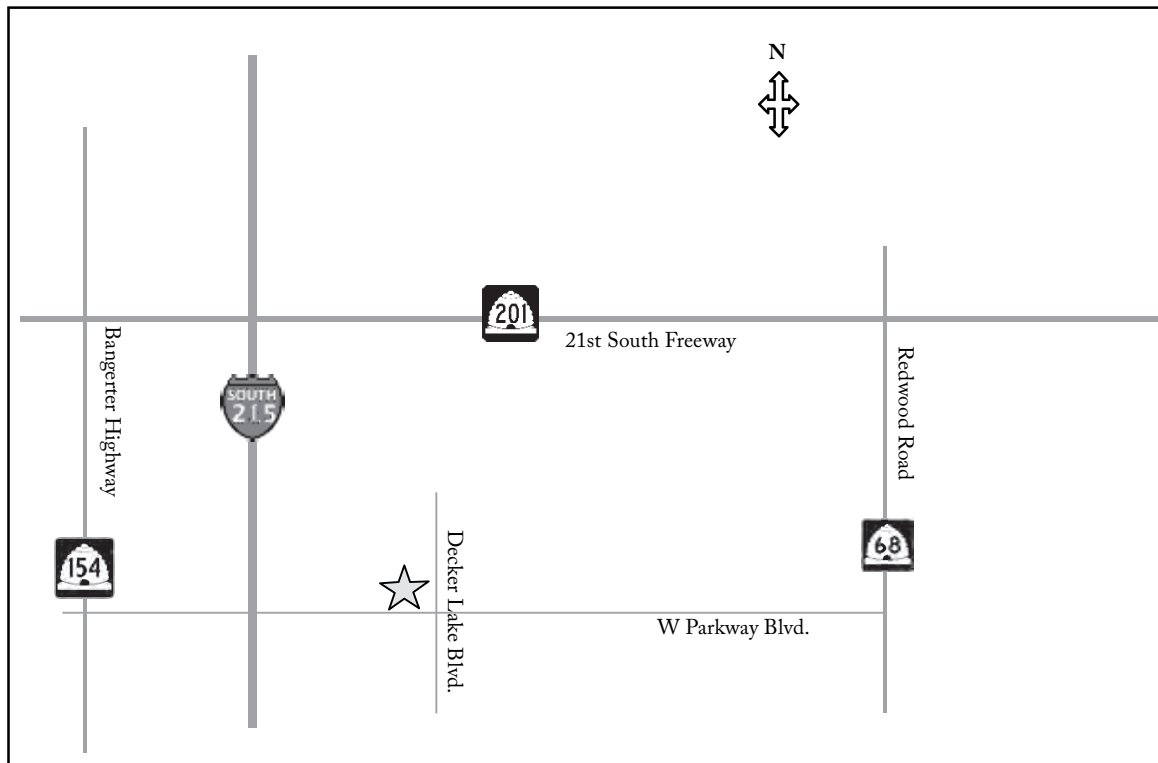
## **WHERE YOU CAN FIND MORE INFORMATION**

We file annual, quarterly, and current reports, proxy statements and other information with the SEC. These filings are also available to the public from the SEC's web site at <http://www.sec.gov>.

**We will provide without charge to any person from whom a Proxy is solicited by the Board of Directors, upon the written request of such person, a copy of our 2019 Annual Report on Form 10-K, including the financial statements and schedules thereto (as well as exhibits thereto, if specifically requested), required to be filed with the Securities and Exchange Commission. Written requests for such information should be directed to Franklin Covey Co., Investor Relations Department, 2200 West Parkway Boulevard, Salt Lake City, Utah 84119-2331, Attn: Mr. Stephen D. Young.**

You should rely only on the information contained in this Proxy Statement. We have not authorized anyone to provide you with information different from that contained in this Proxy Statement. The information contained in this Proxy Statement is accurate only as of the date of this Proxy Statement, regardless of the time of delivery of this Proxy Statement.

## DIRECTIONS TO THE ANNUAL MEETING



### Directions to FranklinCovey from Provo/South

- ◆ Take I-15 North to the 21<sup>st</sup> South Freeway; merge onto the 21<sup>st</sup> South Freeway Westbound
- ◆ Take the **Redwood Road** exit
- ◆ Turn left (South) onto Redwood Road.
- ◆ Turn right at Parkway Blvd. (2495 South), this intersection has a traffic light, gas station on corner
- ◆ You will pass UPS on your right
- ◆ FranklinCovey will be the block after UPS on your right
- ◆ 2200 West Parkway Blvd., Salt Lake City, UT 84119
- ◆ Park at the Washington Building, this building has 3 big flagpoles at the front door
- ◆ Receptionist in the Washington building will be able to help you

### Directions to Franklin Covey from Downtown/North

- ◆ If entering I-15 from 600 South on-ramp southbound
- ◆ Take the 21<sup>st</sup> South Freeway
- ◆ Take the first exit off 21<sup>st</sup> South Freeway which is **Redwood Road**
- ◆ Turn left (South) onto Redwood Road.
- ◆ Turn right at Parkway Blvd. (2495 South), this intersection has a traffic light, gas station on corner
- ◆ You will pass UPS on your right
- ◆ FranklinCovey will be the block after UPS on your right
- ◆ 2200 West Parkway Blvd., Salt Lake City, UT 84119
- ◆ Park at the Washington Building, this building has 3 big flagpoles at the front door
- ◆ Receptionist in the Washington building will be able to help you

If you need further assistance or additional directions, please call our receptionist at (801) 817-1776.

**APPENDIX A****ADJUSTED EBITDA RECONCILIATION TO NET INCOME (LOSS)**

For fiscal 2014 to fiscal 2019, Adjusted EBITDA means net income or loss excluding the impact of interest expense, income tax expense, amortization, depreciation, share-based compensation expense, adjustments to the fair value of contingent earn out liabilities, and certain other items. The Company references this non-GAAP financial measure in its disclosure and decision making because it provides supplemental information that facilitates consistent internal comparisons to the historical operating performance of prior periods and the Company believes it provides investors with greater transparency to evaluate operational activities and financial results.

**Reconciliation of Net Income (Loss) to Adjusted EBITDA  
(in thousands and unaudited)**

	Fiscal Year Ended August 31,					
	2019	2018	2017	2016	2015	2014
Reconciliation of net income (loss) to Adjusted EBITDA:						
Net income (loss)	\$ (1,023)	\$ (5,887)	\$ (7,172)	\$ 7,016	\$11,116	\$18,067
Adjustments:						
Interest expense, net	2,063	2,154	2,029	1,938	1,754	1,810
Discount on related party receivable	—	—	—	—	363	1,196
Income tax provision (benefit)	1,615	367	(3,737)	4,895	6,296	3,692
Amortization	4,976	5,368	3,538	3,263	3,727	3,954
Depreciation	6,364	5,161	3,879	3,677	4,142	3,383
Stock-based compensation	4,789	2,846	3,658	3,121	2,536	3,534
Increase (decrease) to the fair value of contingent earn-out liabilities	1,334	1,014	(1,936)	1,538	35	(1,579)
Impairment of related party receivable	—	—	—	—	—	363
Impairment of assets	—	—	—	—	1,302	—
Costs to exit Japan publishing business	—	—	2,107	—	—	—
Restructuring costs	—	—	1,482	776	587	—
ERP system implementation costs	—	855	1,404	448	—	—
Business acquisition costs	—	—	442	—	—	—
Contract termination costs	—	—	1,500	—	—	—
Licensee transition costs	488	—	505	222	—	—
	<b>\$20,606</b>	<b>\$11,878</b>	<b>\$ 7,699</b>	<b>\$26,894</b>	<b>\$31,858</b>	<b>\$34,420</b>





Form 10-K

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED AUGUST 31, 2019

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM \_\_\_ TO \_\_\_



**FRANKLIN COVEY CO.**

(Exact name of registrant as specified in its charter)

Utah	1-11107	87-0401551
(State or other jurisdiction of incorporation or organization)	(Commission File No.)	(IRS Employer Identification No.)

2200 West Parkway Boulevard  
Salt Lake City, Utah 84119-2331  
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (801) 817-1776

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$.05 Par Value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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

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

Large Accelerated Filer  Accelerated Filer   
Non-accelerated Filer  Smaller Reporting Company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of February 28, 2019, the aggregate market value of the Registrant's Common Stock held by non-affiliates of the Registrant was approximately \$175.4 million, which was based upon the closing price of \$26.02 per share as reported by the New York Stock Exchange.

As of October 31, 2019, the Registrant had 13,982,356 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Parts of the Registrant's Definitive Proxy Statement for the Annual Meeting of Shareholders, which is scheduled to be held on January 24, 2020, are incorporated by reference in Part III of this Form 10-K.

## PART I

### Disclosure Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), and such forward-looking statements involve risks and uncertainties. Statements about future sales, costs, margins, cost savings, foreign currency exchange rates, earnings, earnings per share, cash flows, plans, objectives, expectations, growth, or profitability are forward-looking statements based on management’s estimates, assumptions, and projections. Words such as “could,” “may,” “will,” “should,” “likely,” “anticipates,” “expects,” “intends,” “plans,” “projects,” “believes,” “estimates,” and variations on such words, including similar expressions, are used to identify these forward-looking statements. These forward-looking statements are only predictions, subject to risks and uncertainties, and actual results could differ materially from those discussed in this, and other reports, filed with the Securities and Exchange Commission (SEC) and elsewhere. Forward-looking statements are not guarantees of future performance and involve risks, uncertainties, and assumptions that are difficult to predict. Risks, uncertainties, and other factors that might cause such differences, some of which could be material, include, but are not limited to, the factors discussed under the section of this report entitled “Risk Factors.”

Forward-looking statements in this report are based on management’s current views and assumptions regarding future events and speak only as of the date when made. Franklin Covey Co. undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by the federal securities laws.

In this Annual Report on Form 10-K, unless the context requires otherwise, the terms “the Company,” “Franklin Covey,” “us,” “we,” and “our” refer to Franklin Covey Co. and its subsidiaries.

## ITEM 1. BUSINESS

### General Information

Franklin Covey is a global company focused on organizational performance improvement. Our mission is to “enable greatness in people and organizations

everywhere,” and our global structure is designed to help individuals and organizations achieve sustained superior performance through changes in human behavior. From the foundational work of Dr. Stephen R. Covey in leadership and personal effectiveness, and Hyrum W. Smith in productivity and time management, we have developed deep expertise that extends to helping organizations and individuals achieve lasting behavioral change in seven crucial areas: Leadership, Execution, Productivity, Trust, Sales Performance, Customer Loyalty, and Educational Improvement. We believe that our clients are able to utilize our content and offerings to create cultures whose hallmarks are high-performing, collaborative individuals, led by effective, trust building leaders who execute with excellence and deliver measurably improved results for all of their key stakeholders.

The Company was incorporated in 1983 under the laws of the state of Utah, and we merged with the Covey Leadership Center in 1997 to form Franklin Covey Co. Our consolidated net sales for the fiscal year ended August 31, 2019 totaled \$225.4 million and our shares of common stock are traded on the New York Stock Exchange (NYSE) under the ticker symbol “FC.”

Our fiscal year ends on August 31 of each year. Unless otherwise noted, references to fiscal years apply to the 12 months ended August 31 of the specified year.

The Company’s principal executive offices are located at 2200 West Parkway Boulevard, Salt Lake City, Utah 84119-2331, and our telephone number is (801) 817-1776. Our website is [www.franklincovey.com](http://www.franklincovey.com).

### Business Development

Our business is currently structured around two divisions, the Enterprise Division and the Education Division. The Enterprise Division consists of our Direct Office and International Licensee segments and is focused on selling our offerings to corporations, governments, not-for-profits, and other related organizations. Franklin Covey offerings delivered through the Enterprise Division are designed to help organizations and individuals achieve their own great results. Our Education Division is centered around the principles found in the *Leader in Me* and is dedicated to helping educational institutions build cultures that will produce great results, including increased student performance, improved school culture, and increased parental and teacher involvement.

During 2016, we introduced the All Access Pass (AAP), which we believe is a ground-breaking subscription service

that allows our clients unlimited access to our content through an electronic portal. We believe the All Access Pass is a revolutionary and innovative way to deliver our content to clients of various sizes, including large, multinational organizations in a flexible and cost-effective manner. Clients may utilize complete offerings such as *The 7 Habits of Highly Effective People* and *The 5 Choices to Extraordinary Productivity*, or use individual concepts from any of our well-known offerings to create a custom solution to fit their organizational or individual training needs. Since the introduction of the All Access Pass, we have invested in additional implementation specialists to provide our clients with the direction necessary to create meaningful impact journeys using our tools and content. An impact journey is a customized plan to utilize the content and offerings on the AAP to achieve a client's specific goals and to provide them with the keys to obtain maximum value from the pass. We have also translated All Access Pass materials into numerous additional languages, which allows the AAP to be used effectively by multinational entities and provides for greater international sales opportunities. The AAP is primarily sold through our Enterprise Division.

In our Education Division, we have launched the *Leader in Me* membership, which provides coaching, access to the *Leader in Me* online service, and authorizes use of Franklin Covey's proprietary intellectual property. The *Leader in Me* online service provides access to student leadership guides, leadership lessons, illustrated leadership stories, and a variety of other resources to enable an educational institution to effectively implement and utilize the *Leader in Me* program. We believe that the tools and resources available through the *Leader in Me* membership will provide measurable results that are designed to develop student leadership, improve school culture, and increase academic proficiency.

We believe that continued investments in personnel, content, and technological innovation are key to subscription service renewals and the future growth of our offerings.

In addition to the internal development of our offerings as previously described, we have sought to grow through opening new international offices and through acquisitions of businesses and content licenses. Over the past three years, these activities have included the following:

- ***New Offices in Germany, Switzerland, and Austria*** – During fiscal 2019, we acquired the former independent licensee that provided services in these countries and transitioned the operations into directly

owned offices similar to the fiscal 2017 transition of our China licensee into a direct office operation. We believe that we will be able to significantly grow our business in these countries through this acquisition.

- ***License of "Multipliers" Leadership Content*** – During late fiscal 2019, we obtained a license to develop and sell *Multipliers* leadership content written by Liz Wiseman. We are currently in the process of developing various offerings based on *Multipliers* content and are currently expecting to launch these courses in the fall of 2020.
- ***Offices in China*** – In fiscal 2017, we transitioned the operations of our licensee operations in China into direct offices. With offices in Shanghai, Beijing, Guangzhou, and Shenzhen, we have grown our operations in China during the past three years and believe we are positioned for significant future growth.
- ***Robert Gregory Partners*** – In third quarter of fiscal 2017, we acquired the assets of Robert Gregory Partners, LLC (RGP), a corporate coaching firm with expertise in executive coaching, transition acceleration coaching, leadership development coaching, implementation coaching, and consulting. We believe these coaching services are important components of our various offerings.
- ***Jhana Education*** – In the fourth quarter of fiscal 2017, we acquired the stock of Jhana Education (Jhana), a company that specializes in the creation and dissemination of relevant, bite-sized content and learning tools for leaders and managers. These services have been a significant strategic addition to our All Access Pass and *Leader in Me* online offerings.

## Services Overview

We operate globally with one common brand and a business model designed to enable us to provide clients around the world with the same high level of service. To achieve this high level of service we have sales and support associates in various locations around the United States and Canada, and operate wholly owned subsidiaries in Australia, China, Japan, the United Kingdom, Germany, Switzerland, and Austria. In foreign locations where we do not have a directly owned office, we may contract with independent licensee partners who deliver our content and provide services in over 140 other countries and territories around the world.

Our mission is to "enable greatness in people and organizations everywhere," and we believe that we are experts at solving certain pervasive, intractable problems,

each of which requires a change in human behavior. We seek to consistently deliver world-class content with the broadest and deepest distribution capabilities through the most flexible content delivery modalities. We believe these characteristics distinguish us from our competitors as follows:

1. **World Class Content** – Rather than rely on “flavor of the month” training fads, our content is principle-centered and based on natural laws of human behavior and effectiveness. Our content is designed to build new skillsets, establish new mindsets, and provide enabling toolsets. When our content is applied consistently in an organization, we believe the culture of that organization will change to enable the organization to achieve its own great purposes. Our content is well researched, subjected to numerous field beta tests, and improved through a proven development process.
2. **Breadth and Scalability of Delivery Options** – We have a wide range of content delivery options, including: The All Access Pass and *Leader in Me* membership, other intellectual property licensing arrangements, on-site training, training led through certified facilitators, on-line learning, blended learning, and organization-wide transformational processes, including consulting and coaching services.
3. **Global Capability** – We not only operate domestically with sales personnel in the United States and Canada, but we also deliver content through our directly owned international offices and independently owned international licensees who deliver our content in over 140 other countries and territories around the world. This capability allows us to deliver content to a wide range of customers, from large multinational corporations to smaller local entities.

We hold ourselves responsible for and measure ourselves by our clients’ achievement of transformational results.

Our content and offerings are designed to help our clients achieve their own great purposes through a variety of resources, including best-selling books and audio, innovative and widely recognized thought leadership, and multiple delivery and teaching methods. These elements allow us to offer our clients training and consulting solutions that are designed to improve individual and organizational behaviors, deliver content that adapts to an organization’s unique needs, and provide meaningful improvements in our clients’ business performance. Further information about our content and services can be found on our website at

[www.franklincovey.com](http://www.franklincovey.com). However, the information contained in, or that can be accessed through, our website does not constitute any part of this Annual Report.

## Industry Information

According to the *Training* magazine 2019 Training Industry Survey, the total size of the U.S. training industry is estimated to be \$83 billion. The training industry is highly fragmented and includes a wide variety of training and service providers of varying sizes. We believe our competitive advantages in this industry stem from our fully integrated principle-centered training offerings, our wide variety of delivery options, and various implementation tools to help organizations and individuals measurably improve their effectiveness. These advantages allow us to deliver not only training to corporations, educational institutions, and individuals, but also to implement the training through powerful behavior-changing tools and coaching with the capability to then measure the impact of the delivered content and solutions.

## Clients

We have a relatively broad base of clients, which includes thousands of organizational, governmental, educational, and individual clients in both the United States and in other countries that are served through our directly owned operations. We have thousands of additional organizational clients throughout the world which are served through our global licensee partner network, and we believe that our content, in all its forms, delivers results that encourage strong client loyalty. Our clients are in a broad array of industries and we are not dependent on a single client or industry group. During the periods presented in this report, none of our clients were responsible for more than ten percent of our consolidated revenues.

Due to the nature of our business, we do not have a significant backlog of orders. Nearly all of our deferred revenue is attributable to subscription services for which we recognize revenue over the lives of the corresponding agreements.

## Competition

We operate in a highly competitive and rapidly changing global marketplace and compete with a variety of organizations of various sizes that offer services comparable with ours. The nature of competition in the performance improvement industry, however, is highly

fragmented with few large competitors. Based upon our fiscal 2019 consolidated sales of \$225.4 million, we believe that we are a significant competitor in the performance skills and education market. Other significant comparative companies that compete with our Enterprise Division include: Design Dimension International, GP Strategies Corp., LinkedIn Learning, Center for Creative Leadership, SkillSoft, and Vital Smarts. Our Education Division competes with entities such as: Character Counts, Responsive Classroom, 7 Mindsets, Second Step, and K12.

We believe that the principal competitive factors in the industry in which we compete include the following:

- Quality of offerings, services, and solutions
- Skills and capabilities of people
- Innovative training and consulting services combined with effective products
- Ability to add value to client operations
- Reputation and client references
- Price
- Availability of appropriate resources
- Global reach and scale
- Branding and name recognition in our marketplace

Given the relative ease of entry into the training market, the number of our competitors could increase, many of whom may imitate existing methods of distribution, or could offer similar content and programs at lower prices. However, we believe that we have several areas of competitive differentiation in our industry. We believe that our competitive advantages include: (1) the quality of our content, as indicated by our strong gross margins, branded content, and best-selling books; (2) the breadth of delivery options we are able to offer to customers for utilizing our content, including the All Access Pass and *Leader in Me* membership, live presentations by our own training consultants, live presentations through Company certified client-employed facilitators, intellectual property licensing, web-based presentations, and film-based presentations; (3) our global reach, which allows truly multinational clients to scale our content uniformly across the globe, through our mix of direct offices and our global licensee network; and (4) the significant impact which our offerings can have on our clients' results. Moreover, we believe that we are a market leader in the U.S. in leadership, execution, productivity, individual effectiveness, and educational improvement.

### Seasonality

Our fourth quarter of each fiscal year typically has higher sales and operating income than other fiscal quarters

primarily due to increased revenues in our Education Division (when school administrators and faculty have professional development days) and to increased sales that typically occur during that quarter from year-end incentive programs. Overall, training sales are moderately seasonal because of the timing of corporate training, which is not typically scheduled as heavily during holiday and certain vacation periods.

### Manufacturing and Distribution

We do not manufacture any of our products. We purchase our training materials and related products from various vendors and suppliers located both domestically and internationally, and we are not dependent upon any one vendor for the production of our training and related materials as the raw materials for these products are readily available. We currently believe that we have good relationships with our suppliers and contractors. Our materials are primarily warehoused and distributed from an independent warehouse facility located in Des Moines, Iowa.

### Trademarks, Copyrights, and Intellectual Property

Our success has resulted in part from our proprietary content, methodologies, and other intellectual property rights. We seek to protect our intellectual property through a combination of trademarks, copyrights, and confidentiality agreements. We claim rights for over 630 trademarks in the United States and foreign countries, and we have obtained registration in the United States and numerous foreign countries for many of our trademarks including *FranklinCovey*, *The 7 Habits of Highly Effective People*, *The 4 Disciplines of Execution*, and *The 7 Habits*. We consider our trademarks and other proprietary rights to be important and material to our business.

We claim over 230 registered copyrights, and own sole or joint copyrights on our books, manuals, text and other printed information provided in our training programs, and other electronic media products, including audio and video media. We may license, rather than sell, facilitator workbooks and other seminar and training materials in order to protect our intellectual property rights therein. We place trademark and copyright notices on our instructional, marketing, and advertising materials. In order to maintain the proprietary nature of our product information, we enter into written confidentiality agreements with certain executives, product developers, sales professionals, training consultants, other employees, and licensees.

## Employees

One of our most important assets is our people. The diverse and global makeup of our workforce allows us to serve a variety of clients on a worldwide basis. We are committed to attracting, developing, and retaining quality personnel and actively strive to reinforce our employees' commitment to our clients, and to our mission, vision, culture, and values through the creation of a motivational and rewarding work environment. We currently have approximately 940 associates around the world and management believes that its relations with its associates is good. None of our associates are represented by a union or other collective bargaining group. While competition is intense for skilled personnel in various functions, we currently do not foresee a shortage in qualified personnel needed to operate and grow our business.

Our benefit programs are designed to be both comprehensive and tailored to the needs of our employee population, such as a paid time off policy that allows for flexibility to meet our associates' needs. Our wellness benefits are aimed at encouraging employees to be aware of their current state of health and provides various tools and resources to assist them in maintaining their health given the demanding nature of the work. Through our offered benefits, including health plans, retirement benefits, stock purchase plan, and other benefit programs, we seek to provide a core sense of security to our employees.

## Information About Our Executive Officers

On November 7, 2019, we appointed Paul S. Walker as President and Chief Operating Officer of Franklin Covey Co. Each of the executive officers of Franklin Covey Co. listed below served with the described responsibilities throughout the fiscal year ended August 31, 2019:

**M. Sean Covey**, 55, currently serves as President of Franklin Covey Education, and has led the growth of this Division from its infancy to its status today. The Education Division works with thousands of education entities throughout the world in Higher Education and the K-12 market. Mr. Covey was previously the Executive Vice President of Global Solutions and Partnerships and Education Practice Leader and has been an Executive Officer since September 2008. Sean also served as the Senior Vice President of Innovations and Product Development from April 2006 to September 2009, where he led the development of nearly all of the Company's

current organizational offerings, including: *The 7 Habits* curriculum; *The 4 Disciplines of Execution*; *The Leader in Me*; and *Leadership Greatness*. Prior to 2006, Sean ran the Franklin Covey retail chain of stores, growing it to \$152 million in sales. Before joining Franklin Covey, Sean worked for the Walt Disney Company, Trammel Crow Ventures, and Deloitte & Touche Consulting. Mr. Covey is also a *New York Times* best-selling author and has written several books, including *The 4 Disciplines of Execution*, *The 6 Most Important Decisions You'll Ever Make*, *The Leader in Me*, and the international bestseller *The 7 Habits of Highly Effective Teens*. Sean graduated with honors from Brigham Young University with a Bachelor's degree in English and later earned his MBA from the Harvard Business School. Sean is the son of the late Dr. Stephen Covey.

**Colleen Dom**, 57, was appointed to be the Executive Vice-President of Operations in September 2013. Ms. Dom began her career with the Company in 1985 and served as the first "Client Service Coordinator," providing service and seminar support for some of the Company's very first clients. Prior to her appointment as an Executive Vice President, Ms. Dom served as Vice President of Domestic Operations since 1997 where she had responsibility for the Company's North American operations, including client support, supply chain, and feedback operations. During her time at Franklin Covey Co., Colleen has been instrumental in creating and implementing systems and processes that have supported the Company's strategic objectives and has more than 30 years of experience in client services, sales support, operations, management, and supply chain. Due to her valuable understanding of the Company's global operations, Ms. Dom has been responsible for numerous key assignments that have enhanced client support, optimized operations, and built capabilities for future growth. Prior to joining the Company, Colleen worked in retail management and in the financial investment industry.

**C. Todd Davis**, 62, is an Executive Vice President and Chief People Officer, and has been an Executive Officer since September 2008. Todd has over 30 years of experience in training, training development, sales and marketing, human resources, coaching, and executive recruiting. He has been with Franklin Covey for more than the past 20 years. Previously, Mr. Davis was a Director of our Innovations Group where he led the development of core offerings including *The 7 Habits of Highly Effective People – Signature Program*. Todd also worked for several years as our Director of Recruitment and was

responsible for attracting, hiring, and retaining top talent for the organization. Prior to joining Franklin Covey, Mr. Davis worked in the medical industry for 9 years where he recruited physicians and medical executives along with marketing physician services to hospitals and clinics throughout the country. Todd is the author of *Get Better: 15 Proven Practices to Build Effective Relationships at Work*.

**Scott J. Miller**, 51, is the Executive Vice-President of Thought Leadership at Franklin Covey. Mr. Miller, who has been with the Company for 23 years, was previously the Executive Vice-President of Business Development and Marketing and has served as an executive of the Company since March 2012. Scott's role as Executive Vice-President caps 12 years on our front line, working with thousands of client facilitators across many markets and countries. Prior to his appointment as Vice-President of Business Development and Marketing, Mr. Miller served as the general manager of our central regional sales office for six years. Scott originally joined the Covey Leadership Center in 1996 as a client partner with the Education Division. Mr. Miller started his professional career with the Disney Development Company, the real estate development division of the Walt Disney Company, in 1992. During his time with the Disney Development Company, Scott identified trends and industry best practices in community development, education, healthcare, architectural design, and technology. Mr. Miller received a Bachelor of Arts in Organizational Communication from Rollins College in 1996.

**Paul S. Walker**, 44, is a 19-year veteran of Franklin Covey Co. Mr. Walker currently serves as the President of the Enterprise Division, which includes the operations of the Direct Office and International Licensee segments. Mr. Walker was previously the Executive Vice-President of Global Sales and Delivery and began his service as an executive officer on September 1, 2015. Paul began his career with Franklin Covey in 2000 in the role of business developer, was promoted to a Client Partner, and then to an Area Director. In 2007, Mr. Walker became General Manager of the Company's central sales region, an 11-state area that also included Ontario, Canada. Prior to working for Franklin Covey, Mr. Walker was a senior sales partner for Alexander's Digital Printing and a middle-market pilot coordinator with New York Life. Mr. Walker graduated from Brigham Young University with a Bachelor of Arts in Communications.

**Robert A. Whitman**, 66, has served as Chairman of the Board of Directors since June 1999 and as President and Chief Executive Officer of the Company since January 2000. Mr. Whitman previously served as a director of the Covey Leadership Center from 1994 to 1997. Prior to joining us, Mr. Whitman served as President and Co-Chief Executive Officer of The Hampstead Group from 1992 to 2000 and is a founding partner at Whitman Peterson. Mr. Whitman received his Bachelor of Arts degree in Finance from the University of Utah and his MBA from the Harvard Business School.

**Stephen D. Young**, 66, joined FranklinCovey as Executive Vice President of Finance, was appointed Chief Accounting Officer and Controller in January 2001, Chief Financial Officer in November 2002, and Corporate Secretary in March 2005. Prior to joining us, he served as Senior Vice-President of Finance, Chief Financial Officer, and director of international operations for Weider Nutrition for seven years; as Vice-President of Finance at First Health for ten years; and as an auditor at Fox and Company, a public accounting firm, for four years. Mr. Young has more than 35 years of accounting and management experience and is a Certified Public Accountant. Mr. Young was awarded a Bachelor of Science in Accounting from Brigham Young University.

### Available Information

We regularly file reports with the SEC. These reports include, but are not limited to, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and security transaction reports on Forms 3, 4, or 5. The SEC also maintains electronic versions of the Company's reports, proxy and information statements, and other information that the Company files with the SEC on its website at [www.sec.gov](http://www.sec.gov).

The Company makes our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, current reports on Form 8-K, and other reports filed or furnished with the SEC available to the public, free of charge, through our website at [www.franklincovey.com](http://www.franklincovey.com). These reports are provided through our website as soon as is reasonably practicable after we file or furnish these reports with the SEC.



## ITEM 1A. RISK FACTORS

Our business environment, current domestic and international economic conditions, geopolitical circumstances, and other specific risks may affect our future business decisions and financial performance. The matters discussed below may cause our future results to differ from past results or those described in forward-looking statements and could have a material adverse effect on our business, financial condition, liquidity, results of operations, and stock price, and should be considered in evaluating our Company.

The risks included here are not exhaustive. Other sections of this report may include additional risk factors which could adversely affect our business and financial performance. Moreover, we operate in a very competitive and rapidly changing global environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

***We operate in an intensely competitive industry and our competitors may develop programs, services, or courses that adversely affect our ability to sell our offerings.***

The training and consulting services industry is intensely competitive with relatively easy entry. Competitors continually introduce new programs, services, and delivery methods that may compete directly with our offerings, or that may make our offerings uncompetitive or obsolete. Larger competitors may have superior abilities to compete for clients and skilled professionals, reducing our ability to deliver quality work to our clients. Some of our competitors may have greater financial and other resources than we do. In addition, one or more of our competitors may develop and implement training courses or methodologies that may adversely affect our ability to sell our offerings and products to new clients. Any one of these circumstances could have an adverse effect on our ability to obtain new business and successfully deliver our services.

***The introduction of the All Access Pass has been disruptive to our business and may continue to create both operational and financial challenges during the transition to a subscription services-focused business model.***

In fiscal 2016, we introduced the All Access Pass, which is an internet-based platform that allows our clients to purchase unlimited access to our intellectual property for a specified period. We have also introduced the *Leader in Me* online subscription that provides our Education Division clients with the tools and additional services they need to successfully implement the *Leader in Me* program in their schools. As expected, the change to a subscription services-focused business model has been disruptive as we transition our legacy business to this new delivery model, but we believe the benefits of the AAP and *The Leader in Me* online service to our clients and to our business will ultimately prove beneficial as we continue to emphasize and grow sales of subscription services.

The change to a subscription-focused business model has required a transition both operationally and from an accounting and reporting point of view. Operationally, we have reorganized our sales forces to focus on and support subscription sales and renewals. However, we still sell a significant amount of services and related products through our legacy business, which we continue to operate and support. As such, our selling, general, and administrative expenses have increased to support both the growth of our subscription business and our legacy business. The applicable accounting guidance for subscription sales requires that we defer subscription contract revenue at the inception of the agreement and then recognize the revenue over the life of the corresponding arrangement. These changes to a subscription-based business model have produced significant changes in our recent financial statements, including reduced operating income compared with previous years and increased liabilities resulting from deferred revenues.

If we are unable to effectively adapt our sales force and sales strategy to sell subscription services, or if technological development of these services becomes too costly or is not accepted by the market, or we are unable to optimize our costs to support a subscription-based and legacy business model, the transition period to a subscription-focused business model may be lengthened and our ability to achieve previous levels of profitability may be adversely affected.

***The All Access Pass and Leader in Me online service are internet-based platforms, and as such we are subject to increased risks of cyber-attacks and other security breaches that could have a material adverse effect on our business.***

As part of selling subscription-based services, we collect, process, and retain a limited amount of sensitive and confidential information regarding our customers. Because our subscription services are internet-based platforms, our facilities and systems may be vulnerable to external or internal security breaches, acts of vandalism, computer viruses, misplaced or lost data, stolen intellectual property, programming or human errors, or other similar events.

The access by unauthorized persons to, or the improper disclosure by us of, confidential information regarding our customers or our own proprietary information, software, methodologies, and business secrets could result in significant legal and financial exposure, damage to our reputation, or a loss of confidence in the security of our systems, products, and services, which could have a material adverse effect on our business, financial condition, or results of operations. To the extent we are involved in any future cyber-attacks or other breaches, our brand and reputation could be affected, and these conditions could also have a material adverse effect on our business, financial condition, or results of operations.

***Our business is becoming increasingly dependent on information technology and will require additional cash investments in order to grow and meet the demands of our clients.***

Since the introduction of our subscription services, our dependence on the use of sophisticated technologies and information systems has increased. Moreover, our technology platforms will require continuing cash investments by us to expand existing offerings, improve the client experience, and develop complementary offerings. Our future success depends in part on our ability to adapt our services and infrastructure while continuing to improve the performance, features, and reliability of our services in response to the evolving demands of the marketplace. Failure to adapt and improve these areas could have an adverse effect on our business, including our results of operations, financial position, and cash flows.

***We could incur additional liabilities or our reputation could be damaged if we do not protect client data or if our information systems are breached.***

We are dependent on information technology networks and systems to process, transmit, and store electronic

information and to communicate between our locations around the world and with our clients. Security breaches of this infrastructure could lead to shutdowns or disruptions of our systems and potential unauthorized disclosure of confidential information. We are also required at times to manage, utilize, and store sensitive or confidential client or employee data. As a result, we are subject to numerous U.S. and foreign jurisdiction laws and regulations designed to protect this information, such as the various U.S. federal and state laws governing the protection of individually identifiable information. If any person, including any of our associates, negligently disregards or intentionally breaches our established controls with respect to such data or otherwise mismanages or misappropriates that data, we could be subject to monetary damages, fines, and/or criminal prosecution. Unauthorized disclosure of sensitive or confidential client or employee data, whether through systems failure, employee negligence, fraud, or misappropriation could damage our reputation and cause us to lose clients.

Legal requirements relating to the collection, storage, handling, and transfer of personal data continue to evolve. For example, the European Union and the U.S. formally entered into a new framework in July 2016 that provides a mechanism for companies to transfer data from European Union member states to the U.S. This new framework, called the E.U.-U.S. Privacy Shield Framework, is intended to address shortcomings identified by the European Court of Justice in a predecessor mechanism. The Privacy Shield and other data protection mechanisms face a number of legal challenges by both private parties and regulators, which may lead to uncertainty about the legal basis for data transfers across the Atlantic. Ongoing legal reviews may result in burdensome or inconsistent requirements affecting the location and movement of our customer and internal employee data as well as the management of that data. Compliance may require changes in services, business practices, or internal systems that may result in increased costs, lower revenue, reduced efficiency, or greater difficulty in competing with foreign-based firms. Failure to comply with existing or new rules may result in significant penalties or orders to stop the alleged noncompliant activity.

In addition, during May 2018 the new General Data Protection Regulation (GDPR) became effective in the European Union. The GDPR imposes strict requirements on the collection, use, security, and transfer of personal information in and from European Union member states. The GDPR is designed to unify data protection within

the European Union under a single law, which may result in significantly greater compliance burdens and costs related to our European Union operations and customers. Under GDPR, fines of up to 20 million Euros or up to four percent of the annual global revenues of the infringer, whichever is greater, could be imposed. Although GDPR applies across the European Union, local data protection authorities still have the ability to interpret GDPR, which may create inconsistencies in application on a country-by-country basis. Furthermore, as the United Kingdom transitions out of the European Union, we may encounter additional complexity with respect to data privacy and data transfers from the United Kingdom. We implemented new controls and procedures, including a team dedicated to data protection, to comply with the Privacy Shield and the requirements of GDPR, which were effective for us in May 2018. However, these new procedures and controls may not be completely effective in preventing unauthorized breaches of personal data.

Other governmental authorities throughout the U.S. and around the world are considering similar types of legislative and regulatory proposals concerning data protection. For example, in June 2018, the State of California enacted the California Consumer Privacy Act of 2018 (the CCPA), which will come into effect on January 1, 2020. The CCPA requires companies that process information on California residents to make new disclosures to consumers about their data collection, use and sharing practices, and allows consumers to opt out of certain data sharing with third parties and provides a new cause of action for data breaches. However, legislators have stated that they intend to propose amendments to the CCPA, and it remains unclear what, if any, modifications will be made to the CCPA or how it will be interpreted. Additionally, the Federal Trade Commission and many state attorneys general are interpreting federal and state consumer protection laws to impose standards for the online collection, use, dissemination and security of data. Each of these privacy, security, and data protection laws and regulations could impose significant limitations, require changes to our business, or restrict our use or storage of personal information, which may increase our compliance expenses and make our business more costly or less efficient to conduct.

We employ global best practices in securing and monitoring code, applications, systems, processes and data, and our security practices are regularly reviewed and validated by an external auditing firm. However, these efforts may be insufficient to protect sensitive information

against illegal activities and we may be exposed to additional liabilities from the various data protection laws enacted within the jurisdictions where we operate.

***The sale of a large number of common shares by Knowledge Capital could depress the market price of our common stock.***

Knowledge Capital Investment Group (Knowledge Capital), a related party primarily controlled by a member of our Board of Directors, holds 2.8 million shares, or approximately 20 percent, of our outstanding common shares. On January 26, 2015, the SEC declared effective a registration statement on Form S-3 to register the resale of shares held by Knowledge Capital. The sale or prospect of the sale of a substantial number of the shares held by Knowledge Capital may have an adverse effect on the market price of our common stock.

***Our results of operations could be adversely affected by economic and political conditions and the effects of these conditions on our clients' businesses and their levels of business activity.***

Global economic and political conditions affect our clients' businesses and the markets in which they operate. Our financial results are somewhat dependent on the amount that current and prospective clients budget for training. A serious and/or prolonged economic downturn combined with a negative or uncertain political climate could adversely affect our clients' financial condition and the amount budgeted for training by our clients. These conditions may reduce the demand for our services or depress the pricing of those services and have an adverse impact on our results of operations. Changes in global economic conditions may also shift demand to services for which we do not have competitive advantages, and this could negatively affect the amount of business that we are able to obtain. Such economic, political, and client spending conditions are influenced by a wide range of factors that are beyond our control and that we have no comparative advantage in forecasting. If we are unable to successfully anticipate these changing conditions, we may be unable to effectively plan for and respond to those changes, and our business could be adversely affected.

Our business success also depends in part upon continued growth in the use of training and consulting services and the renewal of existing contracts by our clients. In challenging economic environments, our clients may reduce or defer their spending on new services and consulting solutions in order to focus on other priorities. At the same time, many companies have already invested

substantial resources in their current means of conducting their business and they may be reluctant or slow to adopt new approaches that could disrupt existing personnel and/or processes. If growth in the general use of training and consulting services in business or our clients' spending on these items declines, or if we cannot convince our clients or potential clients to embrace new services and solutions, our results of operations could be adversely affected.

In addition, our business tends to lag behind economic cycles and, consequently, the benefits of an economic recovery following a period of economic downturn may take longer for us to realize than other segments of the economy.

***Recent developments in international trade may have a negative effect on global economic conditions and our business, financial results, and financial condition.***

The United States recently proposed and enacted certain tariffs. In addition, there have been ongoing discussions and activities regarding changes to other U.S. trade policies and treaties. In response, some countries in which we operate, including China, are threatening to implement or have already implemented tariffs on U.S. imports or otherwise imposed non-tariff barriers. These developments may have a material adverse effect on global economic conditions and the stability of global financial markets, and they may significantly reduce global trade and, in particular, trade between China and the United States. Any of these factors could depress economic activity, create anti-American consumer sentiment, restrict our access to suppliers or customers, and have a material adverse effect on our business, financial condition, and results of operations. In addition, any actions by non-U.S. markets to implement further trade policy changes, including limiting foreign investment or trade, increasing regulatory scrutiny or taking other actions which impact U.S. companies' ability to obtain necessary licenses or approvals could negatively impact our business.

***We have only a limited ability to protect our intellectual property rights, which are important to our success.***

Our financial success is partially dependent on our ability to protect our proprietary offerings and other intellectual property. The existing laws of some countries in which we provide services might offer only limited protection of our intellectual property rights. To protect our intellectual property, we rely upon a combination of confidentiality policies, nondisclosure and other contractual

arrangements, as well as copyright and trademark laws. The steps we take in this regard may not be adequate to prevent or deter infringement or other misappropriation of our intellectual property, and we might not be able to detect unauthorized use of, or take appropriate and timely steps to enforce, our intellectual property rights, especially in foreign jurisdictions.

The loss of proprietary content or the unauthorized use of our intellectual property may create greater competition, loss of revenue, adverse publicity, and may limit our ability to reuse that intellectual property for other clients. Any limitation on our ability to provide a service or solution could cause us to lose revenue-generating opportunities and require us to incur additional expenses to develop new or modified solutions for future engagements.

***We depend on key personnel, the loss of whom could harm our business.***

Our future success will depend, in part, on the continued service of key executive officers and personnel. The loss of the services of any key individuals could harm our business. Our future success also depends on our ability to identify, attract, and retain additional qualified senior personnel. Competition for such individuals in our industry is intense, and we may not be successful in attracting and retaining such personnel.

***If we are unable to attract, retain, and motivate high-quality employees, including sales personnel and training consultants, we may not be able to grow our business as projected or may not be able to compete effectively.***

Our success and ability to grow are partially dependent on our ability to hire, retain, and motivate sufficient numbers of talented people with the increasingly diverse skills needed to serve our clients and grow our business. Competition for skilled personnel is intense at all levels of experience and seniority. There is a risk that we will find it difficult to hire and retain a sufficient number of employees with the skills or backgrounds we require, or that it will prove difficult to retain them in a competitive labor market. If we are unable to hire and retain talented sales and delivery employees with the skills, and in the locations, we require, we might not be able to grow our business at projected levels or may not be able to effectively deliver our content and services. If we need to hire additional personnel to maintain a specified number of sales personnel or are required to re-assign personnel from other geographic areas, it could increase our costs

and adversely affect our profit margins. In addition, the inability of newly hired sales personnel to achieve projected sales levels may inhibit our ability to attain anticipated growth.

***Our global operations pose complex management, foreign currency, legal, tax, and economic risks, which we may not adequately address.***

We have sales offices in Australia, China, Japan, Germany, Switzerland, Austria, and the United Kingdom. We also have licensed operations in numerous other foreign countries. As a result of these foreign operations and their impact upon our financial statements, we are subject to a number of risks, including:

- Restrictions on the movement of cash
- Burdens of complying with a wide variety of national and local laws, including tax laws
- The absence in some jurisdictions of effective laws to protect our intellectual property rights
- Political instability
- Currency exchange rate fluctuations
- Longer payment cycles
- Price controls or restrictions on exchange of foreign currencies

For instance, on June 23, 2016, the United Kingdom held a referendum in which a majority of voters chose to exit the European Union, commonly referred to as “Brexit.” The outcome of this referendum produced significant currency exchange rate fluctuations and volatility in global stock markets. The British government has commenced negotiations to determine the terms of Brexit, but the terms have not yet been determined and the process and effects of such separation remain uncertain. Given the lack of comparable precedent, the implications of Brexit or how such implications might affect us are unclear. Brexit could, among other things, disrupt trade and the free movement of data, goods, services, and people between the United Kingdom and the European Union or other countries as well as create legal and global economic uncertainty. These and other potential implications of Brexit could adversely affect our business and financial results.

***Our global operations expose us to numerous and sometimes conflicting legal and regulatory requirements, and violation of these regulations could harm our business.***

Because we provide services to clients in many countries, we are subject to numerous, and sometimes conflicting,

regulations on matters as diverse as import/export controls, content requirements, trade restrictions, tariffs, taxation, sanctions, government affairs, internal and disclosure control obligations, data privacy, and labor relations. Violations of these regulations in the conduct of our business could result in fines, criminal sanctions against us or our officers, prohibitions on doing business, and damage to our reputation. Violations of these regulations in connection with the performance of our obligations to our clients also could result in liability for monetary damages, fines, unfavorable publicity, and allegations by our clients that we have not performed our contractual obligations. Due to the varying degrees of development of the legal systems of the countries in which we operate, local laws may be insufficient to protect our rights.

In many parts of the world, including countries in which we operate, practices in the local business community might not conform to international business standards and could violate anticorruption regulations, including the United States Foreign Corrupt Practices Act, which prohibits giving anything of value intended to influence the awarding of government contracts. Although we have policies and procedures to ensure legal and regulatory compliance, our employees, licensee operators, and agents could take actions that violate these requirements. Violations of these regulations could subject us to criminal or civil enforcement actions, including fines and suspension or disqualification from United States federal procurement contracting, any of which could have an adverse effect on our business.

***We may fail to meet analyst expectations, which could cause the price of our stock to decline.***

Our common stock is publicly traded on the NYSE, and at any given time various securities analysts follow our financial results and issue reports on us. These periodic reports include information about our historical financial results as well as the analysts’ estimates of our future performance. The analysts’ estimates are based on their own opinions and are often different from our estimates or expectations. If our operating results are below the estimates or expectations of public market analysts and investors, our stock price could decline. If our stock price is volatile, we may become involved in securities litigation following a decline in price. Any litigation could result in substantial costs and a diversion of management’s attention and resources that are needed to successfully run our business.

***Our business performance may not be sufficient for us to meet the financial guidance that we provide publicly.***

We may provide financial guidance to the public based upon our expectations regarding our financial performance. While we believe that our annual financial guidance provides investors and analysts with insight into our view of the Company's future performance, such financial guidance is based on assumptions that may not always prove to be accurate and may vary from actual results. If we fail to meet the full-year financial guidance that we provide, or if we find it necessary to revise such guidance during the year, the market value of our common stock could be adversely affected.

***Our future quarterly operating results are subject to factors that can cause fluctuations in our stock price.***

Historically, our stock price has experienced significant volatility. We expect that our stock price may continue to experience volatility in the future due to a variety of potential factors that may include the following:

- Fluctuations in our quarterly results of operations and cash flows
- Increased overall market volatility
- Variations between our actual financial results and market expectations
- Changes in our key balances, such as cash and cash equivalents
- Currency exchange rate fluctuations
- Unexpected asset impairment charges
- Increased or decreased analyst coverage

These factors may have an adverse effect upon our stock price in the future.

***Our profitability will suffer if we are not able to maintain our pricing and utilization rates.***

The profit margin on our services is largely a function of the rates we are able to recover for our services and the utilization, or chargeability, of our trainers, client partners, and consultants. Accordingly, if we are unable to maintain sufficient pricing for our services or an appropriate utilization rate for our training professionals without corresponding cost reductions, our profit margin and overall profitability will suffer. The rates that we are able to recover for our services are affected by a number of factors that we may be unable to control, including:

- Our clients' perceptions of our ability to add value through our programs and content
- Competition
- General economic conditions
- Introduction of new programs or services by us or our competitors

There can be no assurance that we will be able to maintain favorable pricing or utilization rates in future periods. Additionally, we may not achieve pricing or utilization rates that are optimal for us. If our utilization rates are too high, it could have an adverse effect on employee engagement and attrition. If our pricing or utilization rates are too low, our profit margin and profitability may suffer.

***Our work with governmental clients exposes us to additional risks that are inherent in the government contracting process.***

Our clients include national, state, provincial, and local governmental entities, and our work with these governmental entities has various risks inherent in the governmental contracting process. These risks include, but are not limited to, the following:

- Governmental entities typically fund projects through appropriated monies. While these projects are often planned and executed as multi-year projects, the governmental entities usually reserve the right to change the scope of, or terminate, these projects for lack of approved funding and other discretionary reasons. Changes in governmental priorities or other political developments, including disruptions in governmental operations, could result in changes in the scope of, or in termination of, our existing contracts.
- Governmental entities often reserve the right to audit our contract costs, including allocated indirect costs, and conduct inquiries and investigations of our business practices with respect to our government contracts. If the governmental entity finds that the costs are not reimbursable, then we will not be allowed to bill for those costs or the cost must be refunded to the client if it has already been paid to us. Findings from an audit also may result in our being required to prospectively adjust previously agreed upon rates for our work, which may affect our future margins.
- If a governmental client discovers improper activities in the course of audits or investigations, we may become subject to various civil and criminal penalties and administrative sanctions, which may include

termination of contracts, forfeiture of profits, suspension of payments, fines and suspensions or debarment from doing business with other agencies of that government. The inherent limitations of internal controls may not prevent or detect all improper or illegal activities, regardless of their adequacy.

- Political and economic factors such as pending elections, the outcome of elections, revisions to governmental tax policies, sequestration, debt ceiling negotiations, and reduced tax revenues can affect the number and terms of new governmental contracts signed.

The occurrences or conditions described above could affect not only our business with the particular governmental agency involved, but also our business with other agencies of the same or other governmental entities. Additionally, because of their visibility and political nature, governmental contracts may present a heightened risk to our reputation. Any of these factors could have an adverse effect on our business or our results of operations.

***Changes in U.S. tax laws could have an adverse effect on our business, cash flows, results of operations, and financial condition.***

We are subject to income and other taxes in the U.S. at the state and federal level, and in foreign jurisdictions. Changes in applicable U.S. state, federal, or foreign tax laws and regulations, or their interpretation and application, could materially affect our tax expense and profitability.

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act (2017 Tax Reform), a tax reform bill which contains significant changes to corporate taxation, including a reduction in the current corporate federal income tax rate from 35 percent to 21 percent, additional limitations on the deductibility of interest expense, substantial changes to the taxation of foreign earnings, and modification or repeal of many business deductions and credits. The changes included in the 2017 Tax Reform are broad and complex and any amended legislation or other changes in the U.S. federal income tax laws could adversely affect the U.S. federal taxation of our ongoing operations. Any such changes and related consequences could have a material adverse impact on our financial results.

***The Company's use of accounting estimates involves judgment and could impact our financial results.***

Our most critical accounting estimates are described in Management's Discussion and Analysis found in Item 7 of this report under the section entitled "Use of Estimates

and Critical Accounting Policies." In addition, as discussed in various footnotes to our financial statements as found in Item 8, we make certain estimates for loss contingencies, including decisions related to legal proceedings and reserves. Because, by definition, these estimates and assumptions involve the use of judgment, our actual financial results may differ from these estimates. If our estimates or assumptions underlying such contingencies and reserves prove incorrect, we may be required to record additional adjustments or losses relating to such matters, which would negatively affect our financial results.

***We may not be able to generate sufficient cash to service our indebtedness, and we may be forced to take other actions to satisfy our payment obligations under our indebtedness, which may not be successful.***

Our ability to make scheduled payments on or to refinance our indebtedness depends on our future performance, including the performance of our subsidiaries, which will be affected by financial, business and economic conditions, competition, and other factors. We are unable to control many of these factors, such as the general economy, economic conditions in the industries in which we operate and competitive pressures. Our cash flow may not be sufficient to allow us to pay principal and interest on our indebtedness and to meet our other obligations. If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay investments and capital expenditures or to sell assets, seek additional capital, or restructure or refinance our indebtedness. These alternative measures may be unsuccessful and we may not meet our scheduled debt service obligations. In addition, the terms of existing or future debt agreements, including our new 2019 Credit Facility, may restrict us from pursuing any of these alternatives.

In the event that we need to refinance all or a portion of our outstanding indebtedness before maturity or as it matures, we may not be able to obtain terms as favorable as the terms of our existing indebtedness or refinance our existing indebtedness at all. If interest rates or other factors existing at the time of refinancing result in higher interest rates upon refinancing, we will incur higher interest expense. Furthermore, if any rating agency changes our credit rating or outlook, our debt and equity securities could be negatively affected, which could adversely affect our financial condition and financial results.

*Failure to comply with the terms and conditions of our credit facility may have an adverse effect upon our business and operations.*

Our secured credit agreement and subsequent modifications require us to be in compliance with customary non-financial terms and conditions as well as specified financial ratios. Failure to comply with these terms and conditions or maintain adequate financial performance to comply with specific financial ratios entitles the lender to certain remedies, including the right to immediately call due any amounts outstanding on the line of credit. Such events would have an adverse effect upon our business and operations as there can be no assurance that we may be able to obtain other forms of financing or raise additional capital on terms that would be acceptable to us.

*We may need additional capital in the future, and this capital may not be available to us on favorable terms or at all.*

We may need to raise additional funds through public or private debt offerings or equity financings in order to:

- Develop new services, programs, or offerings
- Take advantage of opportunities, including business acquisitions
- Respond to competitive pressures

Going forward, we will continue to incur costs necessary for the day-to-day operation and potential growth of the business and may use our available revolving line of credit facility and other financing alternatives, if necessary, for these expenditures. We obtained a new credit agreement in August 2019 with our existing lender that expires in August 2024. We expect to regularly renew or amend our lending agreement in the future to maintain the availability of this credit facility. Additional potential sources of liquidity available to us include factoring receivables, issuance of additional equity, or issuance of debt from public or private sources. If necessary, we will evaluate all of these options and select one or more of them depending on overall capital needs and the associated cost of capital.

Any additional capital raised through the sale of equity could dilute current shareholders' ownership percentage in us. Furthermore, we may be unable to obtain the necessary capital on terms or conditions that are favorable to us, or at all.

*We have significant intangible assets, goodwill, and long-term asset balances that may be impaired if cash flows from related activities decline.*

Due to the nature of our business, we have significant amounts of intangible assets, including goodwill, resulting from events such as the acquisition of businesses and the licensing of content. Our intangible assets are evaluated for impairment based on qualitative factors or upon cash flows and estimated royalties from revenue streams (indefinite-lived intangible assets) if necessary. Our goodwill is evaluated through qualitative factors and by comparing the fair value of the reporting units to the carrying value of our net assets if necessary. Although our current sales, cash flows, and market capitalization are sufficient to support the carrying basis of these long-lived assets, if our sales, cash flows, or common stock price decline, we may be faced with significant asset impairment charges that would have an adverse impact upon our results of operations.

*Ineffective internal controls could impact our business and operating results.*

Our internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we fail to maintain the adequacy of our internal controls, including any failure to implement required new or improved controls, or if we experience difficulties in their implementation, our business and operating results may be harmed and we could fail to meet our financial reporting obligations.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

## ITEM 2. PROPERTIES

As of August 31, 2019, our principal executive offices in Salt Lake City, Utah occupy approximately 84,000 square feet of leased office space that is accounted for as a financing arrangement, which expires in 2025. This facility accommodates our executive team and corporate departments, as well as other professionals. The master lease agreement on our principal executive offices contains six five-year renewal options that may be exercised at



our discretion. Additionally, we occupy leased sales and administrative offices both in the United States and various countries around the world as shown below. These leased facilities are accounted for as operating leases.

We consider our existing facilities to be in good condition and suitable for our current and expected level of operations in the upcoming fiscal year and in future periods.

### **U.S./Canada Sales Offices**

Columbus, Ohio

### **International Sales Offices**

Banbury, England

Tokyo, Japan

China: Beijing, Shanghai, Guangzhou, and Shenzhen

During fiscal 2019, we acquired the licensee operation that serves Germany, Switzerland, and Austria (GSA), which was headquartered in Munich, Germany. In July 2019, we closed the headquarters office in Munich and our sales personnel in the GSA countries now operate from their homes similar to our sales personnel in the

United States, Canada, and in certain other countries. In fiscal 2017, we restructured the operations of our domestic sales regions to focus on sales and support of the All Access Pass. As part of this restructuring, we closed our three remaining sales offices in Atlanta, Georgia; Chicago, Illinois; and Irvine, California. Our remaining sales office in the United States is used by Robert Gregory Partners, which is one of the businesses that we acquired during fiscal 2017. There were no other significant changes to the properties used for our operations during the periods presented in this report.

### **ITEM 3. LEGAL PROCEEDINGS**

From time to time, we are the subject of certain legal actions, which we consider routine to our business activities. At August 31, 2019, we were not party to any litigation or legal proceeding that, in the current opinion of management, could have a material adverse effect on our financial position, liquidity, or results of operations. However, due to the risks and uncertainties inherent in legal proceedings, actual results could differ from current expectations.

### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

## **PART II**

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

Our common stock is listed and traded on the New York Stock Exchange (NYSE) under the symbol "FC."

We did not pay or declare dividends on our common stock during the fiscal years ended August 31, 2019 or 2018. Any determination to pay cash dividends will be at the discretion of our board of directors and will be dependent upon our results of operations, financial condition, terms of our financing arrangements, and such other factors as the board deems relevant. We currently anticipate that we will retain all available funds to repay our liabilities, finance future growth and business opportunities, and to repurchase outstanding shares of our common stock.

As of October 31, 2019, we had 13,982,356 shares of common stock outstanding, which were held by 528 shareholders of record. A number of our shareholders hold their shares in street name; therefore, we believe that there are substantially more beneficial owners of our common stock.

#### ***Purchases of Common Stock by the Issuer***

We did not have any purchases of our common stock during the fourth quarter of fiscal 2019.

On January 23, 2015, our Board of Directors approved a new plan to repurchase up to \$10.0 million of the Company's outstanding common stock. All previously existing common stock repurchase plans were canceled and the new common share repurchase plan does not have an expiration date. On March 27, 2015, our Board of Directors increased the aggregate value of shares of Company common stock that may be purchased under the January 2015 plan to \$40.0 million so long as we have either \$10.0 million in cash and cash equivalents or have access to debt financing of at least \$10.0 million. Under the terms of this expanded common stock repurchase plan, we have purchased 1,539,828 shares of our common stock for \$26.8 million through August 31, 2019.

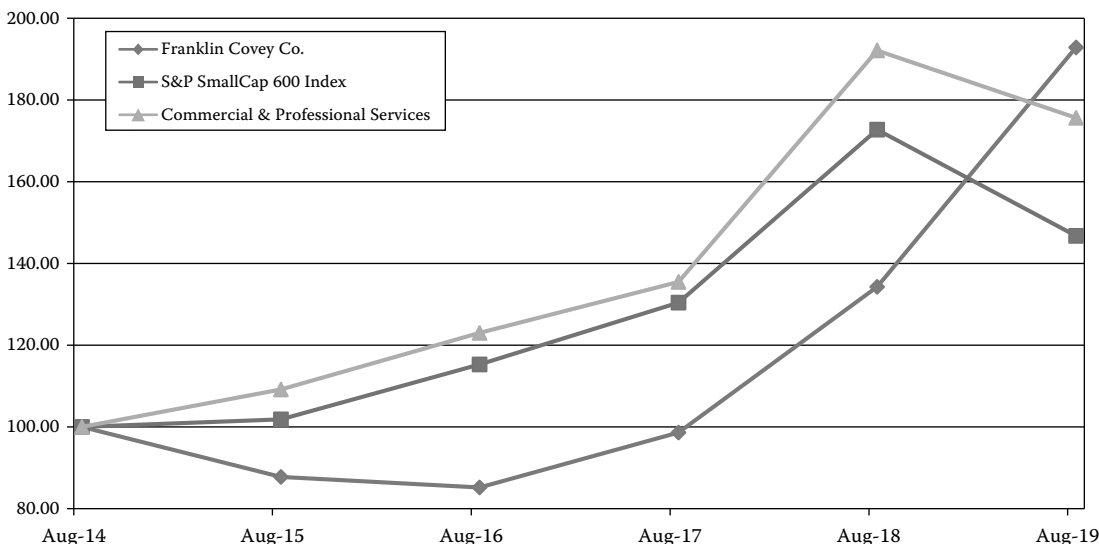
The actual timing, number, and value of common shares repurchased under this plan will be determined at our discretion and will depend on a number of factors, including, among others, general market and business conditions, the trading price of common shares, and applicable legal requirements. The Company has no obligation to repurchase any common shares under the authorization, and the repurchase plan may be suspended, discontinued, or modified at any time for any reason.

**Performance Graph**

The following graph demonstrates a five-year comparison of cumulative total returns for Franklin Covey Co. common stock, the S&P SmallCap 600 Index, and the S&P 600 Commercial & Professional Services Index. The

graph assumes an investment of \$100 on August 31, 2014 in each of our common stock, the stocks comprising the S&P SmallCap 600 Index, and the stocks comprising the S&P 600 Commercial & Professional Services Index. Each of the indices assumes that all dividends were reinvested.

Indexed Returns



The stock performance shown on the performance graph above is not necessarily indicative of future performance. The Company will not make nor endorse any predictions as to our future stock performance.

The performance graph above is being furnished solely to accompany this Annual Report on Form 10-K pursuant

to Item 201(e) of Regulation S-K, and is not being filed for purposes of Section 18 of the Exchange Act, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

## ITEM 6. SELECTED FINANCIAL DATA

The selected consolidated financial data presented below should be read in conjunction with our consolidated financial statements and related footnotes as found in Item 8 of this Annual Report on Form 10-K.

August 31,	2019	2018	2017 <sup>(1)</sup>	2016	2015 <sup>(2)</sup>
<i>In thousands, except per-share data</i>					
<b>Income Statement Data:</b>					
Net sales	\$225,356	\$209,758	\$185,256	\$200,055	\$209,941
Gross profit	159,314	148,289	122,667	133,154	138,089
Income (loss) from operations	2,655	(3,366)	(8,880)	13,849	19,529
Income (loss) before income taxes	592	(5,520)	(10,909)	11,911	17,412
Income tax benefit (provision)	(1,615)	(367)	3,737	(4,895)	(6,296)
Net income (loss)	(1,023)	(5,887)	(7,172)	7,016	11,116
Earnings (loss) per share:					
Basic and diluted	\$ (.07)	\$ (.43)	\$ (.52)	\$ .47	\$ .66
<b>Balance Sheet Data:</b>					
Total current assets	\$119,340	\$100,163	\$ 91,835	\$ 89,741	\$ 95,425
Other long-term assets	10,039	12,935	16,005	13,713	14,807
Total assets	224,913	213,875	210,731	190,871	200,645
Long-term obligations	46,690	50,936	53,158	48,511	36,978
Total liabilities	142,899	133,375	125,666	97,156	75,139
Shareholders' equity	82,014	80,500	85,065	93,715	125,506
Cash flows from operating activities	\$ 30,452	\$ 16,861	\$ 17,357	\$ 32,665	\$ 26,190

- (1) During fiscal 2017 we decided to allow new All Access Pass agreements to receive updated content throughout the contracted period. Accordingly, we defer substantially all AAP revenues at the inception of the agreements and recognize the revenue over the lives of the arrangements. The transition to the AAP model resulted in significantly reduced revenues and operating income during fiscal 2017.
- (2) We elected to amend previously filed U.S. federal income tax returns to claim foreign tax credits instead of foreign tax deductions and recognized significant income tax benefits which reduced our effective income tax rate during these years.

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

The following management's discussion and analysis is intended to provide a summary of the principal factors affecting the results of operations, liquidity and capital resources, contractual obligations, and the critical accounting policies of Franklin Covey Co. (also referred to as we, us, our, the Company, and Franklin Covey) and subsidiaries. This discussion and analysis should be read together with the accompanying consolidated financial statements and related notes contained in Item 8 of this Annual Report on Form 10-K (Form 10-K) and the Risk Factors discussed in Item 1A of this Form 10-K. Forward-looking statements in this discussion are qualified by the cautionary statement under the heading "Safe Harbor Statement Under the Private Securities Litigation Reform Act Of 1995" contained later in Item 7 of this Form 10-K.

### *Non-GAAP Measures*

This management's discussion and analysis includes the concepts of adjusted earnings before interest, income taxes, depreciation, and amortization (Adjusted EBITDA) and "constant currency," which are non-GAAP measures. We define Adjusted EBITDA as net income or loss excluding the impact of interest expense, income taxes, intangible asset amortization, depreciation, stock-based compensation expense, and certain other items such as adjustments to the fair value of expected contingent consideration liabilities arising from business acquisitions. Constant currency is a non-GAAP financial measure that removes the impact of fluctuations in foreign currency exchange rates and is calculated by translating the current period's financial results at the same average exchange rates in effect during the prior year and then comparing this amount to the prior year.

We reference these non-GAAP financial measures in our decision making because they provide supplemental information that facilitates consistent internal

comparisons to the historical operating performance of prior periods and we believe they provide investors with greater transparency to evaluate operational activities and financial results. For a reconciliation of our segment Adjusted EBITDA to net loss, the nearest comparable GAAP measure, please refer to Note 17 (Segment Information) to our consolidated financial statements as presented in Item 8 of this Form 10-K.

## EXECUTIVE SUMMARY

### General Overview

Franklin Covey Co. is a global company focused on individual and organizational performance improvement. Our mission is to “enable greatness in people and organizations everywhere,” and our worldwide resources are organized to help individuals and organizations achieve sustained superior performance through changes in human behavior. We believe that our content and services create the connection between capabilities and results. We believe that our clients are able to utilize our content to create cultures whose hallmarks are high-performing, collaborative individuals, led by effective, trust-building leaders who execute with excellence and deliver measurably improved results for all of their key stakeholders.

In the training and consulting marketplace, we believe there are three important characteristics that distinguish us from our competitors.

- 1. World Class Content** – Our content is principle-centered and based on natural laws of human behavior and effectiveness. When our content is applied consistently in an organization, we believe the culture of that organization will change to enable the organization to achieve their own great purposes. Our offerings are designed to build new skillsets, establish new mindsets, and provide enabling toolsets.
- 2. Breadth and Scalability of Delivery Options** – We have a wide range of content delivery options, including: the All Access Pass, the *Leader in Me* membership, and other intellectual property licenses, on-site training, training led through certified facilitators, on-line learning, blended learning, and organization-wide transformational processes, including consulting and coaching.
- 3. Global Capability** – We have sales professionals in the United States and Canada who serve clients in the private sector, in government, and in educational

institutions; wholly owned subsidiaries in Australia, China, Japan, the United Kingdom, Germany, Switzerland, and Austria; and we contract with independent licensee partners who deliver our content and provide services in over 140 countries and territories around the world.

We hold ourselves responsible for and measure ourselves by our clients' achievement of transformational results.

We have some of the best-known offerings in the training industry, including a suite of individual-effectiveness and leadership-development training content based on the best-selling books, *The 7 Habits of Highly Effective People*, *The Speed of Trust*, and *The 4 Disciplines of Execution*, and proprietary content in the areas of Execution, Sales Performance, Productivity, Customer Loyalty, and Education. We believe that our offerings help individuals, teams, and entire organizations transform their results through achieving systematic, sustainable, and measurable changes in human behavior. Our offerings are described in further detail at [www.franklincovey.com](http://www.franklincovey.com). The information contained in, or that can be accessed through, our website does not constitute a part of this annual report, and the descriptions found therein should not be viewed as a warranty or guarantee of results.

Our fiscal year ends on August 31, and unless otherwise indicated, fiscal 2019, fiscal 2018, and fiscal 2017 refer to the twelve-month periods ended August 31, 2019, 2018, 2017, and so forth.

### Financial Overview

Our fiscal 2019 financial results reflect strong growth in revenues, operating results, and cash flows over the prior year. Increased sales were driven by strong performance from both our Enterprise and Education Divisions during fiscal 2019 as shown in the table below. We believe that the ongoing transition to a subscription-based business model is working well and results for fiscal 2019 reflect the momentum that began in fiscal 2018. For the fiscal year ended August 31, 2019, our consolidated sales increased seven percent to \$225.4 million compared with \$209.8 million in fiscal 2018, despite \$2.0 million of unfavorable foreign exchange impact on our sales during the fiscal year. In constant currency, our sales in fiscal 2019 grew eight percent compared with the prior year. Increased sales, combined with continued strong gross margins and controlled operating expense growth, produced significant improvements in our operating results and cash flows during fiscal 2019 when compared with the prior year.

For fiscal 2019, our subscription and subscription-related revenue grew 23 percent compared with fiscal 2018. At August 31, 2019, we had \$65.8 million of deferred revenue compared with \$52.9 million at August 31, 2018. Total deferred revenue reported above at August 31, 2019 and August 31, 2018 includes \$3.6 million and \$1.0 million, respectively, of deferred revenue that was reclassified to other long-term liabilities based on expected recognition. At August 31, 2019, our unbilled deferred revenue grew

22 percent to \$29.9 million compared with \$24.5 million at the end of fiscal 2018. Unbilled deferred revenue represents business that is contracted, but unbilled and therefore excluded from our balance sheet.

The following table sets forth our consolidated net sales by division and by reportable segment for the fiscal years indicated (in thousands):

YEAR ENDED AUGUST 31,	2019	% change	2018	% change	2017
Enterprise Division:					
Direct offices	\$157,754	8	\$145,890	19	\$122,309
International licensees	12,896	(3)	13,226	(3)	13,571
	170,650	7	159,116	17	135,880
Education Division	48,880	8	45,272	3	44,122
Corporate and other	5,826	8	5,370	2	5,254
Consolidated sales	\$225,356	7	\$209,758	13	\$185,256

Gross profit consists of net sales less the cost of services provided or the cost of goods sold. Our cost of sales includes the direct costs of delivering content onsite at client locations, including presenter costs, materials used in the production of training products and related assessments, assembly, manufacturing labor costs, and freight. Gross profit may be affected by, among other things, the mix of services sold to clients, prices of materials, labor rates, changes in product discount levels, and freight costs. Consolidated cost of sales in fiscal 2019 totaled \$66.0 million compared with \$61.5 million in fiscal 2018. Our gross profit for the fiscal year ended August 31, 2019 increased to \$159.3 million, compared with \$148.3 million in fiscal 2018. The increase in gross profit was primarily due to increased sales as described above. Our gross margin, which is gross profit as a percent of sales, remained strong and was consistent with the prior year at 70.7 percent.

For the fiscal year ended August 31, 2019, our operating expenses increased \$5.0 million compared with the prior year. The increase was primarily due to a \$4.2 million increase in selling, general, and administrative (SG&A) expenses, and a \$1.2 million increase in depreciation expense primarily related to capital spending on our AAP portal and new ERP system in prior years. These increases were partially offset by a \$0.4 million decrease in amortization expense. Increased SG&A expenses during fiscal 2019 were primarily due to associate costs resulting from increased commissions and bonuses on higher sales, new sales and sales related personnel, a \$1.9 million increase in non-cash stock-based compensation, and the addition of GSA personnel, who were formerly

employed by a licensee. Although SG&A expenses increased compared with the prior year, as a percent of revenues, SG&A expenses decreased to 64.5 percent compared with 67.3 percent in fiscal 2018.

Our results of operations in fiscal 2019 improved \$6.0 million to \$2.7 million of income compared with a loss from operations in fiscal 2018 of \$(3.4) million. Fiscal 2019 pre-tax income increased \$6.1 million to \$0.6 million compared with a pre-tax loss of \$(5.5) million in fiscal 2018.

Our effective income tax rate for fiscal 2019 was approximately 273 percent compared with an effective tax rate of approximately 7 percent in fiscal 2018. The increased effective tax rate in fiscal 2019 was primarily due to the relatively small amount of our 2019 pre-tax income, which greatly amplified the effect of non-temporary items on our effective tax rate. Our effective tax rate was also increased by tax expense from Global Intangible Low-Taxed Income (GILTI), nondeductible expenses, and effective foreign tax rates which were significantly higher than the U.S. federal statutory rate, offset by a much smaller increase in our valuation allowance against deferred income tax assets during fiscal 2019 than the increase recorded during fiscal 2018. In addition, we recorded a one-time benefit during fiscal 2018 resulting from the 2017 Tax Act's reduction of the U.S. federal income tax rate. This income tax benefit did not repeat in fiscal 2019.

Net loss for the year ended August 31, 2019 was \$(1.0) million, or \$(.07) per share, compared with a loss of \$(5.9) million, or \$(.43) per share, in fiscal 2018.

Further details regarding these items can be found in the comparative analysis of fiscal 2019 with fiscal 2018 as discussed within this management's discussion and analysis.

Our liquidity position remained strong during fiscal 2019 and we had \$27.7 million of cash at August 31, 2019, with no borrowings on our \$15.0 million revolving credit facility, compared with \$10.2 million of cash at August 31, 2018. During August 2019, we obtained a new credit agreement with our existing lender, which included a new \$20.0 million term loan. For further information regarding our liquidity and cash flows, refer to the Liquidity and Capital Resources discussion found later in this management's discussion and analysis.

## Key Growth Objectives

We believe that our best-in-class offerings, combined with flexible delivery modalities and worldwide sales and distribution capabilities are the foundation for future growth at Franklin Covey. Building on this foundation, we have identified the following key drivers of growth in fiscal 2020 and beyond:

- ***New Subscription Service Sales and the Renewal of Existing Client Contracts*** – We are striving to fully integrate the subscription model throughout our Enterprise and Education Division operations. We believe the subscription-based business model creates strategic and structural durability with our clients while providing significant visibility and predictability into future revenue and earnings. These factors contribute to higher margins, high recurring revenue, and predictable cash flow-through of sales to earnings. Accordingly, we are focused on sales of multi-year subscription contracts and have restructured our sales force and sales support functions to more effectively sell and support subscription services.

- ***Aggressive Expansion of the Client Partner Model*** – We are focused on consistently increasing the number of new client partners to increase our sales force and market penetration. We believe our client partner model is a key driver of future growth as new client partners on average break even during their first year and make significant contributions to sales growth thereafter. At August 31, 2019, we had 245 client partners compared with 214 at the end of fiscal 2018.
- ***Content Expansion*** – We believe that our offerings are based on best-in-class content driven by best-selling books and world-class thought leadership. Our content is focused on performance improvement through behavior-changing outcome oriented training. The Company's vision is to profoundly impact the way billions of people throughout the world live, work, and achieve their own great purposes. We believe ongoing investment in our existing and new content will allow us to achieve this vision.
- ***Continued Emphasis on Client Loyalty*** – Another of our underlying strategic objectives is to consistently deliver quality results to our clients. This concept is focused on ensuring that our content and offerings are best-in-class, and that they have a measurable, lasting impact on our clients' results. We believe that measurable improvement in our clients' organizations is key to retaining current clients and to obtaining new sales opportunities.

Other key factors that influence our operating results include: the number and productivity of our international licensee operations; the number of organizations that are active customers; the number of people trained within those organizations; the continuation or renewal of existing services contracts, especially subscription renewals; the availability of budgeted training spending at our clients and prospective clients, which, in certain content categories, can be significantly influenced by general economic conditions; and our ability to manage operating costs necessary to develop and provide meaningful training and related services and products to our clients.

## RESULTS OF OPERATIONS

The following table sets forth, for the fiscal years indicated, the percentage of total sales represented by the line items through income or loss before income taxes in our consolidated statements of operations. This table should be read in conjunction with the accompanying discussion and analysis, the consolidated financial statements, and the related notes to the consolidated financial statements (amounts in percentages).

YEAR ENDED AUGUST 31,	2019	2018	2017
Sales	100.0	100.0	100.0
Cost of sales	29.3	29.3	33.8
Gross profit	70.7	70.7	66.2
Selling, general, and administrative	64.5	67.3	65.4
Contract termination costs	—	—	0.8
Restructuring costs	—	—	0.8
Depreciation	2.8	2.4	2.1
Amortization	2.2	2.6	1.9
Total operating expenses	69.5	72.3	71.0
Income (loss) from operations	1.2	(1.6)	(4.8)
Interest income	0.0	0.0	0.1
Interest expense	(1.0)	(1.2)	(1.3)
Discount accretion on related party receivables	0.1	0.2	0.1
Income (loss) before income taxes	0.3	(2.6)	(5.9)

## FISCAL 2019 COMPARED FISCAL 2018 RESULTS OF OPERATIONS

### Enterprise Division

#### Direct Offices Segment

The Direct Office segment includes our sales personnel that serve clients in the United States and Canada; our directly owned international offices in Japan, China, the United Kingdom, Australia, and our new offices in Germany, Switzerland, and Austria; plus other groups such as our government services office. The following comparative information is for our Direct Offices segment for the periods indicated (in thousands):

	Year Ended August 31, 2019	% of Sales	Year Ended August 31, 2018	% of Sales	Change
Sales	\$157,754	100.0	\$145,890	100.0	\$11,864
Cost of sales	40,999	26.0	37,750	25.9	3,249
Gross profit	116,755	74.0	108,140	74.1	8,615
SG&A expenses	97,300	61.7	94,886	65.0	2,414
Adjusted EBITDA	\$ 19,455	12.3	\$ 13,254	9.1	\$ 6,201

**Sales.** During fiscal 2019, sales grew at nearly all of our Direct Office segment delivery channels compared with the prior year. Our U.S./Canada sales grew \$8.4 million, international direct office sales grew \$2.6 million, government services sales increased \$1.4 million, and coaching sales increased \$0.5 million compared with the prior year. Increased direct office sales were primarily attributable to the growth of the All Access Pass and recognition of previously deferred

subscription revenues, as well as new contracts obtained during the fiscal year. During fiscal 2019, sales increased at each of our international direct offices, except Japan (which was essentially flat compared with the prior year) despite the impact of unfavorable foreign exchange rates. For the fiscal year ended August 31, 2019, foreign exchange rates had a \$1.5 million unfavorable impact on Direct Office segment sales and a \$0.5 million unfavorable impact on Direct Office operating results. The adoption of



Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* did not have a significant impact on our Direct Office sales.

**Gross Profit.** Gross profit increased due to increased sales in fiscal 2019 as previously described. Gross margin remained strong and was consistent with fiscal 2018.

**SG&A Expenses.** Direct Office operating expenses increased primarily due to increased commissions on higher sales, new sales and sales related personnel, and new GSA direct office expenses, which totaled \$1.3 million. These increases were partially offset by

reductions and cost savings initiatives in various other areas of our Direct Office operations.

### **International Licensees Segment**

In countries or foreign locations where we do not have a directly owned office, our training and consulting services are delivered through independent licensees. The following comparative information is for our international licensee operations for the periods indicated (in thousands):

	Year Ended August 31, 2019	% of Sales	Year Ended August 31, 2018	% of Sales	Change
Sales	\$12,896	100.0	\$13,226	100.0	\$(330)
Cost of sales	2,665	20.7	3,195	24.2	(530)
Gross profit	10,231	79.3	10,031	75.8	200
SG&A expenses	4,159	32.3	4,950	37.4	(791)
Adjusted EBITDA	\$ 6,072	47.0	\$ 5,081	38.4	\$ 991

**Sales.** International licensee revenues are primarily comprised of royalty revenues received from our international licensees. Licensee revenues declined during fiscal 2019 primarily due to the conversion of our GSA licensee to a direct office, which produced \$0.4 million of royalty revenues in the prior year, the unfavorable impact of foreign exchange rates, and reduced sales of wholesale materials (primarily kits) and consulting services to the licensees. Foreign exchange rates had a \$0.3 million unfavorable impact on licensee revenues and operating results during fiscal 2019. These decreases were partially offset by higher royalty revenues from certain licensees during the fiscal year.

**Gross Profit.** Licensee gross profit increased primarily due to decreased sales of wholesale materials and consulting services to the licensees. These products and

services have much lower margins than licensee royalty revenues.

**SG&A Expenses.** International licensee SG&A expenses decreased primarily due to the implementation of various cost savings initiatives during fiscal 2019 to improve the operating results of this segment.

### **Education Division**

Our Education Division is comprised of our domestic and international Education practice operations (focused on sales to educational institutions) and includes our widely acclaimed *Leader In Me* program. The following comparative information is for our Education Division in the periods indicated (in thousands):

	Year Ended August 31, 2019	% of Sales	Year Ended August 31, 2018	% of Sales	Change
Sales	\$48,880	100.0	\$45,272	100.0	\$3,608
Cost of sales	18,507	37.9	16,618	36.7	1,889
Gross profit	30,373	62.1	28,654	63.3	1,719
SG&A expenses	26,820	54.8	25,944	57.3	876
Adjusted EBITDA	\$ 3,553	7.3	\$ 2,710	6.0	\$ 843

**Sales.** For the fiscal year ended August 31, 2019, our Education Practice sales increased primarily due to increased subscription revenues and the addition of new schools. Partially offsetting these increases was the previous expiration of a large six-year funding commitment from a charitable educational foundation, which significantly reduced the number of open grants in fiscal 2019 and 2018. This contract expiration reduced revenues in the Education Division by \$1.1 million, and gross profit by approximately \$0.7 million during fiscal 2019. International Education licensee sales and operating results were also adversely affected by \$0.2 million of unfavorable exchange rates during fiscal 2019. The adoption of ASC 606 had a net \$0.1 million favorable impact on Education Division sales and operating results during fiscal 2019. Consistent with prior years, we continue to see increased demand for the *Leader in Me* program throughout the world. As of August 31, 2019, the *Leader in Me* program is used in over 4,000 schools and in over 50 countries.

**Gross Profit.** Education segment gross profit increased primarily due to increased sales as previously described. Education Division gross margin was slightly lower than the prior year primarily due to increased costs associated with the *Leader in Me* online offering.

**SG&A Expenses.** The increase in Education Division SG&A expense was primarily due to investments in new sales personnel, increased commissions on higher sales, and the cost of developing new materials to provide growth opportunities in future periods.

### Other Expenses

**Depreciation** – Depreciation expense increased due to the acquisition of capital assets, including significant technology related investments in fiscal 2018, and purchases during fiscal 2019. Based on previous property and equipment acquisitions, and expected capital additions during fiscal 2020, we expect depreciation expense will total approximately \$6.7 million in fiscal 2020.

**Amortization** – Our amortization expense decreased compared with the prior year primarily due to the full amortization of certain intangible assets during fiscal

2019. We expect the amortization of intangible assets will total approximately \$4.6 million during fiscal 2020.

### Accretion of Discount on Related Party

**Receivables** – We have receivables from FC Organizational Products (FCOP), an entity in which we own a 19.5 percent interest. We classify these receivables as current or long-term based on expected payment dates, and discounted the long-term receivables at a rate of 15 percent, which we believe is an approximation of FCOP's incremental borrowing rate. During the second quarter of fiscal 2019, we received \$1.4 million of cash from FCOP as payment on outstanding receivables. This payment was larger than previously anticipated and we accelerated the accretion of the remaining discount on the long-term FCOP receivable during fiscal 2019.

### Income Taxes

Our effective income tax rate for the fiscal year ended August 31, 2019 was approximately 273 percent, compared with approximately 7 percent in fiscal 2018. The increased effective tax rate in fiscal 2019 was primarily due to the relatively small amount of our 2019 pre-tax income, which greatly amplified the effect of non-temporary items on our effective tax rate. Our effective tax rate was also increased by tax expense from GILTI, nondeductible expenses, and effective foreign tax rates which were significantly higher than the U.S. federal statutory rate. These increases were partially offset by changes in our valuation allowance against deferred income tax assets in 2019 compared with fiscal 2018. During fiscal 2019, our valuation allowance against deferred tax assets increased by \$0.5 million, which was significantly less than the \$2.8 million net increase in fiscal 2018. In addition, we recorded a one-time benefit in fiscal 2018 from the 2017 Tax Act's reduction of the U.S. federal income tax rate. This benefit did not repeat in fiscal 2019.

Although we paid \$1.8 million in cash for income taxes during fiscal 2019, we anticipate that our total cash paid for income taxes over the coming three to five years will be less than our total income tax provision as we utilize net operating loss carryforwards, foreign tax credit carryforwards and other deferred income tax assets.

## FISCAL 2018 COMPARED WITH FISCAL 2017 RESULTS OF OPERATIONS

### Enterprise Division

#### Direct Offices Segment

The following comparative information is for our Direct Offices segment for the periods indicated (in thousands):

	Year Ended August 31, 2018	% of Sales	Year Ended August 31, 2017	% of Sales	Change
Sales	\$145,890	100.0	\$122,309	100.0	\$23,581
Cost of sales	37,750	25.9	40,609	33.2	(2,859)
Gross profit	108,140	74.1	81,700	66.8	26,440
SG&A expenses	94,886	65.0	77,458	63.3	17,428
Adjusted EBITDA	\$ 13,254	9.1	\$ 4,242	3.5	\$ 9,012

**Sales.** During fiscal 2018, our Direct Office segment sales increased primarily due to increased sales of subscription services and recognition of previously deferred subscription sales. In addition, our government services sales increased \$4.1 million, and we had \$4.0 million of increased revenue from businesses acquired in the third and fourth quarters of fiscal 2017. These increases were partially offset by decreased facilitator sales, as many of these clients have transitioned to the AAP, and decreased onsite training revenues.

International direct office sales increased \$4.9 million when compared with the prior year. Sales increased at all of our international offices compared with fiscal 2017. Our sales in the United Kingdom and Australia were favorably impacted by the recognition of previously deferred AAP revenues and new contracts. Our offices in China continued to perform well and we recognized a \$1.3 million increase in sales compared with the prior year. Our Japan office sales increased by \$0.2 million despite our decision to exit the publishing business in the third quarter of fiscal 2017. Foreign exchange rates had a \$1.0 million favorable impact on our international direct offices sales and a \$0.2 million favorable impact on our international direct office results of operations during fiscal 2018.

**Gross Profit.** Gross profit increased due to increased sales during fiscal 2018 as described above. Gross margin increased primarily due to increased subscription service sales, which generally have higher gross margins than our other services, and our decision to exit the publishing business in Japan during fiscal 2017. During fiscal 2017, we recorded a \$2.1 million charge in cost of goods sold to exit this business and write off the majority of our book inventory in Japan.

**SG&A Expenses.** Direct Office operating expenses increased primarily due to increased commissions on higher sales; new sales and sales related personnel, including implementation specialists; and new personnel from businesses acquired during the third and fourth quarters of fiscal 2017.

#### International Licensees Segment

The following comparative information is for our international licensee operations in the periods indicated (in thousands):

	Year Ended August 31, 2018	% of Sales	Year Ended August 31, 2017	% of Sales	Change
Sales	\$13,226	100.0	\$13,571	100.0	\$ (345)
Cost of sales	3,195	24.2	3,088	22.8	107
Gross profit	10,031	75.8	10,483	77.2	(452)
SG&A expenses	4,950	37.4	4,068	30.0	882
Adjusted EBITDA	\$ 5,081	38.4	\$ 6,415	47.3	\$(1,334)

**Sales.** Our international licensee revenues decreased \$0.3 million compared with the prior year, which was primarily due to decreased sales of training materials during the year. Foreign exchange rates had a \$0.3 million favorable impact on licensee revenues for fiscal 2018.

**Gross Profit.** Gross profit decreased due to decreased sales during fiscal 2018 as described above. Gross margin decreased slightly due to the mix of wholesale products and consulting services provided during the fiscal year.

## Education Division

The following comparative information is for our Education Division in the periods indicated (in thousands):

	Year Ended August 31, 2018	% of Sales	Year Ended August 31, 2017	% of Sales	Change
Sales	\$45,272	100.0	\$44,122	100.0	\$ 1,150
Cost of sales	16,618	36.7	16,206	36.7	412
Gross profit	28,654	63.3	27,916	63.3	738
SG&A expenses	25,944	57.3	20,721	47.0	5,223
Adjusted EBITDA	\$ 2,710	6.0	\$ 7,195	16.3	\$(4,485)

**Sales.** Our Education Division has grown consistently over the past several years, from \$8.4 million of sales in fiscal 2010 to \$44.1 million in sales during fiscal 2017. However, in fiscal 2018, the Education Division's revenues increased only three percent to \$45.3 million. The primary reason for the slowdown in Education Division revenues was the expiration of a large six-year funding commitment from a charitable educational foundation focused on funding new *Leader in Me* schools. This contract expiration reduced revenues in the Education Division by \$2.8 million, and gross profit by approximately \$1.6 million during fiscal 2018.

**SG&A Expenses.** Education Division SG&A expense increased primarily due to investments in new sales and sales related personnel. During fiscal 2018 we also made the decision to expand the *Leader in Me* program to high schools and made substantial investments in both sales personnel and new materials to drive increased Education segment sales in the future.

## Other Expenses

**Contract Termination Costs** – During fiscal 2017, we entered into a new 10-year license agreement for Education practice content in a foreign country, with minimum required royalties payable to us that total approximately \$13 million over the life of the arrangement. Under the previously existing profit-sharing agreement,

**SG&A Expenses.** Operating expenses increased primarily due to marketing and events to launch the All Access Pass to our licensee partners during fiscal 2018. We had recently completed the translation of AAP materials into various different languages, which made the AAP available for sale by our international licensees.

we would have been obligated to pay one-third of the royalty to an international licensee partner that owns the rights in that country. For a \$1.5 million cash payment, we terminated the previously existing profit sharing arrangement and we will owe no further royalty payments to the licensee. Based on the guidance for contract termination costs, we expensed the \$1.5 million payment in fiscal 2017. This charge did not repeat in fiscal 2018.

**Restructuring Costs** – During the third quarter of fiscal 2017, we decided to exit the publishing business in Japan and we restructured our U.S./Canada direct office operations to transition to an AAP-focused business model. We expensed \$3.6 million related to these changes during fiscal 2017. Due to a change in strategy designed to focus resources and efforts on sales of the All Access Pass in Japan, and declining sales and profitability of the publishing business, we decided to exit the publishing business in Japan. As a result of this determination, we wrote off the majority of our book inventory located in Japan and expensed \$2.1 million, which was recorded in cost of sales. We also restructured the operations of our U.S./Canada direct offices to create new smaller regional market teams that are focused on selling the All Access Pass. Accordingly, we determined that our three remaining regional sales offices were unnecessary since most client partners work from home-based offices, we restructured the operations of the Sales Performance and Winning Customer Loyalty Practices, and we eliminated certain

functions to reduce costs in future periods. We expensed \$1.5 million for these restructuring costs in fiscal 2017. We did not engage in any significant restructuring activities during fiscal 2018.

**Depreciation** – Depreciation expense increased due to the acquisition of assets in fiscal 2018, including our new ERP software and significantly upgraded AAP portal.

**Amortization** – Our consolidated amortization expense increased compared with the prior year primarily due to the fiscal 2017 acquisitions of Robert Gregory Partners, LLC and Jhana Education, and the amortization of acquired intangible assets.

**Accretion of Discount on Related Party**

**Receivables** – During fiscal 2018, FCOP paid its long-term receivables sooner than expected and we accelerated the accretion of the discount on these receivables during the year.

**Income Taxes**

Our effective income tax provision rate for the fiscal year ended August 31, 2018 was approximately 7 percent compared with a benefit rate of approximately 34 percent in the prior year.

The unfavorable change in tax rate for fiscal 2018 was primarily due to the recognition of a \$3.0 million valuation allowance against our foreign tax credit carryforward from fiscal 2011. Our sales of the All Access Pass and other subscription services have generated, and will likely continue to generate, substantial amounts of deferred revenue for both book and tax purposes. This situation has produced taxable losses for the past two fiscal years

and a more-likely-than-not presumption that insufficient taxable income will be available to realize the fiscal 2011 foreign tax carryforward, which expires at the end of fiscal 2021. We also recognized additional income tax expense from unrecognized tax benefits and disallowed travel and entertainment expenses in fiscal 2018. Partially offsetting these unfavorable factors were tax benefits from the Tax Cut and Jobs Act (the 2017 Tax Act), which was signed into law on December 22, 2017. The 2017 Tax Act decreased the U.S. federal statutory tax rate applicable to our net deferred tax liabilities, resulting in a \$1.7 million benefit, which was partially offset by \$0.5 million of reduced benefits resulting from the decrease in the U.S. federal statutory tax rate applied to our pre-tax loss.

Our effective tax rate in fiscal 2018 was also affected by \$0.5 million of previously unrecognized tax benefits that were partially offset by additional valuation allowances against the deferred tax assets of a foreign subsidiary and disallowed travel and entertainment expenses.

**QUARTERLY RESULTS**

The following tables set forth selected unaudited quarterly consolidated financial data for the fiscal years ended August 31, 2019 and 2018. The quarterly consolidated financial data reflects, in the opinion of management, all normal and recurring adjustments necessary to fairly present the results of operations for such periods. Results of any one or more quarters are not necessarily indicative of continuing trends (in thousands, except for per-share amounts).

YEAR ENDED AUGUST 31, 2019 (unaudited)

	November 30	February 28	May 31	August 31
Net sales	\$53,829	\$50,356	\$56,006	\$65,165
Gross profit	36,783	35,366	39,664	47,502
Selling, general, and administrative	34,644	35,925	38,713	36,037
Depreciation	1,554	1,697	1,556	1,558
Amortization	1,238	1,300	1,259	1,179
Income (loss) from operations	(653)	(3,556)	(1,864)	8,728
Income (loss) before income taxes	(1,257)	(3,927)	(2,418)	8,194
Net income (loss)	(1,357)	(3,517)	(2,024)	5,875
Net income (loss) per share:				
Basic	\$ (.10)	\$ (.25)	\$ (.14)	\$ .42
Diluted	(.10)	(.25)	(.14)	.41

## YEAR ENDED AUGUST 31, 2018 (unaudited)

	November 30	February 28	May 31	August 31
Net sales	\$47,932	\$46,547	\$50,461	\$64,818
Gross profit	32,868	32,744	34,916	47,761
Selling, general, and administrative	33,824	35,097	34,910	37,294
Depreciation	901	1,379	1,267	1,615
Amortization	1,395	1,395	1,326	1,251
Income (loss) from operations	(3,252)	(5,127)	(2,587)	7,601
Income (loss) before income taxes	(3,740)	(5,765)	(3,088)	7,074
Net income (loss)	(2,392)	(2,740)	(2,534)	1,779
Net income (loss) per share:				
Basic and diluted	\$ (.17)	\$ (.20)	\$ (.18)	\$ .13

Our fourth quarter of each fiscal year typically has higher sales and operating income than other fiscal quarters primarily due to increased revenues in our Education practice (when school administrators and faculty have professional development days) and to increased sales that typically occur during that quarter resulting from year-end incentive programs. Overall, training sales are moderately seasonal because of the timing of corporate training, which is not typically scheduled as heavily during holiday and certain vacation periods. Quarterly fluctuations may also be affected by other factors including the introduction of new offerings, business acquisitions, the addition of new organizational customers, and the elimination of underperforming offerings.

For more information on our quarterly results of operations, refer to our quarterly reports on Form 10-Q as filed with the SEC. Our quarterly reports for the periods indicated are available free of charge at [www.sec.gov](http://www.sec.gov).

## LIQUIDITY AND CAPITAL RESOURCES

### Introduction

Our cash balance at August 31, 2019 totaled \$27.7 million, with no borrowings on our \$15.0 million revolving credit facility, compared with \$10.2 million of cash at August 31, 2018. Our cash balance increased primarily due our new credit facility obtained in August 2019, which included a new \$20.0 million term note as discussed below. Of our \$27.7 million in cash at August 31, 2019, \$10.6 million was held outside the U.S. by our foreign subsidiaries. We routinely repatriate cash from our foreign subsidiaries and consider cash generated from foreign activities a key component of our overall liquidity position. Our primary sources of liquidity are cash flows from the sale of services in the normal course of business and available proceeds from our credit facility. Our primary

uses of liquidity include payments for operating activities, capital expenditures (including curriculum development), debt payments, contingent payments from the prior acquisition of businesses, working capital expansion, and purchases of our common stock.

The following table summarizes our cash flows from operating, investing, and financing activities for the past three years (in thousands):

YEAR ENDED AUGUST 31,	2019	2018	2017
Total cash provided by (used for):			
Operating activities	\$30,452	\$ 16,861	\$ 17,357
Investing activities	(6,873)	(10,634)	(21,675)
Financing activities	(5,932)	(4,679)	3,134
Effect of exchange rates on cash	(101)	(319)	(348)
Increase (decrease) in cash and cash equivalents	\$17,546	\$ 1,229	\$ (1,532)

### 2019 Credit Agreement

On August 7, 2019, we entered into a new credit agreement (the 2019 Credit Agreement) with our existing lender, which replaced the amended and restated credit agreement, dated March 2011 (the Original Credit Agreement). The 2019 Credit Agreement provides up to \$25.0 million in term loans and a \$15.0 million revolving line of credit which expires in August 2024. Upon entering into the 2019 Credit Agreement, we borrowed \$20.0 million through a term loan and used the proceeds to repay all indebtedness under the Original Credit Agreement. The proceeds from the 2019 Credit Agreement may be used for general corporate purposes as well as for other transactions, unless specifically prohibited by the terms of the agreement. Surplus

proceeds from the \$20.0 million term note were classified as cash and cash equivalents on our consolidated balance sheet at August 31, 2019. Within one year of the date of the 2019 Credit Agreement, we may request an additional \$5.0 million term loan. Interest on all borrowings under the 2019 Credit Agreement is equal to LIBOR plus 1.85 percent, which pricing matches the Original Credit Agreement.

The 2019 Credit Agreement preserves existing debt covenants that include (i) a funded debt to EBITDAR ratio of less than 3.0 to 1.0; (ii) a fixed charge coverage ratio greater than 1.15 to 1.0; (iii) an annual limit on capital expenditures (excluding capitalized curriculum development) of \$8.0 million; and (iv) consolidated accounts receivable of not less than 150% of the aggregate amount of the outstanding borrowings on the revolving line of credit, the undrawn amount of outstanding letters of credit, and the amount of unreimbursed letter of credit disbursements. We believe that we were in compliance with the financial covenants and other terms applicable to the 2019 Credit Agreement at August 31, 2019.

In addition to our revolving line of credit facility and term loan obligations, we have a long-term lease on our corporate campus that is accounted for as a financing obligation. For further information on our operating lease obligations, which are not currently recorded on our consolidated balance sheet, refer to the notes to our consolidated financial statements as presented in Item 8 of this report on Form 10-K.

The following discussion is a description of the primary factors affecting our cash flows and their effects upon our liquidity and capital resources during the fiscal year ended August 31, 2019.

### **Cash Flows from Operating Activities**

Our primary source of cash from operating activities was the sale of services and products to our customers in the normal course of business. The primary uses of cash for operating activities were payments for selling, general, and administrative expenses, payments for direct costs necessary to conduct training programs, payments to suppliers for materials used in training manuals sold, and to fund working capital needs. For the fiscal year ended August 31, 2019, our cash provided by operating activities increased 81 percent to \$30.5 million compared with \$16.9 million for the fiscal year ended August 31, 2018. The increase was primarily due to improved operating results during the year and from cash used to support

changes in working capital balances. Our collection of accounts receivable remained strong during fiscal 2019 and provided a significant amount of cash to support operations, pay our obligations, and make critical investments. Although we are required to defer AAP and other subscription revenues over the lives of the underlying contracts, we invoice the entire contract amount and collect the associated receivable at the inception of the agreement.

### **Cash Flows from Investing Activities and Capital Expenditures**

Our cash used for investing activities during the fiscal year ended August 31, 2019 totaled \$6.9 million. The primary uses of cash for investing activities included purchases of property and equipment in the normal course of business and additional investments in our offerings.

Our fiscal 2019 purchases of property and equipment, which totaled \$4.2 million, consisted primarily of computer software, hardware, and leasehold improvements on our corporate campus. We currently anticipate that our purchases of property and equipment will total approximately \$5.8 million in fiscal 2020.

We spent \$2.7 million during fiscal 2019 on the development of various offerings. We believe continued investment in our offerings is critical to our future success and anticipate that our capital spending for curriculum development will total \$5.0 million during fiscal 2020.

During the first quarter of fiscal 2018, we paid \$1.1 million to the former owners of Jhana Education for contingent consideration related to this acquisition. Due to the close proximity of this payment to the acquisition date, we classified the \$1.1 million as a component of investing activities in our consolidated statement of cash flows. Other contingent consideration payments from this acquisition are classified as components of financing activities in our consolidated statements of cash flows.

### **Cash Flows from Financing Activities**

During the fiscal year ended August 31, 2019, we used \$5.9 million of net cash for financing activities. Our primary uses of financing cash during fiscal 2019 included \$14.9 million of cash used for principal payments on the term loans from our Original Credit Agreement and the financing obligation on our corporate campus; \$11.3 million used to reduce the balance on our revolving line of credit obligation, which had a zero balance prior

to completing the 2019 Credit Agreement; and \$0.7 million of cash paid to the former owners of Jhana Education for contingent acquisition consideration. These uses of financing cash were partially offset by \$20.0 million of proceeds from a term loan on our 2019 Credit Agreement and \$1.0 million of cash received from participants in our employee stock purchase program to acquire shares of our common stock.

During fiscal 2017, we completed the acquisitions of RGP and Jhana as previously described. Each of these acquisitions have contingent consideration that may be earned by their former owners based on specified performance criteria. As the operations of these acquisitions reach the specified milestones for required contingent payments, our uses of cash for financing activities may increase.

On January 23, 2015, our Board of Directors approved a new plan to repurchase up to \$10.0 million of the Company's outstanding common stock. All previously existing common stock repurchase plans were canceled and the new common share repurchase plan does not have an expiration date. On March 27, 2015, our Board of Directors increased the aggregate value of shares of Company common stock that may be purchased under the January 2015 plan to \$40.0 million so long as we have either \$10.0 million in cash and cash equivalents or have access to debt financing of at least \$10.0 million. Under the terms of this expanded common stock repurchase plan, we have purchased 1,539,828 shares of our common stock for \$26.8 million through August 31, 2019. Our cash used for financing activities will increase as we make purchases of shares under the terms of this plan or other share purchase plans in the future.

### Sources of Liquidity

We expect to meet our projected capital expenditures, repay amounts borrowed on our 2019 Credit Agreement, service our existing financing obligation, and meet other working capital requirements during fiscal 2020 from current cash balances, future cash flows from operating activities, and available borrowings from our recently completed 2019 Credit Agreement. Going forward, we will continue to incur costs necessary for the day-to-day operation and potential growth of the business and may use our available revolving line of credit and other financing alternatives, if necessary, for these expenditures. Our 2019 Credit Agreement expires in August 2024 and we expect to renew and amend the 2019 Credit Agreement on a regular basis to maintain the long-term

borrowing capacity of this credit facility. At August 31, 2019, we had \$19.9 million of available borrowing capacity on our 2019 Credit Agreement, which consisted of \$14.9 million of credit on our revolving credit facility (amount reduced by \$0.1 million of open standby letters of credit) and an additional \$5.0 million term loan. Additional potential sources of liquidity available to us include factoring receivables, issuance of additional equity, or issuance of debt from public or private sources. If necessary, we will evaluate all of these options and select one or more of them depending on overall capital needs and the associated cost of capital.

We believe that our existing cash and cash equivalents, cash generated by operating activities, and availability of external funds as described above, will be sufficient for us to maintain our operations on both a short- and long-term basis. However, our ability to maintain adequate capital for our operations in the future is dependent upon a number of factors, including sales trends, macroeconomic activity, our ability to contain costs, levels of capital expenditures, collection of accounts receivable, and other factors. Some of the factors that influence our operations are not within our control, such as general economic conditions and the introduction of new offerings or technology by our competitors. We will continue to monitor our liquidity position and may pursue additional financing alternatives, as described above, to maintain sufficient resources for future growth and capital requirements. However, there can be no assurance such financing alternatives will be available to us on acceptable terms, or at all.

### Contractual Obligations

We have not structured any special purpose entities, or participated in any commodity trading activities, which would expose us to potential undisclosed liabilities or create adverse consequences to our liquidity. Required contractual payments primarily consist of lease payments resulting from the sale of our corporate campus (financing obligation); repayment of term loan obligations; expected contingent consideration payments from business acquisitions; short-term purchase obligations for inventory items and other products and services used in the ordinary course of business; minimum operating lease payments; and minimum payments for outsourced warehousing and distribution service charges. At August 31, 2019, our expected payments on these obligations over the next five fiscal years and thereafter are as follows (in thousands):



<b>Contractual Obligations</b>	Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023	Fiscal 2024	Thereafter	Total
Required lease payments on corporate campus	\$ 3,724	\$ 3,798	\$ 3,874	\$3,952	\$4,031	\$3,301	\$22,680
Term loan payable to bank <sup>(1)</sup>	5,653	5,504	5,299	5,094	—	—	21,550
Purchase obligations	4,510	—	—	—	—	—	4,510
Jhana contingent consideration payments <sup>(2)</sup>	888	1,076	1,282	588	—	—	3,834
Minimum operating lease payments	752	472	112	97	79	92	1,604
RGP contingent consideration payments <sup>(2)</sup>	1,000	500	—	—	—	—	1,500
Minimum required payments for warehousing services <sup>(3)</sup>	195	—	—	—	—	—	195
<b>Total expected contractual obligation payments</b>	<b>\$16,722</b>	<b>\$11,350</b>	<b>\$10,567</b>	<b>\$9,731</b>	<b>\$4,110</b>	<b>\$3,393</b>	<b>\$55,873</b>

- (1) Payment amounts shown include interest at 4.1 percent, which is the current rate on our term loan obligation under the 2019 Credit Agreement.
- (2) The payment of contingent consideration resulting from prior business acquisitions is based on current estimates and projections. We reassess the fair value of estimated contingent consideration payments each quarter based on information available. The actual payment of contingent consideration amounts may differ in amount and timing from those shown in the table.
- (3) The warehousing services contract expires in June 2020.

Our contractual obligations presented above exclude uncertain tax positions totaling \$1.9 million for which we cannot make a reasonably reliable estimate of the amount and period of payment. For further information regarding our uncertain tax positions, refer to the notes to our consolidated financial statements as presented in Part II, Item 8 of this report on Form 10-K.

## USE OF ESTIMATES AND CRITICAL ACCOUNTING POLICIES

Our consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America. The significant accounting policies that we used to prepare our consolidated financial statements are outlined primarily in Note 1 and in Note 2 (new revenue recognition guidance) to the consolidated financial statements, which are presented in Part II, Item 8 of this Annual Report on Form 10-K. Some of those accounting policies require us to make assumptions and use judgments that may affect the amounts reported in our consolidated financial statements. Management regularly evaluates its estimates and assumptions and bases those estimates and assumptions on historical experience, factors that are believed to be reasonable under the circumstances, and requirements under accounting principles generally accepted in the United States of America. Actual results may differ from these estimates under different assumptions or conditions, including changes in economic and political conditions and other circumstances that are not in our control, but which may have an impact on these estimates and our actual financial results.

The following items require the most significant judgment and often involve complex estimates:

## Revenue Recognition

We adopted ASC Topic 606 on September 1, 2018. For the AAP, judgment is required to determine whether the intellectual property and web-based functionality and content are considered distinct and accounted for separately, or not distinct and accounted for together.

We have determined to account for the AAP as a single performance obligation and recognize the associated transaction price ratably over the term of the underlying contract beginning on the commencement date of each contract, which is the date the Company's platforms and resources are made available to the customer. This determination was reached after considering that our web-based functionality and content, in combination with our intellectual property, each represent inputs that transform into a combined output that represents the intended outcome of the AAP, which is to provide a continuously accessible, customized, and dynamic learning and development solution only accessible through the AAP platform.

Judgment is required to determine the stand-alone selling price (SSP) for each distinct performance obligation. Where we have more than one distinct performance obligation, we must allocate the transaction price to each performance obligation based on its relative SSP. The SSP is the price which we would sell a promised product or service separately to a customer. In determining the SSP, we consider the size and volume of transactions, price lists, historical sales, and contract prices. We may modify our pricing from time-to-time in the future, which could result in changes to the SSP.

### Stock-Based Compensation

Our shareholders have approved performance-based long-term incentive plans (LTIPs) that provide for grants of stock-based performance awards to certain managerial personnel and executive management as directed by the Organization and Compensation Committee of the Board of Directors. The number of common shares that are vested and issued to LTIP participants is variable and is based upon the achievement of specified performance objectives during defined performance periods. Due to the variable number of common shares that may be issued under the LTIP, we reevaluate our LTIP grants on a quarterly basis and adjust the expected vesting dates and number of shares expected to be awarded based upon actual and estimated financial results of the Company compared with the performance goals set for the award. Adjustments to the number of shares awarded, and to the corresponding compensation expense, are made on a cumulative basis at the adjustment date based upon the estimated probable number of common shares to be awarded.

The analysis of our LTIP awards contains uncertainties because we are required to make assumptions and judgments about the timing and eventual number of shares that will vest in each LTIP grant. The assumptions and judgments that are essential to the analysis include forecasted sales and operating income levels during the LTIP service periods. These forecasted amounts may be difficult to predict over the life of the LTIP awards due to changes in our business, such as from the introduction of subscription-based services and their impact on our financial results. These business changes may also leave some previously approved performance measures obsolete or unattainable. The evaluation of LTIP performance awards and the corresponding use of estimated amounts may produce additional volatility in our consolidated financial statements as we record cumulative adjustments to the estimated service periods and number of common shares to be awarded under the LTIP grants as described above.

### Accounts Receivable Valuation

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Our allowance for doubtful accounts calculations contain uncertainties because the calculations require us to make assumptions and judgments regarding the collectability of customer accounts, which may be influenced by a number of factors that are not within our control, such as the financial

health of each customer. We regularly review the collectability assumptions of our allowance for doubtful accounts calculation and compare them against historical collections. Adjustments to the assumptions may either increase or decrease our total allowance for doubtful accounts and may adversely impact our financial results. For example, a 10 percent increase to our allowance for doubtful accounts at August 31, 2019 would decrease our reported income from operations by approximately \$0.4 million.

For further information regarding the calculation of our allowance for doubtful accounts, refer to the notes to our financial statements as presented in Item 8 of this report on Form 10-K.

### Valuation of Indefinite-Lived Intangible Assets and Goodwill

Intangible assets that are deemed to have an indefinite life and goodwill balances are not amortized, but rather are tested for impairment on an annual basis, or more often if events or circumstances indicate that a potential impairment exists. The Covey trade name intangible asset originated from the merger with the Covey Leadership Center in 1997 and has been deemed to have an indefinite life. This intangible asset is quantitatively tested for impairment using the present value of estimated royalties on trade name related revenues, which consist primarily of training seminars, and related products, and international licensee royalties.

Goodwill is recorded when the purchase price for an acquisition exceeds the estimated fair value of the net tangible and identified intangible assets acquired. Under current accounting guidance, an annual or interim goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount, and an impairment charge is recognized for the amount by which the carrying amount exceeds the reporting unit's fair value.

We tested goodwill for impairment at August 31, 2019 at the reporting unit level using a quantitative approach. The estimated fair value of each reporting unit was calculated using a combination of the income approach (discounted cash flows) and the market approach (using market multiples derived from a set of companies with comparable market characteristics). The estimated fair values of the reporting units from these approaches were weighted in the determination of the total fair value.

On an interim basis, we consider whether events or circumstances are present that may lead to the

determination that goodwill may be impaired. These circumstances include, but are not limited to, the following:

- significant underperformance relative to historical or projected future operating results;
- significant change in the manner of our use of acquired assets or the strategy for the overall business;
- significant change in prevailing interest rates;
- significant negative industry or economic trend;
- significant change in market capitalization relative to book value; and/or
- significant negative change in market multiples of the comparable company set.

If, based on events or changing circumstances, we determine it is more likely than not that the fair value of a reporting unit does not exceed its carrying value, we would be required to test goodwill for impairment.

Determining the fair value of a reporting unit is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions, and determination of appropriate market comparables. We base our fair value estimates on assumptions we believe to be reasonable, but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates. In addition, we make certain judgments and assumptions in allocating shared assets and liabilities to determine the carrying values for each of our reporting units. The timing and frequency of our goodwill impairment tests are based on an ongoing assessment of events and circumstances that would indicate a possible impairment. Based on the results of our goodwill impairment testing during fiscal 2019, we determined that no impairment existed at August 31, 2019, as each reportable operating segment's estimated fair value exceeded its carrying value. We will continue to monitor our goodwill and intangible assets for impairment and conduct formal tests when impairment indicators are present.

### Acquisitions and Contingent Consideration Liabilities

We record acquisitions resulting in the consolidation of an enterprise using the purchase method of accounting. Under this method, the acquiring company records

the assets acquired, including intangible assets that can be identified and named, and liabilities assumed based on their estimated fair values at the date of acquisition. The purchase price in excess of the fair value of the assets acquired and liabilities assumed is recorded as goodwill. If the assets acquired, net of liabilities assumed, are greater than the purchase price paid, then a bargain purchase has occurred and the company will recognize the gain immediately in earnings. Among other sources of relevant information, we use independent appraisals or other valuations to assist in determining the estimated fair values of the assets and liabilities. Various assumptions are used in the determination of these estimated fair values including discount rates, market and volume growth rates, product or service selling prices, cost structures, royalty rates, and other prospective financial information.

Additionally, we are required to reassess the fair value of contingent consideration liabilities resulting from business acquisitions at each reporting period. Although subsequent changes to the contingent consideration liabilities do not affect the goodwill generated from the acquisition transaction, the valuation of expected contingent consideration often requires us to estimate future sales and profitability. These estimates require the use of numerous assumptions, many of which may change frequently and lead to increased or decreased operating income in future periods. For instance, during fiscal 2019 we recorded \$1.3 million of increases to the fair value of the contingent consideration liabilities from our previous business acquisitions, which resulted in a corresponding increase in selling, general, and administrative expenses.

### Impairment of Long-Lived Assets

Long-lived tangible assets and finite-lived intangible assets are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. We use an estimate of undiscounted future net cash flows of the assets over their remaining useful lives in determining whether the carrying value of the assets is recoverable. If the carrying values of the assets exceed the anticipated future cash flows of the assets, we calculate an impairment loss. The impairment loss calculation compares the carrying value of the asset to the asset's estimated fair value, which may be based upon discounted cash flows over the estimated remaining useful life of the asset. If we recognize an impairment loss, the adjusted carrying amount of the asset becomes its new cost basis, which is then depreciated or amortized over the remaining

useful life of the asset. Impairment of long-lived assets is assessed at the lowest levels for which there are identifiable cash flows that are independent from other groups of assets.

Our impairment evaluation calculations contain uncertainties because they require us to make assumptions and apply judgment in order to estimate future cash flows, forecast the useful lives of the assets, and select a discount rate that reflects the risk inherent in future cash flows. Although we have not made any material recent changes to our long-lived assets impairment assessment methodology, if forecasts and assumptions used to support the carrying value of our long-lived tangible and finite-lived intangible assets change in the future, significant impairment charges could result that would adversely affect our results of operations and financial condition.

### Income Taxes

We regularly evaluate our United States federal and various state and foreign jurisdiction income tax exposures. We account for certain aspects of our income tax provision using the provisions of ASC 740-10-05, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. We may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained upon examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon final settlement. The provisions of ASC 740-10-05 also provide guidance on de-recognition, classification, interest, and penalties on income taxes, accounting for income taxes in interim periods, and require increased disclosure of various income tax items. Taxes and penalties are components of our overall income tax provision.

We record previously unrecognized tax benefits in the financial statements when it becomes more likely than not (greater than a 50 percent likelihood) that the tax position will be sustained. To assess the probability of sustaining a tax position, we consider all available evidence. In many instances, sufficient positive evidence may not be available until the expiration of the statute of limitations for audits by taxing jurisdictions, at which time the entire benefit will be recognized as a discrete item in the applicable period.

Our unrecognized tax benefits result from uncertain tax positions about which we are required to make assumptions and apply judgment to estimate the exposures associated with our various tax filing positions. The calculation of our income tax provision or benefit, as applicable, requires estimates of future taxable income or losses. During the course of the fiscal year, these estimates are compared to actual financial results and adjustments may be made to our tax provision or benefit to reflect these revised estimates. Our effective income tax rate is also affected by changes in tax law and the results of tax audits by various jurisdictions. Although we believe that our judgments and estimates discussed herein are reasonable, actual results could differ, and we could be exposed to losses or gains that could be material.

We establish valuation allowances for deferred tax assets when we estimate it is more likely than not that the tax assets will not be realized. The determination of whether valuation allowances are needed on our deferred income tax assets contains uncertainties because we must project future income, including the use of tax-planning strategies, by individual tax jurisdictions. Changes in industry and economic conditions and the competitive environment may impact the accuracy of our projections. We regularly assess the likelihood that our deferred tax assets will be realized and determine if adjustments to our valuation allowance are necessary.

## RECENT ACCOUNTING PRONOUNCEMENTS

See Note 1 to the consolidated financial statements for information on recent accounting pronouncements.

## REGULATORY COMPLIANCE

We are registered in states in which we do business that have a sales tax and we collect and remit sales or use tax on sales made in these jurisdictions. Compliance with environmental laws and regulations has not had a material effect on our operations.

## INFLATION AND CHANGING PRICES

Inflation has not had a material effect on our operations. However, future inflation may have an impact on the price of materials used in the production of training products and related accessories, including paper and related raw materials. We may not be able to pass on such increased costs to our customers.

## SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Certain written and oral statements made by us in this report are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934 as amended (the Exchange Act). Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate, or imply future results, performance, or achievements, and may contain words such as “believe,” “anticipate,” “expect,” “estimate,” “project,” or words or phrases of similar meaning. In our reports and filings we may make forward-looking statements regarding our expectations about future reported revenues and operating results, future sales growth, the expected introduction of new or refreshed offerings, including additions to the All Access Pass, future training and consulting sales activity, the impact of multi-year contracts for the All Access Pass, renewal of existing contracts, the release and success of new publications, the expected growth of our business in various markets, anticipated expenses, the adequacy of existing capital resources, projected cost reduction and strategic initiatives, expected levels of depreciation and amortization expense, expectations regarding tangible and intangible asset valuations, the seasonality of future sales, the seasonal fluctuations in cash used for and provided by operating activities, future compliance with the terms and conditions of our 2019 Credit Agreement, the ability to borrow on, and renew, our 2019 Credit Agreement, expectations regarding income tax expenses as well as tax assets and credits and the amount of cash expected to be paid for income taxes, estimated capital expenditures, and cash flow estimates used to determine the fair value of long-lived assets. These, and other forward-looking statements, are subject to certain risks and uncertainties that may cause actual results to differ materially from the forward-looking statements. These risks and uncertainties are disclosed from time to time in reports filed by us with the SEC, including reports on Forms 8-K, 10-Q, and 10-K. Such risks and uncertainties include, but are not limited to, the matters discussed in Item 1A of this annual report on Form 10-K for the fiscal year ended August 31, 2019, entitled “Risk Factors.” In addition, such risks and uncertainties may include unanticipated developments in any one or more of the following areas: unanticipated costs or capital expenditures; delays or unanticipated outcomes relating to our strategic plans; dependence on existing products or services; the rate and consumer acceptance of new product introductions, including the

new AAP portal; foreign currency exchange rates; competition; the number and nature of customers and their product orders, including changes in the timing or mix of product or training orders; pricing of our products and services and those of competitors; adverse publicity; adverse effects on certain licensee’s performance due to civil unrest in some of the countries where our licensees operate; and other factors which may adversely affect our business.

The risks included here are not exhaustive. Other sections of this report may include additional factors that could adversely affect our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors may emerge and it is not possible for our management to predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any single factor, or combination of factors, may cause actual results to differ materially from those contained in forward-looking statements. Given these risks and uncertainties, investors should not rely on forward-looking statements as a prediction of actual results.

The market price of our common stock has been and may remain volatile. In addition, the stock markets in general have experienced increased volatility. Factors such as quarter-to-quarter variations in revenues and earnings or losses and our failure to meet expectations could have a significant impact on the market price of our common stock. In addition, the price of our common stock can change for reasons unrelated to our performance. Due to our relatively low market capitalization, the price of our common stock may also be affected by conditions such as a lack of analyst coverage and fewer potential investors.

Forward-looking statements are based on management’s expectations as of the date made, and the Company does not undertake any responsibility to update any of these statements in the future except as required by law. Actual future performance and results will differ and may differ materially from that contained in or suggested by forward-looking statements as a result of the factors set forth in this Management’s Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in our filings with the SEC.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### Market Risk of Financial Instruments

We are exposed to financial instrument market risk primarily through fluctuations in foreign currency

exchange rates and interest rates. To manage risks associated with foreign currency exchange and interest rates, we may make limited use of derivative financial instruments. Derivatives are financial instruments that derive their value from one or more underlying financial instruments. As a matter of policy, our derivative instruments are entered into for periods consistent with the related underlying exposures and do not constitute positions that are independent of those exposures. In addition, we do not enter into derivative contracts for trading or speculative purposes, nor are we party to any leveraged derivative instrument. However, during the fiscal years ended August 31, 2019, 2018, and 2017, we were not party to any foreign exchange contracts, interest rate swap agreements, or similar derivative instruments.

### **Foreign Exchange Sensitivity**

Due to the global nature of our operations, we are subject to risks associated with transactions that are denominated in currencies other than the United States dollar, as well as the effects of translating amounts denominated in foreign currencies to United States dollars as a normal part of the reporting process. The objective of our foreign currency risk management activities is to reduce foreign currency risk in the consolidated financial statements. In order to manage foreign currency risks, we may make

limited use of foreign currency forward contracts and other foreign currency related derivative instruments.

### **Interest Rate Sensitivity**

Our long-term liabilities primarily consist of term loans payable obtained from the lender on our 2019 Credit Agreement, a long-term lease agreement (financing obligation) associated with the previous sale of our corporate headquarters, amounts borrowed on our revolving credit facility, deferred income taxes, and contingent consideration payments resulting from our business acquisitions. Our overall interest rate sensitivity is primarily influenced by any amounts borrowed on term loans or on our revolving line of credit facility, and the prevailing interest rate on these instruments. The effective interest rate on the term loans and our revolving line of credit facility was 4.1 percent at August 31, 2019, and we may incur additional expense if interest rates increase in future periods. For example, a one percent increase in the interest rate on our term loans payable at August 31, 2019 would result in approximately \$0.2 million of additional interest expense in fiscal 2020. We did not have borrowings on our revolving credit facility at August 31, 2019. Our financing obligation has a payment structure equivalent to a long-term leasing arrangement with a fixed interest rate of 7.7 percent.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

### Report of Independent Registered Public Accounting Firm

To the shareholders and the Board of Directors of Franklin Covey Co.

#### Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Franklin Covey Co. and subsidiaries (the "Company") as of August 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of August 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended August 31, 2019, of the Company and our report dated November 14, 2019, expressed an unqualified opinion on those financial statements and included an explanatory paragraph related to the Company's change in method of accounting for revenue from contracts with customers in fiscal year 2019 due to the adoption of Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers*.

#### Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

#### Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

*Deloitte + Touche LLP*

Salt Lake City, Utah  
November 14, 2019

## Report of Independent Registered Public Accounting Firm

To the shareholders and the Board of Directors of Franklin Covey Co.

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Franklin Covey Co. and subsidiaries (the "Company") as of August 31, 2019 and 2018, the related consolidated statements of operations and comprehensive loss, shareholders' equity, and cash flows for each of the three years in the period ended August 31, 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of August 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended August 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of August 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated November 14, 2019, expressed an unqualified opinion on the Company's internal control over financial reporting.

### Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Company changed its method of accounting for revenue from contracts with customers in fiscal year 2019 due

to the adoption of Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers*, using the modified retrospective approach.

### Basis for Opinion

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

*Deloitte + Touche LLP*

Salt Lake City, Utah  
November 14, 2019

We have served as the Company's auditor since 2016.



## FRANKLIN COVEY CO. CONSOLIDATED BALANCE SHEETS

AUGUST 31,	2019	2018
<i>In thousands, except per-share data</i>		
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 27,699	\$ 10,153
Accounts receivable, less allowance for doubtful accounts of \$4,242 and \$3,555	73,227	71,914
Inventories	3,481	3,160
Income taxes receivable	—	179
Prepaid expenses	3,906	3,864
Other current assets	11,027	10,893
Total current assets	119,340	100,163
Property and equipment, net	18,579	21,401
Intangible assets, net	47,690	51,934
Goodwill	24,220	24,220
Deferred income tax assets	5,045	3,222
Other long-term assets	10,039	12,935
	<b>\$224,913</b>	<b>\$213,875</b>
<b>Liabilities And Shareholders' Equity</b>		
Current liabilities:		
Current portion of term notes payable	\$ 5,000	\$ 10,313
Current portion of financing obligation	2,335	2,092
Accounts payable	9,668	9,790
Income taxes payable	764	—
Deferred subscription revenue	56,250	47,417
Other deferred revenue	5,972	4,471
Accrued liabilities	23,555	20,761
Total current liabilities	103,544	94,844
Line of credit	—	11,337
Term notes payable, less current portion	15,000	2,500
Financing obligation, less current portion	16,648	18,983
Other liabilities	7,527	5,501
Deferred income tax liabilities	180	210
Total liabilities	142,899	133,375
Commitments and contingencies (Notes 6, 8 and 9)		
Shareholders' equity:		
Common stock, \$.05 par value; 40,000 shares authorized, 27,056 shares issued	1,353	1,353
Additional paid-in capital	215,964	211,280
Retained earnings	59,403	63,569
Accumulated other comprehensive income	269	341
Treasury stock at cost, 13,087 shares and 13,159 shares	(194,975)	(196,043)
Total shareholders' equity	82,014	80,500
	<b>\$224,913</b>	<b>\$213,875</b>

See accompanying notes to consolidated financial statements.

**FRANKLIN COVEY CO.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**

YEAR ENDED AUGUST 31,	2019	2018	2017
<i>In thousands, except per-share amounts</i>			
Net sales	\$225,356	\$209,758	\$185,256
Cost of sales	66,042	61,469	62,589
Gross profit	159,314	148,289	122,667
Selling, general, and administrative	145,319	141,126	121,148
Contract termination costs	—	—	1,500
Restructuring costs	—	—	1,482
Depreciation	6,364	5,161	3,879
Amortization	4,976	5,368	3,538
<b>Income (loss) from operations</b>	<b>2,655</b>	<b>(3,366)</b>	<b>(8,880)</b>
Interest income	37	104	223
Interest expense	(2,358)	(2,676)	(2,408)
Discount accretion on related-party receivables	258	418	156
<b>Income (loss) before income taxes</b>	<b>592</b>	<b>(5,520)</b>	<b>(10,909)</b>
Benefit (provision) for income taxes	(1,615)	(367)	3,737
<b>Net loss</b>	<b>\$ (1,023)</b>	<b>\$ (5,887)</b>	<b>\$ (7,172)</b>
Net loss per share:			
Basic and diluted	\$ (0.07)	\$ (0.43)	\$ (0.52)
Weighted average number of common shares:			
Basic and diluted	13,948	13,849	13,819
<b>COMPREHENSIVE LOSS:</b>			
Net loss	\$ (1,023)	\$ (5,887)	\$ (7,172)
Foreign currency translation adjustments, net of income tax benefit (provision) of \$(5), \$(75), and \$37	(72)	(326)	(555)
<b>Comprehensive loss</b>	<b>\$ (1,095)</b>	<b>\$ (6,213)</b>	<b>\$ (7,727)</b>

See accompanying notes to consolidated financial statements.

## FRANKLIN COVEY CO. CONSOLIDATED STATEMENTS OF CASH FLOWS

YEAR ENDED AUGUST 31,	2019	2018	2017
<i>In thousands</i>			
<b>Cash Flows From Operating Activities</b>			
Net loss	\$ (1,023)	\$ (5,887)	\$ (7,172)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	11,359	10,525	7,443
Amortization of capitalized curriculum development costs	4,954	5,280	3,745
Deferred income taxes	(1,051)	(2,535)	(5,594)
Stock-based compensation expense	4,789	2,846	3,658
Excess tax benefit from stock-based compensation	—	—	(168)
Increase (decrease) in contingent consideration liabilities	1,334	1,014	(1,936)
Changes in assets and liabilities, net of effect of acquired businesses:			
Decrease (increase) in accounts receivable, net	(1,770)	(5,679)	164
Decrease (increase) in inventories	(260)	157	1,583
Decrease in receivable from related party	535	213	1,421
Decrease (increase) in prepaid expenses and other assets	32	(1,335)	(4,861)
Increase in accounts payable and accrued liabilities	2,932	1,746	676
Increase in deferred revenue	8,828	11,613	19,142
Increase (decrease) in income taxes payable/receivable	889	109	(249)
Decrease in other liabilities	(1,096)	(1,206)	(495)
<b>Net cash provided by operating activities</b>	<b>30,452</b>	<b>16,861</b>	<b>17,357</b>
<b>Cash Flows From Investing Activities</b>			
Purchases of property and equipment	(4,153)	(6,528)	(7,187)
Capitalized curriculum development costs	(2,688)	(2,998)	(6,466)
Acquisition of businesses, net of cash acquired	(32)	(1,108)	(7,272)
Acquisition of license rights	—	—	(750)
<b>Net cash used for investing activities</b>	<b>(6,873)</b>	<b>(10,634)</b>	<b>(21,675)</b>
<b>Cash Flows From Financing Activities</b>			
Proceeds from line of credit borrowings	82,282	93,391	34,320
Payments on line of credit borrowings	(93,619)	(86,431)	(29,943)
Proceeds from term notes payable financing	20,000	—	10,000
Principal payments on term notes payable	(12,813)	(6,250)	(5,000)
Principal payments on financing obligation	(2,092)	(1,868)	(1,662)
Purchases of common stock for treasury	(12)	(2,006)	(5,431)
Payment of contingent consideration liabilities	(653)	(2,323)	—
Income tax benefit recorded in paid-in capital	—	—	168
Proceeds from sales of common stock held in treasury	975	808	682
<b>Net cash provided by (used for) financing activities</b>	<b>(5,932)</b>	<b>(4,679)</b>	<b>3,134</b>
Effect of foreign currency exchange rates on cash and cash equivalents	(101)	(319)	(348)
Net increase (decrease) in cash and cash equivalents	17,546	1,229	(1,532)
Cash and cash equivalents at beginning of the year	10,153	8,924	10,456
<b>Cash and cash equivalents at end of the year</b>	<b>\$ 27,699</b>	<b>\$ 10,153</b>	<b>\$ 8,924</b>
Supplemental disclosure of cash flow information:			
Cash paid for income taxes	\$ 1,778	\$ 2,512	\$ 2,562
Cash paid for interest	2,386	2,655	2,314
Non-cash investing and financing activities:			
Purchases of property and equipment financed by accounts payable	\$ 410	\$ 1,018	\$ 697
Consideration for business acquisition from liabilities of acquiree	798	—	—

See accompanying notes to consolidated financial statements.

**FRANKLIN COVEY CO.  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock Shares	Treasury Stock Amount
<i>In thousands</i>							
Balance at August 31, 2016	27,056	\$ 1,353	\$ 211,203	\$ 76,628	\$1,222	(13,332)	\$ (196,691)
Issuance of common stock from treasury			(2,103)			188	2,785
Purchase of treasury shares						(300)	(5,431)
Restricted share award			(442)			30	442
Stock-based compensation			3,658				
Cumulative translation adjustments					(555)		
Tax benefit recorded in paid-in capital			168				
Net loss				(7,172)			
Balance at August 31, 2017	27,056	1,353	212,484	69,456	667	(13,414)	(198,895)
Issuance of common stock from treasury			(3,702)			337	4,510
Purchase of treasury shares						(105)	(2,006)
Restricted share award			(348)			23	348
Stock-based compensation			2,846				
Cumulative translation adjustments					(326)		
Net loss				(5,887)			
Balance at August 31, 2018	27,056	1,353	211,280	63,569	341	(13,159)	(196,043)
Issuance of common stock from treasury			321			43	654
Purchase of treasury shares						1	(12)
Restricted share award			(426)			28	426
Stock-based compensation			4,789				
Cumulative translation adjustments					(72)		
Cumulative effect of new accounting principle				(3,143)			
Net loss				(1,023)			
<b>Balance at August 31, 2019</b>	<b>27,056</b>	<b>\$1,353</b>	<b>\$215,964</b>	<b>\$59,403</b>	<b>\$ 269</b>	<b>(13,087)</b>	<b>\$(194,975)</b>

See accompanying notes to consolidated financial statements.

## FRANKLIN COVEY CO.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 1. Nature Of Operations And Summary Of Significant Accounting Policies

Franklin Covey Co. (hereafter referred to as we, us, our, or the Company) is a global company specializing in organizational performance improvement. We help individuals and organizations achieve results that require a change in human behavior and our mission is to “enable greatness in people and organizations everywhere.” We have some of the best-known offerings in the training industry, including a suite of individual-effectiveness and leadership-development training and products based on the best-selling books, *The 7 Habits of Highly Effective People*, *The Speed of Trust*, *The Leader In Me*, and *The Four Disciplines of Execution*, and proprietary content in the areas of Execution, Sales Performance, Productivity, Customer Loyalty, and Educational improvement. Our offerings are described in further detail at [www.franklincovey.com](http://www.franklincovey.com) and elsewhere in this report. Through our organizational research and curriculum development efforts, we seek to consistently create, develop, and introduce new services and products that help individuals and organizations achieve their own great purposes.

#### Fiscal Year

Our fiscal year ends on August 31 of each year and our fiscal quarters end on the last day of November, February, and May. Unless otherwise noted, references to fiscal years apply to the 12 months ended August 31 of the specified year.

#### Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company and our wholly-owned subsidiaries, which consist of Franklin Development Corp., and our offices in Japan, China, the United Kingdom, Australia, Germany, Switzerland, and Austria. Intercompany balances and transactions are eliminated in consolidation.

#### Pervasiveness of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires us

to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. Actual results could differ from those estimates.

#### Reclassifications

Certain reclassifications have been made to our prior period financial statements to conform with the current period presentation. On our August 31, 2018 consolidated balance sheet, we have separately classified subscription revenue and other deferred revenue to conform to the current presentation of these balances. As product and leasing revenues have become immaterial to the presentation of our consolidated sales, we have combined revenues from services, products, and leasing into one line item on our consolidated statements of operations for all periods presented in this report.

#### Cash and Cash Equivalents

Some of our cash is deposited with financial institutions located throughout the United States of America and at banks in foreign countries where we operate subsidiary offices, and at times may exceed insured limits. We consider all highly liquid debt instruments with a maturity date of three months or less to be cash equivalents. We did not hold a significant amount of investments that would be considered cash equivalent instruments at August 31, 2019 or 2018. Of our \$27.7 million in cash at August 31, 2019, \$10.6 million was held outside the U.S. by our foreign subsidiaries. We routinely repatriate cash from our foreign subsidiaries and consider cash generated from foreign activities a key component of our overall liquidity position.

#### Inventories

Inventories are stated at the lower of cost or net realizable value, cost being determined using the first-in, first-out method. Elements of cost in inventories generally include raw materials and direct labor. Cash flows from the sale of inventory are included in cash flows provided by operating activities in our consolidated statements of cash flows. Our inventories are comprised primarily of training materials, books, and training-related accessories, and consisted of the following (in thousands):

AUGUST 31,	2019	2018
Finished goods	\$3,434	\$3,130
Raw materials	47	30
	<u>\$3,481</u>	<u>\$3,160</u>

Provision is made to reduce excess and obsolete inventories to their estimated net realizable value. In assessing the valuation of inventories, we make judgments regarding future demand requirements and compare these estimates with current and committed inventory levels. Inventory requirements may change based on projected customer demand, training curriculum life-cycle changes, and other factors that could affect the valuation of our inventories.

### Other Current Assets

Significant components of our other current assets were as follows (in thousands):

AUGUST 31,	2019	2018
Deferred commissions	\$ 8,337	\$ 6,958
Other current assets	2,690	3,935
	<u>\$11,027</u>	<u>\$10,893</u>

We defer commission expense on subscription-based sales and recognize the commission expense with the recognition of the corresponding revenue.

### Property and Equipment

Property and equipment are recorded at cost. Depreciation expense, which includes depreciation on our corporate campus that is accounted for as a financing obligation (Note 7), and the amortization of assets recorded under capital lease obligations, is calculated using the straight-line method over the lesser of the expected useful life of the asset or the contracted lease period. We generally use the following depreciable lives for our major classifications of property and equipment:

Description	Useful Lives
Buildings	20 years
Machinery and equipment	5 – 7 years
Computer hardware and software	3 – 5 years
Furniture, fixtures, and leasehold improvements	5 – 7 years

Our property and equipment were comprised of the following (in thousands):

AUGUST 31,	2019	2018
Land and improvements	\$ 1,312	\$ 1,312
Buildings	30,038	30,038
Machinery and equipment	1,162	1,723
Computer hardware and software	28,665	27,066
Furniture, fixtures, and leasehold improvements	8,409	8,272
	<u>69,586</u>	<u>68,411</u>
Less accumulated depreciation	(51,007)	(47,010)
	<u>\$ 18,579</u>	<u>\$ 21,401</u>

We expense costs for repairs and maintenance as incurred. Gains and losses resulting from the sale of property and equipment are recorded in operating income (loss). Depreciation of capitalized portal costs is included in depreciation expense in the accompanying consolidated statements of operations. During each of the fiscal years ended August 31, 2018 and 2017, we capitalized \$0.1 million of interest expense in connection with the installation of our new enterprise resource planning system and the development of our improved All Access Pass (AAP) portal.

### Impairment of Long-Lived Assets

Long-lived tangible assets and finite-lived intangible assets are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. We use an estimate of undiscounted future net cash flows of the assets over the remaining useful lives in determining whether the carrying value of the assets is recoverable. If the carrying values of the assets exceed the anticipated future cash flows of the assets, we recognize an impairment loss equal to the difference between the carrying values of the assets and their estimated fair values. Impairment of long-lived assets is assessed at the lowest levels for which there are identifiable cash flows that are independent from other groups of assets. The evaluation of long-lived assets requires us to use estimates of future cash flows. If forecasts and assumptions used to support the realizability of our long-lived tangible and finite-lived intangible assets change in the future, significant impairment charges could result that would adversely affect our results of operations and financial condition.

### Indefinite-Lived Intangible Assets and Goodwill Impairment Testing

Intangible assets that are deemed to have an indefinite life and acquired goodwill are not amortized, but rather are tested for impairment on an annual basis or more often if events or circumstances indicate that a potential impairment exists. The Covey trade name intangible asset has been deemed to have an indefinite life. This intangible asset is tested for impairment using qualitative factors or the present value of estimated royalties on trade name related revenues, which consist primarily of training seminars and work sessions, international licensee sales, and related products. Based on the fiscal 2019 evaluation of the Covey trade name, we believe the fair value of the Covey trade name substantially exceeds its carrying value. No impairment charges were recorded against the Covey trade name during the periods presented in this report.

Goodwill is recorded when the purchase price for an acquisition exceeds the estimated fair value of the net tangible and identified intangible assets acquired. An annual (or interim test if events and circumstances indicate a test should be performed) goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount, and an impairment charge is recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. We tested goodwill for impairment at August 31, 2019 at the reporting unit level using a quantitative approach. The estimated fair value of each reporting unit was calculated using a combination of the income approach (discounted cash flows) and the market approach (using market multiples derived from a set of companies with comparable market characteristics).

On an interim basis, we consider whether events or circumstances are present that may lead to the determination that goodwill may be impaired. If, based on events or changing circumstances, we determine it is more likely than not that the fair value of a reporting unit does not exceed its carrying value, we would be required to test goodwill for impairment.

Determining the fair value of a reporting unit is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions, and determination of appropriate market comparables. We base our fair value estimates on assumptions we

believe to be reasonable, but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates. In addition, we make certain judgments and assumptions in allocating shared assets and liabilities to determine the carrying values for each of our reporting units. The timing and frequency of our goodwill impairment tests are based on an ongoing assessment of events and circumstances that would indicate a possible impairment. Based on the results of our goodwill impairment testing, we determined that no impairment existed at either of August 31, 2019 or 2018 as each reporting unit's estimated fair value exceeded its carrying value. We will continue to monitor our goodwill and intangible assets for impairment and conduct formal tests when impairment indicators are present. For more information regarding our intangible assets and goodwill, refer to Note 5.

### Capitalized Curriculum Development Costs

During the normal course of business, we develop training courses and related materials that we sell to our clients. Capitalized curriculum development costs include certain expenditures to develop course materials such as video segments, course manuals, and other related materials. Our capitalized curriculum development spending in fiscal 2019, which totaled \$2.7 million, was primarily for various Education practice offerings and courses for the All Access Pass, including *Unconscious Bias*. Curriculum costs are capitalized when there is a major revision to an existing course that requires a significant re-write of the course materials. Costs incurred to maintain existing offerings are expensed when incurred. In addition, development costs incurred in the research and development of new offerings and software products to be sold, leased, or otherwise marketed are expensed as incurred until economic and technological feasibility has been established.

Capitalized development costs are amortized over three- to five-year useful lives, which are based on numerous factors, including expected cycles of major changes to our content. Capitalized curriculum development costs are reported as a component of other long-term assets in our consolidated balance sheets and totaled \$7.0 million and \$9.3 million at August 31, 2019 and 2018. Amortization of capitalized curriculum development costs is reported as a component of cost of sales in the accompanying consolidated statements of operations.

### Accrued Liabilities

Significant components of our accrued liabilities were as follows (in thousands):

AUGUST 31,	2019	2018
Accrued compensation	\$14,003	\$11,858
Other accrued liabilities	9,552	8,903
	\$23,555	\$20,761

### Contingent Consideration Payments from Business Acquisitions

Business acquisitions may include contingent consideration payments based on various future financial measures related to the acquired entity. Contingent consideration is required to be recognized at fair value as of the acquisition date. We estimate the fair value of these liabilities based on financial projections of the acquired company and estimated probabilities of achievement. Based on updated estimates and projections, the contingent consideration liabilities are adjusted at each reporting date to their estimated fair value. Changes in fair value subsequent to the acquisition date are reported in selling, general, and administrative expense in our consolidated statements of operations, and may have a material impact on our operating results. Variations in the fair value of contingent consideration liabilities may result from changes in discount periods or rates, changes in the timing and amount of earnings estimates, and changes in probability assumptions with respect to the likelihood of achieving various payment criteria.

### Foreign Currency Translation and Transactions

The functional currencies of our foreign operations are the reported local currencies. Translation adjustments result from translating our foreign subsidiaries' financial statements into United States dollars. The balance sheet accounts of our foreign subsidiaries are translated into United States dollars using the exchange rate in effect at the balance sheet dates. Revenues and expenses are translated using average exchange rates for each month during the fiscal year. The resulting translation differences are recorded as a component of accumulated other comprehensive income in shareholders' equity. Foreign currency transaction losses totaled \$0.2 million, \$0.5 million, and \$0.2 million for the fiscal years ended August 31, 2019, 2018, and 2017, respectively, and are included as a component of selling, general, and administrative expenses in our consolidated statements of operations.

### Sales Taxes

We collect sales tax on qualifying transactions with customers based upon applicable sales tax rates in various jurisdictions. We account for sales taxes collected using the net method; accordingly, we do not include sales taxes in net sales reported in our consolidated statements of operations.

### Revenue Recognition

We account for revenue in accordance with Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which we adopted on September 1, 2018 using the modified retrospective method (see also Note 2).

Prior to the adoption of Topic 606, we recognized revenue when: 1) persuasive evidence of an arrangement existed, 2) delivery of the product occurred or the services were rendered, 3) the price to the customer was fixed or determinable, and 4) collectability was reasonably assured. These principles governed our revenue recognition policies and procedures for fiscal 2018 and fiscal 2017 as presented in this report. For training and service sales, these conditions were generally met upon presentation of the training seminar or delivery of the consulting services based upon daily rates. For most of our product sales, these conditions were met upon shipment of the product to the customer. For intellectual property license sales, the revenue recognition conditions were generally met at the later of delivery of the content to the client or the effective date of the arrangement. Our subscription revenues from the All Access Pass and the *Leader in Me* membership were recognized over the duration of the underlying contracts since our clients had the right to content updates during the contracted period.

Revenue recognition for multiple-element arrangements required judgment to determine if multiple elements existed, whether elements could be accounted for as separate units of accounting, and if so, the fair value for each of the elements. A deliverable constituted a separate unit of accounting when it had standalone value to our clients. We entered into arrangements that included various combinations of multiple training offerings, consulting services, and intellectual property licenses. The timing of delivery and performance of the elements typically varied from contract to contract. Generally, these items qualified as separate units of accounting because they had value to the customer on a standalone basis. We determined the fair value to be used for allocating



revenue to the elements based on (i) vendor-specific objective evidence of fair value (VSOE), (ii) third-party evidence (TPE), and (iii) best estimate of selling price (BESP).

Our international strategy includes the use of licensees in countries where we do not have a wholly-owned direct office. Licensee companies are unrelated entities that have been granted a license to translate our content and offerings, adapt the content to the local culture, and sell our content in a specific country or region. Licensees are required to pay us royalties based upon a percentage of their sales to clients. We recognize royalty income each period based upon the sales information reported to us from our licensees. Refer to disaggregated revenue information presented in Note 17 for our royalty revenues in the fiscal years presented in this report.

Revenue is recognized as the net amount to be received after deducting estimated amounts for discounts and product returns.

### Stock-Based Compensation

We record the compensation expense for all stock-based payments, including grants of stock options and the compensatory elements of our employee stock purchase plan, in our consolidated statements of operations based upon their fair values over the requisite service period. For more information on our stock-based compensation plans, refer to Note 12.

### Shipping and Handling Fees and Costs

All shipping and handling fees billed to customers are recorded as a component of net sales. All costs incurred related to the shipping and handling of products are recorded in cost of sales.

### Advertising Costs

Costs for advertising are expensed as incurred. Advertising costs included in selling, general, and administrative expenses totaled \$4.6 million, \$6.9 million, and \$6.4 million for the fiscal years ended August 31, 2019, 2018, and 2017.

### Income Taxes

Our income tax provision has been determined using the asset and liability approach of accounting for income taxes. Under this approach, deferred income taxes

represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. The income tax provision represents income taxes paid or payable for the current year plus the change in deferred taxes during the year. Deferred income taxes result from differences between the financial and tax bases of our assets and liabilities and are adjusted for tax rates and tax laws when changes are enacted. A valuation allowance is provided against deferred income tax assets when it is more likely than not that all or some portion of the deferred income tax assets will not be realized. Interest and penalties related to uncertain tax positions are recognized as components of income tax benefit or expense in our consolidated statements of operations.

We may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement.

We provide for income taxes, net of applicable foreign tax credits, on temporary differences in our investment in foreign subsidiaries, which consist primarily of unrepatriated earnings.

### Comprehensive Loss

Comprehensive loss includes changes to equity accounts that were not the result of transactions with shareholders. Comprehensive loss is comprised of net income or loss and other comprehensive income and loss items. Our other comprehensive income and losses generally consist of changes in the cumulative foreign currency translation adjustment, net of tax.

### Accounting Pronouncements Issued and Adopted

#### *Revenue Recognition*

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This new standard was issued in conjunction with the International Accounting Standards Board (IASB) and is designed to create a single, principles-based process by which all businesses calculate revenue. The core principle of this standard is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be

entitled to receive for those goods or services. The new standard replaces numerous individual, industry-specific revenue rules found in generally accepted accounting principles in the United States. We adopted ASU No. 2014-09 on September 1, 2018 using the “modified retrospective” approach. Under this transition method, we applied the new standard to contracts that were not completed as of the adoption date and recognized a cumulative effect adjustment which reduced our retained earnings by \$4.1 million (\$3.1 million, net of tax) on September 1, 2018, which primarily consisted of initial licensing fees on international locations. The comparative period information for fiscal 2018 and fiscal 2017 has not been restated and continues to be presented according to accounting standards for revenue recognition in effect during the periods presented.

The primary impact of ASU No. 2014-09 on our revenue recognition policies is a change in the way we account for our initial license fee associated with licensing an international location. The Company previously recorded the non-refundable initial license fee from licensing an international location as revenue at the time the license period begins if all other revenue requirements had been met. However, under Topic 606, the Company will recognize revenue on the upfront license fees over the duration of the contract.

Under Topic 606, we account for the All Access Pass as a single performance obligation and recognize the associated transaction price on a straight-line basis over the term of the underlying contract. This determination was reached after considering that our web-based functionality and content, in combination with our intellectual property, each represent inputs that transform into a combined output that represents the intended outcome of the AAP, which is to provide a continuously accessible, customized, and dynamic learning and development solution only accessible through the AAP platform.

We do not expect the accounting for fulfillment costs or costs incurred to obtain a contract to be materially effected in any period due to the adoption of ASU 2014-09. Refer to Note 2 for further details regarding our revenue recognition accounting policies under Topic 606.

The cumulative after-tax effects of the changes made to our consolidated balance sheet from the adoption of Topic 606 were as follows (in thousands):

	August 31, 2018	ASC 606 Adjustments	September 1, 2018
<b>Assets:</b>			
Other current assets	\$10,893	\$ 109	\$11,002
Deferred income tax assets	3,222	1,005	4,227
<b>Liabilities and Shareholders' Equity:</b>			
Deferred subscription revenue	47,417	1,453	48,870
Other deferred revenue	4,471	555	5,026
Other liabilities	5,501	2,249	7,750
Retained earnings	63,569	(3,143)	60,426

The following line items in our consolidated statement of operations were impacted by the adoption of the new revenue recognition standard for the year ended August 31, 2019 (in thousands, except per-share data):

	August 31, 2019 As Reported	August 31, 2019 Without ASC 606	Impact of ASC 606
Net sales	\$225,356	\$225,222	\$134
Cost of sales	66,042	66,042	—
Selling, general, and administrative	145,319	145,329	(10)
Income tax provision	(1,615)	(1,580)	(35)
Net loss	(1,023)	(1,132)	109
Net loss per share:			
Basic and diluted	\$ (0.07)	\$ (0.08)	

Selected consolidated balance sheet line items as of August 31, 2019, which were impacted by the adoption of the new standard, are as follows (in thousands):

	August 31, 2019 As Reported	August 31, 2019 Without ASC 606	Impact of ASC 606
<b>Assets:</b>			
Other current assets	\$ 11,027	\$ 10,908	\$ 119
Deferred income tax assets	5,045	4,075	970
Total assets	224,913	223,824	1,089
<b>Liabilities and Shareholders' Equity:</b>			
Deferred subscription revenue	\$ 56,250	\$ 55,247	\$ 1,003
Other deferred revenue	5,972	5,417	555
Other liabilities	7,527	4,961	2,566
Retained earnings	59,403	62,438	(3,035)
Total liabilities and shareholders' equity	224,913	223,824	1,089

The adoption of ASC Topic 606 did not have a material impact on our cash flows from operating, investing, or financing activities.

*Stock-Based Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*

In June 2018, the FASB issued ASU No. 2018-07, *Compensation – Stock Compensation: Improvements to Nonemployee Share-Based Payment Accounting (Topic 718)*. ASU No. 2018-07 expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. The amendments in this update specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payment awards. The amendments also clarify that Topic 718 does not apply to share-based payments used effectively to provide financing to the issuer or awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under Topic 606, *Revenue from Contracts with Customers*. The new guidance is effective for interim and annual periods beginning after December 15, 2018, with early application permitted. We adopted the provisions of ASU No. 2018-07 on June 1, 2019. However, we have not previously granted awards to non-employees (except for members of the Board of Directors) and there was no cumulative impact from the adoption ASU No. 2018-07.

### **Accounting Pronouncements Issued Not Yet Adopted**

*Leases (Topic 842)*

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which supersedes FASB Accounting Standards Codification (ASC) Topic 840, *Leases*. Under the new guidance, we will recognize liabilities and corresponding "right-of-use" (ROU) assets for most leases but will recognize lease expenses similar to current lease accounting. The lease liability will be equal to the present value of lease payments not yet paid and the ROU asset will be based on the liability, adjusted for initial direct costs, prepaid lease payments, and lease incentives. For lessors, accounting for leases is substantially the same as in prior periods. In July 2018, the FASB issued an adoption approach that allows entities to apply the new guidance and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption without restating prior periods. We will adopt the new leasing standard on September 1, 2019 using this transition method.

At August 31, 2019, our leases primarily consist of the lease on our corporate campus, and operating leases for office space, warehousing space, and equipment. The lease

for our corporate campus is currently accounted for as a financing obligation and related building asset on our consolidated balance sheets, as the contract represented a failed sale-leaseback under Topic 840. In transition to Topic 842, we will be required to reassess whether the previously failed sale-leaseback will meet the sale criteria under the new leasing standard. We currently believe that the sale criteria under the new leasing standard will not be met and we will continue to account for the corporate campus lease as a finance obligation upon transition. For our operating leases, we will elect to apply the package of practical expedients, which allows us to not reassess prior conclusions related to contracts containing leases, lease classification, and initial direct costs. We continue to finalize our implementation efforts and currently estimate that the adoption of the new leasing standard will result in recognition of approximately \$1.4 million to \$1.6 million of lease liabilities for operating leases and a corresponding amount for ROU assets on the date of adoption. The new lease standard also provides practical expedients for an entity's ongoing accounting. We currently expect to elect the short-term lease recognition exemption for all leases that qualify, which means leases with initial terms of 12 months or less will not be recorded on the balance sheet. We do not expect the adoption of the new lease standard to have a material impact on our consolidated statements of operations or cash flows.

*Credit Losses on Financial Instruments*

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This accounting standard changes the methodology for measuring credit losses on financial instruments, including trade accounts receivable, and the timing of when such losses are recorded. ASU No. 2016-13 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019. Early adoption is permitted for fiscal years, and interim periods within those years, beginning after December 15, 2018. The Company is currently evaluating the impact of ASU No. 2016-13 on its financial position, results of operations, and liquidity.

*Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement*

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* (ASU 2018-15). This guidance clarifies the accounting for implementation

costs in a cloud computing arrangement that is a service contract and aligns the requirements for capitalizing those costs with the capitalization requirements for costs incurred to develop or obtain internal-use software. The new standard is effective for interim and annual periods beginning after December 15, 2019, and early adoption is permitted. We are currently evaluating the effects, if any, the adoption of ASU 2018-15 may have on our financial position, results of operations, cash flows, or disclosures.

## 2. Revenue Recognition

We account for revenue in accordance with Topic 606, which was adopted on September 1, 2018 using the modified retrospective method (Note 1). We earn revenue from contracts with customers primarily through the delivery of our All Access Pass and the *Leader in Me* membership subscription offerings, through the delivery of training days and training course materials, and through the licensing of rights to sell our content into geographic locations where the Company does not maintain a direct office. We also earn revenues from leasing arrangements that are not accounted for under Topic 606. Returns and refunds are generally immaterial, and we do not have any significant warranty obligations.

Under Topic 606, we recognize revenue upon the transfer of control of promised products and services to customers in an amount equal to the consideration we expect to receive in exchange for those products or services. Although rare, if the consideration promised in a contract includes variable amounts, we evaluate the estimate of variable consideration to determine whether the estimate needs to be constrained. We include the variable consideration in the transaction price only to the extent that it is probable a significant reversal of the amount of cumulative revenue recognized will not occur.

We determine the amount of revenue to be recognized through application of the following steps:

- Identification of the contract with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when the Company satisfies the performance obligations

Taxes assessed by a government authority that are collected from a customer are excluded from net revenue.

### Services and Products

We deliver Company-led training days from our offerings, such as *The 7 Habits of Highly Effective People*, at a customer's location based upon a daily consultant rate and a set price for training materials. These revenues are recognized as the training days occur and the services are performed. Customers also have the option to purchase training materials and present our offerings through internal facilitators and not through the use of a Franklin Covey consultant. Revenue is recognized from these product sales when the materials are shipped. Shipping revenues associated with product sales are recorded in revenue with the corresponding shipping cost being recorded as a component of cost of sales.

### Subscription Revenues

Subscription revenues primarily relate to the Company's All Access Pass and the *Leader in Me* membership offerings. We have determined that it is most appropriate to account for the AAP as a single performance obligation and recognize the associated transaction price ratably over the term of the underlying contract beginning on the commencement date of each contract, which is the date the Company's platforms and resources are made available to the customer. This determination was reached after considering that our web-based functionality and content, in combination with our intellectual property, each represent inputs that transform into a combined output that represents the intended outcome of the AAP, which is to provide a continuously accessible, customized, and dynamic learning and development solution only accessible through the AAP platform.

We typically invoice our customers annually upon execution of the contract or subsequent renewals. Amounts that have been invoiced are recorded in accounts receivable and in unearned revenue or revenue, depending on whether transfer of control has occurred.

Our *Leader in Me* offering is bifurcated into a portal membership obligation and a coaching delivery obligation. We have determined that it is appropriate to recognize revenue related to the portal membership over the term of the underlying contract and to recognize revenue from coaching as those services are performed. The combined contract amount is recorded in deferred subscription revenue until the performance obligations are satisfied.

Any additional coaching or training days which are contracted independent of the *Leader in Me* contract are recorded as revenue in accordance with our general policy for services and products as previously described.

### Royalties

Our international strategy includes the use of licensees in countries where we do not have a wholly-owned direct office. Licensee companies are unrelated entities that have been granted a license to translate our content and offerings, adapt the content to the local culture, and sell our content in a specific country or region. Licensees are required to pay us royalties based upon a percentage of their sales to clients. We recognize royalty income each reporting period based upon the sales information reported to us from our licensees. When sales information is not received from a particular licensee at the end of a reporting period, the Company estimates the amount of royalties to be received for the period that is being reported based upon prior forecasts and historical performance. These estimated royalties are recorded as revenue and are adjusted, if necessary, in the subsequent period.

The primary impact of ASU No. 2014-09 on our financial statements is a change in the way we account for the initial license fee associated with licensing an international location. The Company previously recorded the non-refundable initial license fee from licensing an international location as revenue at the time the license period began if all other revenue requirements had been met. However, under Topic 606, we recognize revenue on the upfront fees over the term of the initial contract.

### Contracts with Multiple Performance Obligations

We periodically enter into contracts that include multiple performance obligations. A performance obligation is a promise in a contract to transfer products or services that are distinct, or that are distinct within the context of the contract. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when the performance obligation is satisfied. Determining whether products and services meet the distinct criteria that should be accounted for separately or combined as one unit of accounting requires significant judgment.

When determining whether goods and services meet the distinct criteria, we consider various factors for each agreement including the availability of the services and

the nature of the offerings and services. We allocate the transaction price to each performance obligation on a relative standalone selling price (SSP) basis. Judgment is required to determine the SSP for each distinct performance obligation. The SSP is the price which the Company would sell a promised product or service separately to a customer. In determining the SSP, we consider the size and volume of transactions, price lists, historical sales, and contract prices. We may modify our pricing from time-to-time in the future, which could result in changes to the SSP.

### Contract Balances

As described above, subscription revenue is generally recognized ratably over the term of the underlying contract beginning on the commencement date of each contract. The timing of when these contracts are invoiced, cash is collected, and revenue is recognized impacts our accounts receivable and deferred revenue accounts. We generally bill our clients in advance for subscription offerings or within the month that the training and products are delivered. As such, consideration due to the Company for work performed is included in accounts receivable and we do not have a significant amount of contract assets. Our receivables are generally collected within 30 to 120 days but typically no longer than 12 months. Deferred revenue primarily consists of billings or payments received in advance of revenue being recognized from our subscription offerings. Furthermore, our clients, to expend funds in a particular budget cycle, may prepay for services or products which are also a component of our consolidated deferred revenue. Our deferred revenue totaled \$65.8 million at August 31, 2019 and \$52.9 million at August 31, 2018, of which \$3.6 million and \$1.0 million were classified as components of other long-term liabilities at August 31, 2019 and August 31, 2018, respectively. The amount of deferred revenue that was generated from subscription offerings totaled \$58.2 million at August 31, 2019 and \$48.4 million at August 31, 2018. During the fiscal year ended August 31, 2019, we recognized \$74.7 million of previously deferred subscription revenue.

### Remaining Performance Obligations

When possible, we enter into multi-year non-cancellable contracts which are invoiced either upon execution of the contract or at the beginning of each annual contract period. Topic 606 introduced the concept of remaining transaction price which represents contracted revenue

that has not yet been recognized, including unearned revenue and unbilled amounts that will be recognized as revenue in future periods. Transaction price is influenced by factors such as seasonality, the average length of the contract term, and the ability of the Company to continue to enter multi-year non-cancellable contracts. At August 31, 2019 we had \$88.1 million of remaining performance obligations, including the amount of deferred revenue related to our subscription offerings, of which approximately 75 percent will be recognized over the next 12 months. The remaining performance obligation does not include other deferred revenue as amounts included in other deferred revenue include items such as deposits that are generally refundable at the client's request prior to the satisfaction of the obligation.

### Costs Capitalized to Obtain Contracts

We capitalize the incremental costs of obtaining non-cancellable subscription revenue, primarily from the All Access Pass and the *Leader in Me* membership offerings. These incremental costs consist of sales commissions paid to our sales force and include the associated payroll taxes and fringe benefits. As the same commission rates are paid annually when the customer renews their contract, the capitalized commission costs are amortized ratably on an annual basis. At August 31, 2019 we have capitalized \$9.0 million of direct sales commissions, of which \$8.3 million is included in other current assets and \$0.7 million is included in other long-term liabilities based on expected recognition of the commissions. During the fiscal year ended August 31, 2019, we capitalized \$13.7 million of costs to obtain revenue contracts and amortized \$11.7 million to selling, general, and administrative expense.

Refer to Note 17 (Segment Information) to these consolidated financial statements for our disaggregated revenue information.

## 3. Business Acquisitions

### Acquisition of Germany, Switzerland, and Austria Licensee

On December 5, 2018, we purchased all of the equity of Leadership Institut GmbH, a Munich, Germany based company with wholly owned subsidiary companies in Switzerland and Austria. Leadership Institut GmbH previously operated as an independent licensee that provided our training and products to Germany, Switzerland, and Austria (GSA). We transitioned the GSA licensee operation into a directly owned office

operation during fiscal 2019. The purchase price was \$0.2 million in cash, plus \$0.8 million in forgiveness of liabilities owed to the Company from the pre-existing relationship at the purchase date. There is no contingent or other additional consideration associated with the purchase of the former GSA licensee. We accounted for the acquisition of Leadership Institut GmbH as a business combination in the second quarter of fiscal 2019. We incurred costs for severance, legal, and other related acquisition expenses which totaled \$0.5 million and were expensed in selling, general, and administrative expense during fiscal 2019. The acquisition of the GSA licensee will provide us with the opportunity to operate a directly owned office in one of the world's largest economic markets and is expected to provide significant future growth opportunities. The total purchase price consisted of the following (in thousands):

Cash paid at closing	\$159
Accounts receivable from GSA licensee	798
Total purchase price	\$957

The major classes of assets and liabilities to which we have preliminarily allocated the purchase price were as follows (in thousands):

Cash acquired	\$ 127
Accounts receivable	564
Inventories	80
Prepaid expenses and other current assets	45
Intangible assets	741
Property and equipment	27
Other long-term assets	11
Assets acquired	1,595
Accounts payable	(208)
Accrued liabilities	(383)
Income taxes payable	(47)
Liabilities assumed	(638)
	\$ 957

The allocation of the purchase price to the intangible assets acquired was as follows (in thousands):

Description	Amount	Weighted Average Life
Reacquisition of license rights	\$360	3 years
Localized content	202	3 years
Customer relationships	179	3 years
	\$741	

We have included the financial results of the former GSA licensee in our financial results since the date of

acquisition. Since the date of the acquisition, the new direct office that serves the GSA region recognized \$1.5 million of sales and a \$0.2 million operating loss. During fiscal 2018, we recognized \$0.4 million of royalty revenue from the GSA licensee. The acquisition of the former GSA licensee was immaterial to our financial statements and pro forma financial information was not deemed necessary for this acquisition.

### Robert Gregory Partners, LLC

On May 15, 2017, we acquired the assets of Robert Gregory Partners, LLC (RGP), a Dublin, Ohio based corporate coaching firm, for \$3.5 million in cash plus potential contingent consideration totaling \$4.5 million. Robert Gregory Partners is a corporate coaching firm with expertise in executive coaching, transition acceleration coaching, leadership development coaching, implementation coaching, and consulting. We believe that the acquired RGP services and methodologies have become important offerings in our training and consulting business. The financial results of RGP have been included in our consolidated financial statements since the date of the acquisition.

The total purchase price consisted of the following (in thousands):

Cash paid to RGP at closing	\$3,500
Fair value of contingent consideration	1,413
<b>Total purchase price</b>	<b>\$4,913</b>

The major classes of assets and liabilities to which we have allocated the purchase price were as follows (in thousands):

Accounts receivable	\$ 458
Prepaid expenses	136
Intangible assets	3,811
Goodwill	1,232
<b>Assets acquired</b>	<b>5,637</b>
Accounts payable	(51)
Accrued liabilities	(80)
Deferred revenues	(593)
<b>Liabilities assumed</b>	<b>(724)</b>
	<b>\$4,913</b>

The goodwill generated from the RGP acquisition was allocated to each of our operating segments. The goodwill was primarily attributed to increased synergies that are expected to be achieved from the integration of RGP's coaching methodologies into our services and offerings. All of the goodwill from the RGP acquisition is expected to be deductible for income tax purposes.

The payment of contingent consideration is based on the achievement of specified financial results and the delivery of "add-on coaching services" content that is included in our All Access Pass offering. We paid the former owners of RGP \$1.0 million during fiscal 2018 as contingent consideration for achieving specified financial results. During the fourth quarter of fiscal 2017, we paid the former owners of RGP \$0.5 million of contingent consideration for delivery of the content that was integrated into our AAP offering. Due to the timing of the \$0.5 million payment for add-on coaching services, this amount was included in the investing activities section of the accompanying consolidated statement of cash flows for fiscal 2017. Refer to Note 11 for further information regarding the fair value of the contingent consideration liability resulting from the RGP acquisition.

The details of the purchase price allocated to the intangible assets acquired were as follows (in thousands):

Description	Amount	Weighted Average Life
Customer list	\$2,249	10 years
Content	461	5 years
Trade name	341	5 years
Non-compete agreements	328	2 years
Deferred contract revenue	237	2 years
Coach relationships	150	10 years
Acquired technology	45	3 years
	<b>\$3,811</b>	<b>8 years</b>

Our fiscal 2017 consolidated statement of operations include \$1.2 million of revenue and \$0.4 million of income from operations, excluding amortization of intangible assets, attributable to RGP since the date of the acquisition. The costs to acquire RGP totaled approximately \$0.1 million and were expensed as components of selling, general, and administrative expense in our consolidated financial statements.

### Jhana Education

On July 11, 2017, we acquired all of the outstanding stock of Jhana Education (Jhana), a San Francisco based company that specializes in the creation and dissemination of relevant, bite-sized content and learning tools for leaders and managers. The acquired Jhana content and delivery methodologies have become key features of our current AAP offering. The purchase price was \$3.5 million in cash plus up to \$7.2 million of contingent consideration. The financial results of Jhana have been included in our consolidated financial statements since the date of the acquisition.

The total purchase price consisted of the following (in thousands):

Cash paid to Jhana at closing	\$3,525
Fair value of contingent consideration	6,052
<u>Total purchase price</u>	<u>\$9,577</u>

The major classes of assets and liabilities to which we have allocated the purchase price were as follows (in thousands):

Cash	\$	253
Accounts receivable		195
Prepaid expenses and other current assets		86
Deferred tax asset		3,138
Intangible assets		6,076
Goodwill		3,085
<u>Assets acquired</u>		<u>12,833</u>
Accounts payable		(185)
Accrued liabilities		(19)
Deferred tax liability		(2,257)
Deferred revenues		(795)
<u>Liabilities assumed</u>		<u>(3,256)</u>
	\$	<u>9,577</u>

The details of the purchase price allocated to the intangible assets acquired consisted of the following (in thousands):

Description	Amount	Weighted Average Life
Content	\$3,097	5 years
Acquired technology	1,474	3 years
Customer list	1,016	5 years
Trade name	445	5 years
Non-compete agreements	44	3 years
	<u>\$6,076</u>	<u>5 years</u>

The goodwill from the Jhana acquisition was assigned to the Direct Offices and International Licensee segments. The goodwill was primarily attributed to increased synergies that are expected to be achieved from the integration of Jhana's content and delivery methodologies into our services and offerings, especially in the All Access Pass. None of the goodwill from the Jhana acquisition is expected to be deductible for income tax purposes.

During fiscal 2018, we paid \$2.4 million to the former owners of Jhana as contingent consideration based on the acquisition agreement. The first \$1.1 million was paid within 90 days of the acquisition date and was classified as a component of cash flows from investing activities in

our fiscal 2018 consolidated statement of cash flows. The payment of the remaining contingent consideration is based on certain revenue streams over the measurement period, which ends in July 2026. Refer to Note 11 for further information regarding the fair value of contingent consideration resulting from the Jhana acquisition.

The acquisition of Jhana had an immaterial impact on our consolidated financial statements for the fiscal year ended August 31, 2017. The costs to acquire Jhana totaled approximately \$0.1 million and were expensed as incurred. The acquisition costs were included in our selling, general, and administrative expenses.

### Unaudited Pro Forma Information

The following are supplemental consolidated financial results of Franklin Covey Co. on an unaudited pro forma basis as if the acquisitions of RGP and Jhana had been completed on September 1, 2016 (in thousands, except per share amounts):

YEAR ENDED AUGUST 31,	2017
Revenue	\$187,745
Net loss	(7,976)
Diluted loss per share	(0.58)

These pro forma results were based on estimates and assumptions, which we believe are reasonable. They are not the results that would have been realized had we been a combined company during the period presented, and are not necessarily indicative of our consolidated results of operations in future periods. The pro forma results include adjustments related to purchase accounting, primarily the amortization of intangible assets, interest expense, and inclusion of acquisition costs.

## 4. Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts represents our best estimate of the amount of probable credit losses in the existing accounts receivable balance, and we review the adequacy of the allowance for doubtful accounts on a regular basis. We determine the allowance for doubtful accounts using historical write-off experience based on the age of the receivable balances and current general economic conditions. Receivable balances past due over 90 days, which exceed a specified dollar amount, are reviewed individually for collectability. As we increase sales to governmental organizations,



including school districts, and offer longer payment terms on certain contracts (which are still within our normal payment terms), our collection cycle may increase in future periods. If the risk of non-collection increases for such receivable balances, there may be additional charges to expense to increase the allowance for doubtful accounts.

Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. We do not have any off-balance sheet credit exposure related to our customers nor do we generally require collateral or other security agreements from our customers. Activity in our allowance for doubtful accounts was comprised of the following for the periods indicated (in thousands):

YEAR ENDED			
AUGUST 31,	2019	2018	2017
Beginning balance	\$3,555	\$2,310	\$ 1,579
Charged to costs and expenses	1,212	2,029	1,747
Deductions	(525)	(784)	(1,016)
Ending balance	\$4,242	\$3,555	\$ 2,310

Deductions on the foregoing table represent the write-off of amounts deemed uncollectible during the fiscal year presented. Recoveries of amounts previously written off were insignificant for the periods presented.

## 5. Intangible Assets And Goodwill

### Intangible Assets

Our intangible assets were comprised of the following (in thousands):

AUGUST 31, 2019	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
<i>Finite-lived</i>			
<i>intangible assets:</i>			
License rights	\$ 28,099	\$(20,063)	\$ 8,036
Acquired content	62,307	(48,449)	13,858
Customer lists	20,266	(18,450)	1,816
Acquired technology	3,568	(3,149)	419
Trade names	2,036	(1,602)	434
Non-compet agreements and other	758	(631)	127
	117,034	(92,344)	24,690
<i>Indefinite-lived</i>			
<i>intangible asset:</i>			
Covey trade name	23,000	–	23,000
	\$140,034	\$(92,344)	\$47,690

### AUGUST 31, 2018

#### *Finite-lived*

<i>intangible assets:</i>			
License rights	\$ 27,750	\$(18,889)	\$ 8,861
Acquired content	62,102	(46,147)	15,955
Customer lists	20,092	(17,835)	2,257
Acquired technology	3,568	(2,642)	926
Trade names	2,036	(1,441)	595
Non-compet agreements and other	758	(418)	340
	116,306	(87,372)	28,934

#### *Indefinite-lived*

<i>intangible asset:</i>			
Covey trade name	23,000	–	23,000
	\$139,306	\$(87,372)	\$51,934

Our intangible assets are amortized over the estimated useful life of the asset. The range of remaining estimated useful lives and weighted-average amortization period over which we are amortizing the major categories of finite-lived intangible assets at August 31, 2019 were as follows:

Category of Intangible Asset	Range of Remaining Estimated Useful Lives	Weighted Average Original Amortization Period
License rights	3 to 8 years	29 years
Acquired content	2 to 8 years	25 years
Customer lists	2 to 8 years	12 years
Acquired technology	1 year	3 years
Trade names	1 to 4 years	5 years
Non-compet agreements and other	1 to 9 years	4 years

Our aggregate amortization expense from finite-lived intangible assets totaled \$5.0 million, \$5.4 million, and \$3.5 million for the fiscal years ended August 31, 2019, 2018, and 2017. Amortization expense from our intangible assets over the next five years is expected to be as follows (in thousands):

YEAR ENDING AUGUST 31,	
2020	\$4,564
2021	4,049
2022	3,557
2023	2,612
2024	2,612

## Goodwill

There were no changes to our consolidated goodwill balance during fiscal 2019 and we do not have any accumulated impairment charges against the carrying value of our goodwill. At August 31, 2019 and 2018, goodwill was allocated to our segments as shown below (in thousands):

Direct offices	\$16,825
International licensees	5,065
Education practice	2,330
	<hr/>
	\$24,220

## 6. Term Loans Payable And Revolving Line Of Credit

On August 7, 2019, we entered into a new credit agreement (the 2019 Credit Agreement) with our existing lender, which replaced the amended and restated credit agreement, dated March 2011 (the Original Credit Agreement). The 2019 Credit Agreement provides up to \$25.0 million in term loans and a \$15.0 million revolving line of credit. Upon entering into the 2019 Credit Agreement, we borrowed \$20.0 million through a term loan and used the proceeds to repay all indebtedness under the Original Credit Agreement. Surplus proceeds from the term loan are classified as cash and cash equivalents on our consolidated balance sheet. Within one year of the date of the 2019 Credit Agreement, we may request an additional \$5.0 million term loan. Interest on all borrowings under the 2019 Credit Agreement is due and payable on the first day of each month and will be equal to LIBOR plus 1.85 percent, which pricing matches that of the Original Credit Agreement. The effective interest rate on our term loan and revolving line of credit was 4.1 percent at August 31, 2019 and 3.9 percent at August 31, 2018. We incurred approximately \$0.1 million of legal fees to obtain the 2019 Credit Agreement.

The 2019 Credit Agreement preserves the financial covenants in the Original Credit Agreement, which are (i) a Funded Indebtedness to Adjusted EBITDAR Ratio of less than 3.00 to 1.00; (ii) a Fixed Charge Coverage ratio not less than 1.15 to 1.00; (iii) an annual limit on capital expenditures (excluding capitalized curriculum development costs) of \$8.0 million; and (iv) consolidated accounts receivable of not less than 150% of the aggregate amount of the outstanding borrowings on the revolving line of credit, the undrawn amount of outstanding letters of credit, and the amount of unreimbursed letter of credit disbursements.

In the event of noncompliance with these financial covenants and other defined events of default, the lender is entitled to certain remedies, including acceleration of the repayment of any amounts outstanding on the 2019 Credit Agreement. At August 31, 2019, we believe that we were in compliance with the terms and covenants applicable to the 2019 Credit Agreement.

The 2019 Credit Agreement is secured by substantially all of the assets of the Company and certain of our subsidiaries and contains customary representations, warranties, and covenants.

## Term Loans Payable

As previously described, we borrowed \$20.0 million on a term loan and used the proceeds to repay all indebtedness under the Original Credit Agreement. Within one year of the date of the 2019 Credit Agreement, we may request an additional \$5.0 million term loan with the same terms as the original \$20.0 million term loan. Principal payments on the term loans of \$1.25 million will be due and payable on the first day of each January, April, July, and October (\$5.0 million per year) until the term loan obligation is repaid. Quarterly principal payments remain the same whether or not we choose to obtain the additional \$5.0 million term loan. Accordingly, at August 31, 2019, the principal of the \$20.0 million term loan will be repaid over four years as shown below (in thousands):

YEAR ENDING	
AUGUST 31,	
2020	\$ 5,000
2021	5,000
2022	5,000
2023	5,000
	<hr/>
	\$20,000

## Revolving Line of Credit

The key terms and conditions of our revolving line of credit associated with the 2019 Credit Agreement are as follows:

- **Available Credit** – \$15.0 million less outstanding standby letters of credit, which totaled \$0.1 million at August 31, 2019.
- **Maturity Date** – August 7, 2024.
- **Interest Rate** – The effective interest rate is LIBOR plus 1.85 percent per annum and the unused commitment fee on the line of credit is 0.20 percent per annum.

At August 31, 2019, we did not have any borrowings on the revolving line of credit. We had \$11.3 million outstanding on our revolving line of credit at August 31, 2018.

## 7. Financing Obligation

In connection with the sale and leaseback of our corporate headquarters facility located in Salt Lake City, Utah, we entered into a 20-year master lease agreement with the purchaser, an unrelated private investment group. The 20-year master lease agreement also contains six five-year renewal options that allow us to maintain our operations at the current location for up to 50 years. Although the corporate headquarters facility was sold and the Company has no legal ownership of the property, under applicable accounting guidance we were prohibited from recording the transaction as a sale since we have subleased a significant portion of the property that was sold. Accordingly, we account for the sale as a financing transaction, which requires us to continue reporting the corporate headquarters facility as an asset and to record a financing obligation for the sale price.

The financing obligation on our corporate campus was comprised of the following (in thousands):

AUGUST 31,	2019	2018
Financing obligation payable in monthly installments of \$309 at August 31, 2019, including principal and interest, with two percent annual increases (imputed interest at 7.7%), through June 2025	\$18,983	\$21,075
Less current portion	(2,335)	(2,092)
<b>Total financing obligation, less current portion</b>	<b>\$16,648</b>	<b>\$18,983</b>

Future principal maturities of our financing obligation were as follows at August 31, 2019 (in thousands):

YEAR ENDING AUGUST 31,	
2020	\$ 2,335
2021	2,600
2022	2,887
2023	3,199
2024	3,538
Thereafter	4,424
	<b>\$18,983</b>

Our remaining future minimum payments under the financing obligation in the initial 20-year lease term are as follows (in thousands):

YEAR ENDING AUGUST 31,	
2020	\$ 3,724
2021	3,798
2022	3,874
2023	3,952
2024	4,031
Thereafter	3,301
Total future minimum financing obligation payments	22,680
Less interest	(5,009)
<b>Present value of future minimum financing obligation payments</b>	<b>\$17,671</b>

The \$1.3 million difference between the carrying value of the financing obligation and the present value of the future minimum financing obligation payments represents the carrying value of the land sold in the financing transaction, which is not depreciated. At the conclusion of the master lease agreement, the remaining financing obligation and carrying value of the land will be offset and written off our consolidated financial statements.

## 8. Operating Leases

### Lease Expense

In the normal course of business, we lease office space and warehouse and distribution facilities under non-cancelable operating lease agreements. We rent office space, primarily for international and domestic regional sales administration offices, in commercial office complexes that are conducive to sales and administrative operations. We also rent warehousing and distribution facilities that are designed to provide secure storage and efficient distribution of our training products, books, and accessories. These operating lease agreements often contain renewal options that may be exercised at our discretion after the completion of the base rental term. In addition, some of the rental agreements provide for regular increases to the base rental rate at specified intervals, which usually occur on an annual basis. At August 31, 2019, we had operating leases with remaining terms ranging from less than one year to approximately six years. The following table summarizes our future

minimum lease payments under operating lease agreements at August 31, 2019 (in thousands):

YEAR ENDING AUGUST 31,	
2020	\$ 752
2021	472
2022	112
2023	97
2024	79
Thereafter	92
	\$1,604

We recognize lease expense on a straight-line basis over the life of the lease agreement. Contingent rent expense is recognized as it is incurred and was insignificant for the periods presented. Total rent expense recorded in selling, general, and administrative expense from operating lease agreements was \$1.5 million, \$1.6 million, and \$1.8 million for the fiscal years ended August 31, 2019, 2018, and 2017.

### Lease Income

We have subleased the majority of our corporate headquarters campus located in Salt Lake City, Utah to multiple, unrelated tenants as well as to FC Organizational Products (FCOP, Note 18). We recognize sublease income on a straight-line basis over the life of the sublease agreement. The cost basis of our corporate campus was \$35.1 million, which had a carrying value of \$6.3 million at August 31, 2019. The following future minimum lease payments due to us from our sublease agreements at August 31, 2019 include lease income of approximately \$0.6 million per year from FCOP (in thousands):

YEAR ENDING AUGUST 31,	
2020	\$ 3,890
2021	2,341
2022	1,514
2023	1,514
2024	1,527
Thereafter	1,275
	\$12,061

Sublease revenue totaled \$3.9 million, \$3.5 million, and \$3.6 million during the fiscal years ended August 31, 2019, 2018, and 2017.

## 9. Commitments And Contingencies

### Warehouse Outsourcing Contract

Effective July 1, 2016, we entered into a warehousing services agreement with an independent warehouse and distribution company to provide product kitting, warehousing, and order fulfillment services at a facility in Des Moines, Iowa. Under the terms of this contract, we pay a fixed charge of approximately \$19,000 per month for account management services and variable charges for other warehousing services based on specified activities, including shipping charges. The warehouse charges may be increased each year of the contract based upon changes in the Employment Cost Index. The original warehousing and distribution contract expired on June 30, 2019, and we extended the contract with essentially the same terms until June 30, 2020.

During fiscal years 2019, 2018, and 2017, we expensed \$3.1 million, \$2.9 million, and \$2.6 million for services provided under the terms of our warehouse and distribution outsourcing contract. The total amount expensed each year includes freight charges, which are billed to the Company based upon activity. Freight charges included in the warehouse and distribution outsourcing costs totaled \$2.1 million, \$1.9 million, and \$1.5 million during the fiscal years ended August 31, 2019, 2018, and 2017. Because of the variable component of the agreement, our payments for warehouse and distribution services may fluctuate in the future due to changes in sales and levels of specified activities.

### Purchase Commitments

During the normal course of business, we issue purchase orders to various vendors for products and services. At August 31, 2019, we had open purchase commitments totaling \$4.5 million for products and services to be delivered primarily in fiscal 2020.

### Letters of Credit

At August 31, 2019 and 2018, we had standby letters of credit totaling \$0.1 million. These letters of credit were primarily required to secure commitments for certain insurance policies and expire in January 2020. No amounts were drawn on the letters of credit at either August 31, 2019 or August 31, 2018.

### Legal Matters and Loss Contingencies

We are the subject of certain legal actions, which we consider routine to our business activities. At August 31,

2019, we believe that, after consultation with legal counsel, any potential liability to us under these other actions will not materially affect our financial position, liquidity, or results of operations.

## 10. Shareholders' Equity

### Preferred Stock

We have 14.0 million shares of preferred stock authorized for issuance. At August 31, 2019 and 2018, no shares of preferred stock were issued or outstanding.

### Treasury Stock

On January 23, 2015, our Board of Directors approved a new plan to repurchase up to \$10.0 million of the Company's outstanding common stock. All previously existing common stock repurchase plans were canceled and the new common share repurchase plan does not have an expiration date. On March 27, 2015, our Board of Directors increased the aggregate value of shares of Company common stock that may be purchased under the January 2015 plan to \$40.0 million so long as we have either \$10.0 million in cash and cash equivalents or have access to debt financing of at least \$10.0 million. Through August 31, 2019, we have purchased 1,539,828 shares of our common stock for \$26.8 million under the terms of this expanded common stock repurchase plan. The actual timing, number, and value of common shares repurchased under this plan will be determined at our discretion and will depend on a number of factors, including, among others, general market and business conditions, the trading price of our common shares, and applicable legal requirements. We have no obligation to repurchase any common shares under the authorization, and the repurchase plan may be suspended, discontinued, or modified at any time for any reason.

The cost of common stock purchased for treasury as shown on our consolidated statement of cash flows for the year ending August 31, 2019 is comprised of the cost of 561 shares that were withheld for statutory income taxes on stock-based compensation awards issued to participants during the fiscal 2019. The withheld shares were valued at the market price on the date the shares were distributed to participants, which totaled approximately \$12,000. For the fiscal years ended August 31, 2018 and 2017, we withheld 104,699 shares and 51,156 shares for statutory taxes on stock-based compensation awards, which had a total market value of \$2.0 million and \$0.9 million, respectively.

## 11. Fair Value Of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. The accounting standards related to fair value measurements include a hierarchy for information and valuations used in measuring fair value that is broken down into the following three levels based on reliability:

- Level 1 valuations are based on quoted prices in active markets for identical instruments that the Company can access at the measurement date.
- Level 2 valuations are based on inputs other than quoted prices included in Level 1 that are observable for the instrument, either directly or indirectly, for substantially the full term of the asset or liability including the following:
  - a. quoted prices for similar, but not identical, instruments in active markets;
  - b. quoted prices for identical or similar instruments in markets that are not active;
  - c. inputs other than quoted prices that are observable for the instrument; or
  - d. inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 valuations are based on information that is unobservable and significant to the overall fair value measurement.

The book values of our financial instruments at August 31, 2019 and 2018 approximated their fair values. The assessment of the fair values of our financial instruments is based on a variety of factors and assumptions. Accordingly, the fair values may not represent the actual values of the financial instruments that could have been realized at August 31, 2019 or 2018, or that will be realized in the future, and do not include expenses that could be incurred in an actual sale or settlement. The following methods and assumptions were used to determine the fair values of our financial instruments, none of which were held for trading or speculative purposes:

### *Cash, Cash Equivalents, and Accounts*

**Receivable** – The carrying amounts of cash, cash equivalents, and accounts receivable approximate their fair values due to the liquidity and short-term maturity of these instruments.

**Other Assets** – Our other assets, including notes receivable, were recorded at the net realizable value of estimated future cash flows from these instruments.

**Debt Obligations** – At August 31, 2019, our debt obligations consisted primarily of a variable-rate term note payable. Our term note payable and revolving line of credit (Note 6) are negotiated components of our 2019 Credit Agreement, which was completed in August 2019. Accordingly, the applicable interest rates on the term loan and revolving line of credit are reflective of current market conditions, and the carrying value of term loan and revolving line of credit (when applicable) obligations therefore approximate their fair value.

### Contingent Consideration Liabilities from Business Acquisitions

We have contingent consideration liabilities arising from previous business acquisitions (Note 3). We measure the fair values of our contingent consideration liabilities at each reporting date based on various valuation models as described below. Changes to the fair value of the contingent consideration liabilities are recorded as components of our selling, general, and administrative expenses in the accompanying consolidated statements of operations in the period of adjustment. The fair value of the contingent consideration liabilities from the acquisition of RGP and Jhana changed as follows during the fiscal year ended August 31, 2019 (in thousands):

AUGUST 31,	2018	Increase in Fair Value	Payments	2019
RGP contingent liability	\$ 606	\$1,155	\$ –	\$1,761
Jhana contingent liability	3,942	179	(653)	3,468
	\$4,548	\$1,334	\$(653)	\$5,229

The fair values of contingent consideration liabilities are recorded as components of accrued liabilities and other long-term liabilities based on expected payment dates.

**Robert Gregory Partners** – On May 15, 2017, we acquired the assets of RGP. The purchase price included contingent consideration payments to the former owners of RGP of up to \$4.5 million, based on the achievement of specified levels of earnings before interest, income taxes, depreciation, and amortization expense (EBITDA) and the delivery of “add-on coaching services content” for our AAP as set forth in the purchase agreement. During fiscal 2019, we amended the RGP acquisition agreement to reflect events and implementation issues that have

occurred since the acquisition date. The amended contract increased the contingent consideration liability from the RGP acquisition by \$1.1 million during the third quarter of fiscal 2019, but did not increase the total amount of contingent consideration potentially payable to the former owners of RGP. The specified levels of EBITDA include measures for RGP coaching services plus earnings from add-on coaching services sold through the AAP. The fair value of the RGP contingent liability is estimated using a Monte Carlo simulation method, which considers numerous potential financial outcomes using estimated variables such as expected revenues, growth rates, and a discount rate. This fair value measurement is considered a Level 3 measurement because we estimate revenues and corresponding expected growth rates each period. The following range of growth rates were used to calculate the initial fair value of the contingent consideration:

	Likely	Minimum	Maximum
RGP growth rate – Year 1	14.8%	(12.0)%	35.0%
RGP growth rate – Year 2	10.0%	(12.0)%	35.0%
RGP growth rate – Year 3	10.0%	(12.0)%	35.0%
Add-on services growth rate – Year 1	60.0%	(20.0)%	130.0%
Add-on services growth rate – Year 2	50.0%	(20.0)%	130.0%
Add-on services growth rate – Year 3	40.0%	(20.0)%	130.0%

**Jhana Education** – On July 11, 2017, we acquired the stock of Jhana Education. The purchase price included potential contingent consideration of \$7.2 million through the measurement period, which ends in July 2026. The fair value of the contingent consideration was calculated using a probability weighted expected return methodology, which is a Level 3 measurement because we estimate projected consolidated Company and AAP sales over the measurement period. Probabilities were applied to each potential sales outcome and the resulting values were discounted using a rate that considered Jhana’s weighted average cost of capital and specific risk premiums associated with the potential contingent consideration.

## 12. Stock-Based Compensation Plans

### Overview

We utilize various stock-based compensation plans as integral components of our overall compensation and associate retention strategy. Our shareholders have approved various stock incentive plans that permit us to

grant performance awards, restricted stock awards, stock options, and employee stock purchase plan (ESPP) shares. In addition, our Board of Directors and shareholders may, from time to time, approve fully vested stock awards. The Organization and Compensation Committee of the Board of Directors (the Compensation Committee) has responsibility for the approval and oversight of our stock-based compensation plans.

On January 25, 2019, our shareholders approved the Franklin Covey Co. 2019 Omnibus Incentive Plan (the 2019 Plan), which authorized an additional 700,000 shares of common stock for issuance to employees and members of the Board of Directors as stock-based payments. A more detailed description of the 2019 Plan is set forth in our Definitive Proxy Statement filed with the SEC on December 20, 2018. At August 31, 2019, the 2019 Plan had approximately 662,000 shares available for future grants.

At the annual meeting of shareholders held on January 26, 2018, our shareholders approved the Franklin Covey Co. 2017 Employee Stock Purchase Plan (the 2017 ESPP). The 2017 ESPP replaced the Franklin Covey Co. 2004 Employee Stock Purchase Plan, which previously expired. The 2017 ESPP authorized an additional 1.0 million shares, subject to certain adjustments, of our common stock for purchase by ESPP participants. For further information regarding the 2017 ESPP, including the full text of the 2017 ESPP, please refer to our definitive Proxy Statement as filed with the SEC on December 22, 2017. At August 31, 2019, the 2017 ESPP had approximately 903,000 shares remaining for purchase by plan participants.

The total compensation expense of our stock-based compensation plans was as follows (in thousands):

YEAR ENDED			
AUGUST 31,	2019	2018	2017
Performance awards	\$3,853	\$2,034	\$2,902
Restricted stock awards	700	642	500
Fully vested stock awards	60	15	135
Compensation cost of the ESPP	176	155	121
	\$4,789	\$2,846	\$3,658

The compensation expense of our stock-based compensation plans was included in selling, general, and administrative expenses in the accompanying consolidated statements of operations, and no stock-based compensation was capitalized during the fiscal years presented in this report. We recognize forfeitures of stock-based compensation instruments as they occur.

During fiscal 2019, we issued 72,787 shares of our common stock from shares held in treasury for various stock-based compensation arrangements. Our stock-based compensation plans allow shares to be withheld from the award to pay statutory income tax liabilities. We withheld 561 shares of our common stock (Note 10) for statutory income taxes during fiscal 2019.

The following is a description of our stock-based compensation plans.

### Performance Awards

The Compensation Committee has awarded various performance-based stock compensation awards to members of our senior management as long-term incentive plan (LTIP) compensation. These awards vest to the participants based upon the achievement of specified performance criteria. Compensation expense is recognized as we determine it is probable that the shares will vest. Adjustments to compensation expense to reflect the timing of and the number of shares expected to be awarded are made on a cumulative basis at the date of the adjustment. We reevaluate the likelihood of shares vesting under performance awards at each reporting date.

Due to the significant change in our business resulting from sales of the All Access Pass, on October 18, 2016, the Compensation Committee approved a modification to previously issued performance awards to include the change in deferred revenue, less certain costs, in adjusted earnings before interest, taxes, depreciation, and amortization (Adjusted EBITDA) in the vesting calculations. The incremental compensation expense recorded in fiscal 2017 as a result of this modification was approximately \$0.6 million.

No LTIP awards vested to participants during fiscal 2019. The following is a description of our performance-based LTIP awards as of August 31, 2019.

**Fiscal 2019 LTIP Award** – On October 1, 2018, the Compensation Committee granted a new performance-based LTIP award to our executive officers and members of senior management. The fiscal 2019 LTIP award has three tranches, which consist of the following: 1) shares that vest after three years of service; 2) the achievement of certain levels of fiscal 2021 qualified Adjusted EBITDA; and 3) fiscal 2021 subscription service sales. Twenty-five percent of a participant's award vests after three years of service, and the number of shares awarded in this tranche will not fluctuate based on

financial measures. The number of shares granted in this tranche totals 36,470 shares. The remaining two tranches of the award are divided between the achievement of certain levels of Adjusted EBITDA and subscription sales recognized in fiscal 2021. The number of shares that will vest to participants for these two tranches is variable and may be 50 percent of the award (minimum award threshold) up to 200 percent of the participant's award (maximum threshold). The maximum number of shares that may be awarded in connection with these tranches totals 218,818 shares. The fiscal 2019 LTIP has a three-year life and expires on August 31, 2021.

**Fiscal 2019 Time-Based Award** – On January 25, 2019, the Compensation Committee approved a new incentive plan award for the Chief Executive Officer, Chief Financial Officer, and Chief People Officer that has a two-year time-based vesting (service) condition. A total of 11,915 shares were issued to the participants in connection with this award. The fair value of this award was calculated by multiplying the number of shares times the closing price of the Company's common stock on the grant date, which was \$24.54 per share. The fair value of this award totals \$0.3 million, which is being expensed evenly over the two-year service period.

**Fiscal 2018 LTIP Award** – On November 14, 2017, the Compensation Committee granted a performance-based LTIP award to our executive officers and members of senior management similar to the fiscal 2019 LTIP award described above. The fiscal 2018 LTIP award has three tranches, which consist of the following: 1) shares that vest after three years of service; 2) the achievement of certain levels of fiscal 2020 qualified Adjusted EBITDA; and 3) fiscal 2020 subscription service sales. Twenty-five percent of a participant's award vests after three years of service, and the number of shares awarded in this tranche will not fluctuate based on financial measures. The number of shares granted in this tranche totals 42,883 shares. The remaining two tranches of the award are divided between the achievement of specified levels of Adjusted EBITDA and subscription sales recognized in fiscal 2020. The number of shares that will vest to participants for these two tranches is variable and may be 50 percent of the award up to 200 percent of the participant's award. The maximum number of shares that may be awarded in connection with these tranches totals 257,300 shares. The fiscal 2018 LTIP has a three-year life and expires on August 31, 2020.

**Fiscal 2017 LTIP Award** – On October 18, 2016, the Compensation Committee granted performance-based awards for our executive officers and members of senior management. A total of 183,381 shares may be earned by the participants based on six individual vesting conditions that are divided into two performance measures, trailing four-quarter Adjusted EBITDA and trailing four-quarter gross All Access Pass sales. As of August 31, 2019, four tranches of this award have vested, totaling 97,803 shares. The 2017 LTIP has a six-year life and expires on August 31, 2022.

**Fiscal 2016 LTIP Award** – The fiscal 2016 LTIP was granted on November 12, 2015, to our executive officers and members of senior management. A total of 231,276 shares may be awarded to the participants based on six individual vesting conditions that are divided into two performance measures, trailing four-quarter Adjusted EBITDA and increased sales of Organizational Development Suite (OD Suite) offerings. The OD Suite is defined as Leadership, Productivity, and Trust practice sales. As of August 31, 2019, four tranches of the fiscal 2016 LTIP have vested to participants, totaling 123,348 shares. The 2016 LTIP has a six-year life and expires on August 31, 2021.

**Fiscal 2015 LTIP Award** – During fiscal 2015, the Compensation Committee granted a performance-based award for our executive officers and certain members of senior management. A total of 112,464 shares may be awarded to the participants based on six individual vesting conditions that are divided into two performance measures, trailing four-quarter Adjusted EBITDA and increased sales of OD Suite sales. As of August 31, 2019, a total of 59,980 shares, or four tranches, of the fiscal 2015 LTIP have vested to participants. The 2015 LTIP has a six-year life and expires on August 31, 2020.

**Fiscal 2014 LTIP Award** – During the first quarter of fiscal 2014, the Compensation Committee granted performance-based equity awards to our executive officers. A total of 89,418 shares may have been awarded to the participants based on six individual vesting conditions that are divided into two performance measures, trailing four-quarter Adjusted EBITDA and trailing four-quarter increased sales of courses related to *The 7 Habits of Highly Effective People*. As of August 31, 2019, four tranches of the fiscal 2014 LTIP, totaling 47,690 shares, have vested to participants. The fiscal 2014 LTIP award had a six-year life that ended on August 31, 2019, and the remaining award tranches, totaling 41,728 shares, expired unvested to the participants.



## Restricted Stock Awards

The annual Board of Director restricted stock award, which is administered under the terms of the Franklin Covey Co. 2019 Omnibus Incentive Plan, is designed to provide our non-employee directors, who are not eligible to participate in our employee stock purchase plan, an opportunity to obtain an interest in the Company through the acquisition of shares of our common stock. Each eligible director is entitled to receive a whole-share grant equal to \$100,000 with a one-year vesting period, which is generally granted in January (following the Annual Shareholders' Meeting) of each year. Shares granted under the terms of this annual award may not be voted or participate in any common stock dividends until they are vested.

Under the terms of this program, we issued 28,525 shares, 23,338 shares, and 29,834 shares of our common stock to eligible members of the Board of Directors during the fiscal years ended August 31, 2019, 2018, and 2017. The fair value of shares awarded to the directors was \$0.7 million in each of fiscal 2019 and fiscal 2018 and \$0.5 million in fiscal 2017 as calculated on the grant date of the awards. The corresponding compensation cost is recognized over the vesting period of the awards, which is one year. The cost of the common stock issued from treasury for these awards was \$0.4 million in fiscal 2019, \$0.3 million in fiscal 2018, and \$0.4 million in fiscal 2017. The following information applies to our restricted stock awards for the fiscal year ended August 31, 2019:

	Number of Shares	Weighted-Average Grant-Date Fair Value Per Share
Restricted stock awards at August 31, 2018	23,338	\$30.00
Granted	28,525	24.54
Forfeited	–	–
Vested	(23,338)	30.00
Restricted stock awards at August 31, 2019	28,525	\$24.54

At August 31, 2019, there was \$0.2 million of unrecognized compensation cost related to restricted stock awards, which is expected to be recognized over the remaining weighted-average vesting period of four months. The total recognized income tax benefit from restricted stock awards totaled \$0.2 million for each of the years ended August 31, 2019, 2018, and 2017. The intrinsic value of our restricted stock awards at August 31, 2019 was \$1.0 million.

## Stock Options

We have an incentive stock option plan whereby options to purchase shares of our common stock may be issued to key employees at an exercise price not less than the fair market value of the Company's common stock on the date of grant. Information related to our stock option activity during the fiscal year ended August 31, 2019 is presented below:

	Number of Stock Options	Weighted Avg. Exercise Price Per Share	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (thousands)
Outstanding at August 31, 2018	568,750	\$11.67		
Granted	–	–		
Exercised	–	–		
Forfeited	–	–		
Outstanding at August 31, 2019	568,750	\$11.67	0.8	\$14,287
Options vested and exercisable at August 31, 2019	568,750	\$11.67	0.8	\$14,287

At August 31, 2019, there was no remaining unrecognized compensation expense related to our stock options and no options were exercised during either fiscal 2019 or 2018. During fiscal 2017, we had 62,500 stock options exercised on a net share basis, which had an intrinsic value of \$0.5 million.

The following additional information applies to our stock options outstanding at August 31, 2019:

Exercise Prices	Number Outstanding at August 31, 2019	Weighted Average Contractual Life (Years)	Weighted Average Exercise Price	Options Exercisable at August 31, 2019	Weighted Average Exercise Price
\$ 9.00	62,500	1.4	\$ 9.00	62,500	\$ 9.00
\$10.00	168,750	0.8	\$10.00	168,750	\$10.00
\$12.00	168,750	0.8	\$12.00	168,750	\$12.00
\$14.00	168,750	0.8	\$14.00	168,750	\$14.00
	<u>568,750</u>			<u>568,750</u>	

### Fully Vested Stock Awards

We have a stock-based incentive program that is designed to reward our client partners and training consultants for exceptional long-term performance. The program grants shares of our common stock with a total value of \$15,000 to each client partner who has sold over \$20.0 million in cumulative sales and to each training consultant who has delivered over 1,500 days of training during their career. During fiscal 2019, four individuals qualified for this award; one individual qualified for this award in fiscal 2018; and nine individuals qualified for this award in fiscal 2017.

### Employee Stock Purchase Plan

We have an employee stock purchase plan that offers qualified employees the opportunity to purchase shares of our common stock at a price equal to 85 percent of the average fair market value of our common stock on the last trading day of each quarter. ESPP participants purchased a total of 43,073 shares, 40,941 shares, and 43,199 shares during the fiscal years ended August 31, 2019, 2018, and 2017, which had a corresponding cost basis of \$0.6 million each year. We received cash proceeds for these shares from ESPP participants totaling \$1.0 million during fiscal 2019; \$0.8 million in fiscal 2018; and \$0.7 million during fiscal 2017.

## 13. Contract Termination and Restructuring Costs

### Contract Termination Costs

During fiscal 2017, we entered into a new 10-year license agreement for Education practice content in a foreign country, with minimum required royalties payable to us totaling approximately \$13 million over the life of the arrangement. Under a previously existing profit-sharing agreement, we would have been obligated to pay one-third of the new minimum royalty stream plus one-third of

any royalties in excess of the contractual minimums to the licensee that owns the rights for that country. In exchange for a \$1.5 million cash payment, we terminated the previously existing profit-sharing agreement and we will not owe any further profit sharing-payments to the international licensee. Based on the guidance for contract termination costs, we expensed the \$1.5 million payment during fiscal 2017.

### Restructuring Costs

During the third quarter of fiscal 2017, we determined to exit the publishing business in Japan and restructured our U.S./Canada direct office operations in order to support new sales and renewals of the All Access Pass. We expensed \$3.6 million related to these changes during fiscal 2017 as described below. The majority of these costs were attributable to our Direct Offices segment.

#### *Exit Japan Publishing Business*

Due to a change in strategy designed to focus resources and efforts on sales of the All Access Pass in Japan, and declining sales and profitability of the publishing business, we decided to exit the publishing business in Japan. As a result of this determination, we wrote off the majority of our book inventory located in Japan for \$2.1 million, which was recorded as a component of cost of sales in the accompanying consolidated statements of operations for fiscal 2017.

#### *U.S./Canada Direct Office Restructuring*

We restructured the operations of our U.S./Canada direct offices to create new smaller regional teams which are focused on selling the All Access Pass, helping clients strategically implement the AAP, and providing services to further develop long-term client relationships. Accordingly, we determined that our three remaining sales offices located in Atlanta, Georgia; Irvine, California; and Chicago, Illinois were unnecessary since most client partners work from home-based offices; restructured the

operations of the Sales Performance and Winning Customer Loyalty Practices; and eliminated certain functions to reduce costs in future periods. The \$1.5 million restructuring charge associated with these operational changes was comprised of the following (in thousands):

Description	Amount
Severance costs	\$ 986
Office closure costs	496
	<u>\$1,482</u>

At each of August 31, 2019, and August 31, 2018, we had accrued office closure costs totaling \$0.1 million, which are included as components of accrued liabilities on the accompanying consolidated balance sheets. All of the severance costs associated with this restructuring plan were paid as of August 31, 2017.

## 14. Employee Benefit Plans

### Profit Sharing Plans

We have defined contribution profit sharing plans for our employees that qualify under Section 401(k) of the Internal Revenue Code. These plans provide retirement benefits for employees meeting minimum age and service requirements. Qualified participants may contribute up to 75 percent of their gross wages, subject to certain limitations. These plans also provide for matching contributions to the participants that are paid by the Company. The matching contributions, which were expensed as incurred, totaled \$2.2 million, \$2.1 million, and \$1.9 million during the fiscal years ended August 31, 2019, 2018, and 2017. We do not sponsor or participate in any defined-benefit pension plans.

### Non-Qualified Deferred Compensation Plan

We had a non-qualified deferred compensation (NQDC) plan that provided certain key officers and employees the ability to defer a portion of their compensation until a later date. Deferred compensation amounts used to pay benefits were held in a "rabbi trust," which invested in insurance contracts, various mutual funds, and shares of our common stock as directed by the plan participants. However, due to legal changes resulting from the American Jobs Creation Act of 2004, we determined to cease compensation deferrals to the NQDC plan after December 31, 2004. Following the cessation of deferrals to the NQDC plan, the number of participants remaining in the plan declined steadily, and our Board of Directors

decided to partially terminate the NQDC plan. Following this decision, all of the plan's assets were liquidated, the plan's liabilities were paid, and the only remaining items in the NQDC plan are shares of our common stock owned by the remaining plan participants. At August 31, 2019 and 2018, the cost basis of the shares of our common stock held by the rabbi trust was \$0.2 million. Shares of our common stock held in the rabbi trust are included as components of treasury stock on the accompanying consolidated balance sheets.

## 15. Income Taxes

Our benefit (provision) for income taxes consisted of the following (in thousands):

YEAR ENDED AUGUST 31,	2019	2018	2017
Current:			
Federal	\$ 93	\$ 29	\$ 69
State	(14)	210	(71)
Foreign	(2,745)	(2,947)	(2,320)
	<u>(2,666)</u>	<u>(2,708)</u>	<u>(2,322)</u>
Deferred:			
Federal	3,112	1,426	(1,227)
State	102	(314)	(17)
Foreign	(120)	(281)	468
Operating loss carryforward	(1,625)	2,636	6,964
Adjustment for changes in U.S. income tax rates	–	1,654	–
Valuation allowance	(418)	(2,780)	(129)
	<u>1,051</u>	<u>2,341</u>	<u>6,059</u>
	<u><u>\$(1,615)</u></u>	<u><u>\$(367)</u></u>	<u><u>\$3,737</u></u>

The allocation of our total income tax benefit (provision) is as follows (in thousands):

YEAR ENDED AUGUST 31,	2019	2018	2017
Net income (loss)	\$(1,615)	\$(367)	\$3,737
Other comprehensive income	(5)	(75)	37
	<u>\$(1,620)</u>	<u>\$(442)</u>	<u>\$3,774</u>

Income (loss) before income taxes consisted of the following (in thousands):

YEAR ENDED AUGUST 31,	2019	2018	2017
United States	\$(1,910)	\$(8,960)	\$(10,126)
Foreign	2,502	3,440	(783)
	<u>\$ 592</u>	<u>\$(5,520)</u>	<u>\$(10,909)</u>

The differences between income taxes at the statutory federal income tax rate and the consolidated income tax rate reported in our consolidated statements of operations were as follows:

YEAR ENDED AUGUST 31,	2019	2018	2017
Federal statutory income tax rate	(21.0)%	25.7%	35.0%
State income taxes, net of federal effect	(5.4)	2.6	2.3
Effect of change in U.S. federal tax rate	–	30.0	–
Valuation allowance	(70.8)	(50.4)	(1.2)
Foreign jurisdictions tax differential	(72.8)	(6.8)	(1.9)
Tax differential on income subject to both U.S. and foreign taxes	(64.7)	2.3	0.4
Uncertain tax positions	34.0	(5.1)	4.4
Non-deductible executive compensation	(8.8)	(2.7)	(1.6)
Non-deductible meals and entertainment	(52.9)	(8.9)	(2.2)
Payout of deferred compensation (NQDC)	0.3	4.4	–
Other	(10.7)	2.2	(0.9)
	(272.8)%	(6.7)%	34.3%

The Tax Cut and Jobs Act (the 2017 Tax Act) was signed into law on December 22, 2017. The 2017 Tax Act significantly revises the U.S. corporate income tax code by, among other things, lowering the statutory corporate tax rate from 35 percent to 21 percent; eliminating certain deductions; imposing a mandatory one-time transition tax, or deemed repatriation tax, on accumulated earnings of foreign subsidiaries as of 2017 that were previously tax deferred; introducing new tax regimes; and changing how foreign earnings are subject to U.S. tax.

Since we have an August 31 fiscal year end, the lower corporate income tax rate was phased in, resulting in a U.S. statutory federal rate of 25.7 percent for fiscal 2018 and 21 percent rate for fiscal 2019 and subsequent years. Other provisions of the 2017 Tax Act became effective for us in fiscal 2019, including limitations on the deductibility of interest and executive compensation as well as anti-deferral provisions on Global Intangible Low-Taxed Income (GILTI). We have elected to treat taxes due on future U.S. inclusions in taxable income related to GILTI as a current period expense when incurred (the “period cost method”).

During fiscal 2019, we recorded income tax expense of \$0.3 million under the GILTI provisions. We also recorded \$0.1 million of tax expense resulting from limitations added by the 2017 Tax Act on the deductibility of executive compensation.

In fiscal 2018, we recorded income tax benefits totaling \$1.7 million, including a one-time income tax benefit of \$0.9 million as of the date of enactment. We recognized \$0.8 million of the one-time benefit from re-measuring our net deferred tax liabilities at the reduced U.S. federal tax rate and \$0.2 million of the benefit from other changes enacted by the 2017 Tax Act. These benefits were partially offset by \$0.1 million of expense from the deemed repatriation of accumulated earnings from our foreign subsidiaries.

On September 1, 2017, we adopted the provisions of ASU 2016-09, which requires that the benefits of deductions resulting from stock-based compensation in excess of the corresponding book expense be recorded as a component of our income tax provision or benefit for the period, instead of being recorded to additional paid-in capital. We recorded income tax expense of \$0.1 million in fiscal 2019 and an immaterial amount of income tax expense in fiscal 2018 for stock-based compensation deductions that were less than the corresponding book expense. We recorded \$0.2 million to paid-in capital in fiscal 2017 for excess tax deductions.

The significant components of our deferred tax assets and liabilities were as follows (in thousands):

AUGUST 31,	2019	2018
<i>Deferred income tax assets:</i>		
Net operating loss carryforward	\$ 7,516	\$ 9,039
Foreign income tax credit carryforward	8,140	6,562
Sale and financing of corporate headquarters	4,431	4,919
Stock-based compensation	1,973	1,174
Bonus and other accruals	1,622	1,511
Inventory and bad debt reserves	1,376	1,046
Deferred revenue	829	236
Other	264	323
Total deferred income tax assets	26,151	24,810
Less: valuation allowance	(3,815)	(3,397)
Net deferred income tax assets	22,336	21,413

AUGUST 31,	2019	2018
<i>Deferred income tax liabilities:</i>		
Intangibles step-ups – indefinite lived	(5,424)	(5,427)
Intangibles step-ups – finite lived	(3,406)	(4,103)
Intangible asset impairment and amortization	(2,906)	(3,023)
Property and equipment depreciation	(2,880)	(3,518)
Deferred commissions	(2,056)	(1,596)
Unremitted earnings of foreign subsidiaries	(456)	(380)
Other	(343)	(354)
Total deferred income tax liabilities	(17,471)	(18,401)
Net deferred income taxes	\$ 4,865	\$ 3,012

Deferred income tax amounts are recorded as follows in our consolidated balance sheets (in thousands):

AUGUST 31,	2019	2018
Long-term assets	\$5,045	\$3,222
Long-term liabilities	(180)	(210)
Net deferred income tax asset	\$4,865	\$3,012

As of August 31, 2016, we had utilized all of our U.S. federal net operating loss carryforwards. However, we incurred a federal net operating loss of \$16.4 million in fiscal 2017 and acquired a federal net operating loss carryforward of \$7.7 million in connection with the purchase of the stock of Jhana Education (Note 3) in fiscal 2017. During fiscal 2018, we incurred a federal net operating loss of \$9.7 million (\$10.5 million after return to provision adjustments). We utilized \$8.6 million of our U.S. federal net operating loss carryforward during fiscal 2019. Our U.S. federal net operating loss carryforwards were comprised of the following at August 31, 2019 (in thousands):

Loss Carryforward for Year Ended	Loss Expires August 31,	Loss Amount	Loss Deductions in Prior Years	Loss Deductions in Current Year	Operating Loss Carried Forward
December 31, 2012	2031	\$ 243	\$ –	\$ (243)	\$ –
December 31, 2013	2032	553	–	(553)	–
December 31, 2014	2033	1,285	–	(1,019)	266
December 31, 2015	2034	1,491	–	–	1,491
December 31, 2016	2035	3,052	–	–	3,052
July 15, 2017 Acquired NOL	2036	1,117	–	–	1,117
		7,741	–	(1,815)	5,926
August 31, 2017	2037	16,361	–	(6,834)	9,527
August 31, 2018	No expiration	10,506	–	–	10,506
		\$34,608	\$ –	\$(8,649)	\$25,959

We have U.S. state net operating loss carryforwards generated in fiscal 2009 and before in various jurisdictions that expire primarily between September 1, 2019 and August 31, 2029. The U.S. state net operating loss carryforwards generated in fiscal 2017 and fiscal 2018 primarily expire on August 31, 2037 and 2038, respectively. The state net operating loss carryforwards acquired

through the purchase of Jhana Education stock expire between August 31, 2031 and August 31, 2036.

Our U.S. foreign income tax credit carryforwards were comprised of the following at August 31, 2019 (in thousands):

Credit Generated in Fiscal Year Ended August 31,	Credit Expires August 31,	Credits Generated	Credits Used in Prior Years	Credits Used in Fiscal 2019	Credits Carried Forward
2011	2021	\$ 3,445	\$ (414)	\$ –	\$3,031
2012	2022	2,563	(2,563)	–	–
2013	2023	2,815	(2,815)	–	–
2014	2024	1,378	(1,378)	–	–
2015	2025	1,422	(1,422)	–	–
2016	2026	1,569	(1,569)	–	–
2017	2027	1,804	–	–	1,804
2018	2028	1,727	–	–	1,727
2019	2029	1,578	–	–	1,578
		\$18,301	\$(10,161)	\$ –	\$8,140

In fiscal 2018, we established a valuation allowance of \$3.0 million against our foreign tax credit carryforward from fiscal 2011, after concluding it is more likely than not that the carryforward will expire unused at the end of fiscal 2021. Our emphasis of the All Access Pass has generated, and will likely continue to generate, substantial amounts of deferred revenue for both book and tax purposes. This situation has produced U.S. domestic pre-tax losses for the past three fiscal years and a more-likely-than-not presumption that insufficient taxable income will be available to realize the fiscal 2011 foreign tax carryforward, which expires at the end of fiscal 2021.

During a prior year, we determined it was more likely than not that deferred tax assets of a foreign subsidiary would not be realized. Accordingly, we recorded a \$0.3 million valuation allowance against these deferred tax assets. During fiscal 2017, we increased this valuation allowance by \$0.1 million to \$0.4 million, which reduced our income tax benefit for the year by \$0.1 million. During fiscal 2018, we reduced this valuation allowance by \$0.2 million, which increased our income tax benefit for the year by \$0.2 million. During fiscal 2019, we concluded that it was more likely than not that the subsidiary's future taxable income would be sufficient to utilize the remaining deferred income tax assets, so we reversed the balance of the valuation allowance, which resulted in an income tax benefit of \$0.2 million.

We acquired federal and state net operating loss carryforwards in connection with the purchase of Jhana Education stock during fiscal 2017. Section 382 of the Internal Revenue Code limits our ability to use these acquired losses. Accordingly, we recorded valuation allowances in the amount of \$0.2 million against the related deferred tax assets. Our income tax benefit for fiscal 2017 was unaffected by this valuation allowance. The reduction of the federal income tax rate under the 2017 Tax Act reduced this valuation allowance by \$0.1 million and resulted in a corresponding increase to our income tax benefit during fiscal 2018.

During fiscal 2019, we determined that it was more likely than not that deferred income tax assets of certain foreign subsidiaries would not be realized. Accordingly, we recorded a \$0.7 million valuation allowance against these deferred income tax assets.

We have determined that projected future taxable income is adequate to allow for realization of all deferred tax assets, except for the assets subject to valuation allowances. We considered sources of taxable income, including reversals of taxable temporary differences,

future taxable income exclusive of reversing temporary differences and carryforwards, and reasonable, practical tax-planning strategies to generate additional taxable income. Based on the factors described above, we concluded that realization of our deferred tax assets, except those subject to the valuation allowances described above, is more likely than not at August 31, 2019.

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows (in thousands):

YEAR ENDED	2019	2018	2017
AUGUST 31,			
Beginning balance	\$2,111	\$2,359	\$3,024
Additions based on tax positions related to the current year	157	27	10
Additions for tax positions in prior years	7	367	85
Reductions for tax positions of prior years resulting from the lapse of applicable statute of limitations	(370)	(253)	(634)
Other reductions for tax positions of prior years	(10)	(389)	(126)
Ending balance	\$1,895	\$2,111	\$2,359

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is \$1.6 million at August 31, 2019, and \$1.8 million at August 31, 2018. Included in the ending balance of gross unrecognized tax benefits at August 31, 2019 is \$1.7 million related to individual states' net operating loss carryforwards. Interest and penalties related to uncertain tax positions are recognized as components of income tax expense. The net accruals and reversals of interest and penalties increased or decreased our income tax expense by an insignificant amount in each of fiscal 2019, fiscal 2018 and fiscal 2017. The balance of interest and penalties included in other long-term liabilities on our consolidated balance sheets at each of August 31, 2019 and 2018 was \$0.2 million.

During the next 12 months, we expect a decrease in unrecognized tax benefits totaling \$0.2 million relating to non-deductible expenses and state net operating loss deductions upon the lapse of the applicable statute of limitations.

We file United States federal income tax returns as well as income tax returns in various states and foreign

jurisdictions. The tax years that remain subject to examinations for our major tax jurisdictions are shown below.

2012 – 2019	Canada and Australia
2013 – 2019	Japan
2014 – 2019	Germany, Switzerland, and Austria
2015 – 2019	United Kingdom
2015 – 2019	United States – state and local income tax
2016 – 2019	United States – federal income tax
2016 – 2019	China
2017 – 2019	Singapore

## 16. Earnings (Loss) Per Share

The following schedule shows the calculation of loss per share for the periods presented (in thousands, except per-share amounts).

YEAR ENDED AUGUST 31,	2019	2018	2017
<b>Numerator for basic and diluted earnings per share:</b>			
Net loss	\$ (1,023)	\$ (5,887)	\$ (7,172)
<b>Denominator for basic and diluted earnings per share:</b>			
Basic weighted average shares outstanding	13,948	13,849	13,819
Effect of dilutive securities:			
Stock options and other stock-based awards	–	–	–
Diluted weighted average shares outstanding	13,948	13,849	13,819
<b>EPS Calculations:</b>			
Net loss per share:			
Basic and diluted	\$ (0.07)	\$ (0.43)	\$ (0.52)

Since we incurred a net loss for the fiscal year ended August 31, 2019, no potentially dilutive securities were included in the calculation of our loss per share because the inclusion of these securities would be antidilutive. The number of dilutive securities that would have been included at August 31, 2019 was approximately 0.2 million shares. Other securities, including performance stock-based compensation instruments, may have a dilutive effect on our future EPS calculations if our financial results reach specified targets (Note 12).

## 17. Segment Information

### Reportable Segments

Our sales are primarily comprised of training and consulting services and our internal reporting structure

is comprised of three reportable operating segments and a corporate services group. Our internal reporting structure and reportable segments are organized primarily around the client channels which produce the Company's revenues. The following is a brief description of our reportable segments:

- **Direct Offices** – This segment includes our sales personnel that serve the United States and Canada; our international sales offices located in Japan, China, the United Kingdom, Australia, and Germany, Switzerland, and Austria; our governmental sales channel; and our public program operations.
- **International Licensees** – This segment is primarily comprised of our international licensees' royalty revenues.
- **Education Practice** – This group includes our domestic and international Education practice operations, which are focused on sales to educational institutions.
- **Corporate and Other** – Our corporate and other information includes leasing operations, shipping and handling revenues, and certain corporate administrative expenses.

We have determined that the Company's chief operating decision maker continues to be the CEO, and the primary measurement tool used in business unit performance analysis is Adjusted EBITDA, which may not be calculated as similarly titled amounts calculated by other companies. For reporting purposes, our consolidated Adjusted EBITDA can be calculated as our income or loss from operations excluding stock-based compensation, contract termination costs, restructuring charges, depreciation expense, amortization expense, and certain other items such as adjustments for changes in the fair value of contingent consideration liabilities from business acquisitions.

Our operations are not capital intensive and we do not own any manufacturing facilities or equipment. Accordingly, we do not allocate assets to the divisions for analysis purposes. Interest expense and interest income are primarily generated at the corporate level and are not allocated. Income taxes are likewise calculated and paid on a corporate level (except for entities that operate in foreign jurisdictions) and are not allocated for analysis purposes.

All prior period segment information has been revised to conform to our current organizational structure, assigned responsibilities, and primary internal reports. We account

for our segment information on the same basis as the accompanying consolidated financial statements (in thousands).

Fiscal Year Ended August 31, 2019	Sales to External Customers	Gross Profit	Adjusted EBITDA
Enterprise Division:			
Direct offices	\$157,754	\$116,755	\$19,455
International licensees	12,896	10,231	6,072
	170,650	126,986	25,527
Education Division	48,880	30,373	3,553
Corporate and eliminations	5,826	1,955	(8,474)
<b>Consolidated</b>	<b>\$225,356</b>	<b>\$159,314</b>	<b>\$20,606</b>
Fiscal Year Ended August 31, 2018			
Enterprise Division:			
Direct offices	\$145,890	\$108,140	\$13,254
International licensees	13,226	10,031	5,081
	159,116	118,171	18,335
Education Division	45,272	28,654	2,710
Corporate and eliminations	5,370	1,464	(9,167)
<b>Consolidated</b>	<b>\$209,758</b>	<b>\$148,289</b>	<b>\$11,878</b>
Fiscal Year Ended August 31, 2017			
Enterprise Division:			
Direct offices	\$122,309	\$ 81,700	\$ 4,242
International licensees	13,571	10,483	6,415
	135,880	92,183	10,657
Education Division	44,122	27,916	7,195
Corporate and eliminations	5,254	2,568	(10,153)
<b>Consolidated</b>	<b>\$185,256</b>	<b>\$122,667</b>	<b>\$ 7,699</b>

A reconciliation of Adjusted EBITDA to consolidated net loss is provided below (in thousands):

YEAR ENDED AUGUST 31,	2019	2018	2017
Segment Adjusted EBITDA	\$29,080	\$21,045	\$ 17,852
Corporate expenses	(8,474)	(9,167)	(10,153)
Consolidated Adjusted EBITDA	20,606	11,878	7,699
Stock-based compensation	(4,789)	(2,846)	(3,658)
Reduction (increase) in contingent consideration liabilities	(1,334)	(1,014)	1,936
Costs to exit Japan publishing business	–	–	(2,107)
Contract termination costs	–	–	(1,500)
Restructuring costs	–	–	(1,482)
ERP system implementation costs	–	(855)	(1,404)
Licensee transition costs	(488)	–	(505)
Business acquisition costs	–	–	(442)
Depreciation	(6,364)	(5,161)	(3,879)
Amortization	(4,976)	(5,368)	(3,538)
Income (loss) from operations	2,655	(3,366)	(8,880)
Interest income	37	104	223
Interest expense	(2,358)	(2,676)	(2,408)
Accretion of discount on related party receivable	258	418	156
Income (loss) before income taxes	592	(5,520)	(10,909)
Benefit (provision) for income taxes	(1,615)	(367)	3,737
<b>Net loss</b>	<b>\$ (1,023)</b>	<b>\$ (5,887)</b>	<b>\$ (7,172)</b>

### Disaggregated Revenue

Our revenues are derived primarily from the United States. However, we also operate wholly owned offices or contract with licensees to provide our services in various countries throughout the world. Our consolidated



revenues were derived from the following countries/  
regions (in thousands):

YEAR ENDED			
AUGUST 31,	2019	2018	2017
United States	\$166,696	\$151,022	\$136,206
Japan	14,227	15,670	14,482
China	13,586	14,176	11,552
United Kingdom	7,763	7,411	4,754
Canada	5,424	4,722	4,372
Australia	3,690	4,148	2,704
Western Europe	3,211	2,016	1,679
Thailand	1,340	1,219	1,147
Brazil	1,141	1,285	1,423
Middle East	951	840	723
Singapore	877	865	722
Mexico/Central America	842	872	751
Denmark/Scandinavia	710	752	775
India	707	647	701
Indonesia	696	715	614
Central/Eastern Europe	637	757	638
The Philippines	401	353	324
Malaysia	356	338	364
Others	2,101	1,950	1,325
	<u>\$225,356</u>	<u>\$209,758</u>	<u>\$185,256</u>

The following table presents our revenue disaggregated by our significant revenue generating activities. Sales of services and products include training and consulting services and related products such as training manuals. Subscription sales include revenues from our subscription services such as the All Access Pass and *Leader in Me* membership. We receive royalty revenue from our international licensees and from other sources such as book publishing arrangements. Leases and other revenue is primarily comprised of lease revenues from sub-leases for space at our corporate headquarters campus and from shipping and handling revenues (in thousands).

Fiscal Year Ended	Services and			Leases and	
August 31, 2019	Products	Subscriptions	Royalties	Other	Consolidated
Enterprise Division:					
Direct offices	\$102,557	\$52,536	\$ 2,661	\$ –	\$157,754
International licensees	2,439	–	10,457	–	12,896
	104,996	52,536	13,118	–	170,650
Education Division	23,779	22,151	2,950	–	48,880
Corporate and eliminations	–	–	–	5,826	5,826
Consolidated	<u>\$128,775</u>	<u>\$74,687</u>	<u>\$16,068</u>	<u>\$5,826</u>	<u>\$225,356</u>

Fiscal Year Ended					
August 31, 2018					
Enterprise Division:					
Direct offices	\$100,730	\$42,465	\$ 2,695	\$ –	\$145,890
International licensees	2,484	–	10,742	–	13,226
	103,214	42,465	13,437	–	159,116
Education Division	26,061	15,587	3,624	–	45,272
Corporate and eliminations	–	–	–	5,370	5,370
Consolidated	<u>\$129,275</u>	<u>\$58,052</u>	<u>\$17,061</u>	<u>\$5,370</u>	<u>\$209,758</u>

Fiscal Year Ended					
August 31, 2017					
Enterprise Division:					
Direct offices	\$ 99,616	\$20,452	\$ 2,241	\$ –	\$122,309
International licensees	2,938	–	10,633	–	13,571
	102,554	20,452	12,874	–	135,880
Education Division	31,017	10,440	2,665	–	44,122
Corporate and eliminations	–	–	–	5,254	5,254
Consolidated	<u>\$133,571</u>	<u>\$30,892</u>	<u>\$15,539</u>	<u>\$5,254</u>	<u>\$185,256</u>

## Other Geographic Information

At August 31, 2019, we had wholly owned direct offices in Australia, China, Japan, the United Kingdom, Germany, Switzerland, and Austria. Our long-lived assets, excluding intangible assets, goodwill, and the long-term portion of the related party receivable were held in the following locations for the periods indicated (in thousands):

AUGUST 31,	2019	2018
United States/Canada	\$31,129	\$34,237
Japan	1,456	1,450
China	441	581
Singapore	370	315
United Kingdom	207	276
Australia	164	250
Germany, Switzerland, and Austria	10	–
	\$33,777	\$37,109

Inter-segment sales were immaterial for the periods presented and were eliminated in consolidation.

## 18. Related Party Transactions

### Knowledge Capital Investment Group

At each of August 31, 2019 and 2018, Knowledge Capital Investment Group (Knowledge Capital) held 2.8 million shares of our common stock. Two members of our Board of Directors, including our CEO, have an equity interest in Knowledge Capital.

### FC Organizational Products

We own a 19.5 percent interest in FC Organizational Products, LLC, an entity that purchased substantially all of our consumer solution business unit assets in fiscal 2008 for the purpose of selling planners and related organizational products under a comprehensive licensing agreement. On the date of the sale closing, we invested approximately \$1.8 million to purchase a 19.5 percent voting interest in FCOP, and made a \$1.0 million priority capital contribution with a 10 percent return. At the time of the transaction, we determined that FCOP was not a variable interest entity.

As a result of FCOP's structure as a limited liability company with separate owner capital accounts, we determined that our investment in FCOP is more than minor and we are required to account for our investment in FCOP using the equity method of accounting. We have not recorded our share of FCOP's losses in the

accompanying consolidated statements of operations because we have impaired and written off investment balances, as defined within the applicable accounting guidance, in previous periods in excess of our share of FCOP's losses through August 31, 2019.

Due to significant operating losses incurred after the establishment of FCOP, we reconsidered whether FCOP was a variable interest entity as defined under ASC 810, and determined that FCOP was a variable interest entity. We further determined that we are not the primary beneficiary of FCOP because we do not have the ability to direct the activities that most significantly impact FCOP's economic performance, which primarily consist of the day-to-day sale of planning products and related accessories, and we do not have an obligation to absorb losses or the right to receive benefits from FCOP that could potentially be significant.

The operations of FCOP are primarily financed by the sale of planning products and accessories, and our primary exposure related to FCOP is from amounts owed to us by FCOP. We receive reimbursement from FCOP for certain operating costs and rental payments for the office space that FCOP occupies. We classify our receivables from FCOP based upon expected payment. Receivables from FCOP are reported as components of other current and other long-term assets based on their expected payment dates and consisted of the following (in thousands):

AUGUST 31,	2019	2018
Other current assets	\$999	\$1,123
Other long-term assets	–	411
	\$999	\$1,534

During the past few years, we received larger payments from FCOP on our receivables than previously anticipated. Based on the payments received during fiscal 2019 and amounts expected to be received during fiscal 2020, all remaining receivables from FCOP at August 31, 2019 are now classified as current assets. Accordingly, we accelerated the accretion of the remaining discount on these receivables during fiscal 2019, which totaled \$0.2 million. The amounts receivable from FCOP at August 31, 2018 are presented net of a \$0.3 million discount.

On November 4, 2019, FCOP sold substantially all of its assets to Franklin Planner Corporation (FPC), a new unrelated entity. FPC is expected to continue FCOP's business of selling planners and other related consumer products. In connection with this transaction, we

exchanged approximately \$3.2 million of receivables, including \$2.6 million of cash used by the Company to purchase FCOP's bank debt on the transaction date, for an amended 30-year license agreement. The amended license agreement grants the right to use certain of our trademarks and other intellectual property in connection with certain consumer products and provides us with minimum royalties of approximately \$1.3 million per year. FPC assumed the amended master license agreement from FCOP upon the purchase of FCOP assets.

### **CoveyLink Acquisition and Contractual Payments**

During fiscal 2009, we acquired the assets of CoveyLink Worldwide, LLC (CoveyLink). CoveyLink conducts training and provides consulting based upon the book *The Speed of Trust* by Stephen M.R. Covey, who is the brother of one of our executive officers.

Prior to the acquisition date, CoveyLink had granted us a non-exclusive license for content related to *The Speed of Trust* book and related training courses for which we paid CoveyLink specified royalties. As part of the CoveyLink acquisition, an amended and restated license for intellectual property was signed that granted us an exclusive, perpetual, worldwide, transferable, royalty-bearing license to use, reproduce, display, distribute, sell, prepare derivative works of, and perform the licensed material in any format or medium and through any market or distribution channel. We are required to pay Stephen M.R. Covey royalties for the use of certain intellectual property developed by him. The amount expensed for these royalties totaled \$1.7 million, \$1.8 million, and \$1.5 million during the fiscal years ended August 31, 2019, 2018, and 2017. As part of the acquisition of CoveyLink, we signed an amended license agreement as well as a speaker services agreement. Based on the provisions of the speakers' services agreement, we pay Stephen M.R. Covey a portion of the speaking revenues received for his presentations. We expensed \$1.2 million, \$0.9 million, and \$1.2 million for payment on these presentations

during the fiscal years ended August 31, 2019, 2018 and 2017. We had \$0.6 million and \$0.7 million accrued for these royalties and speaking fees at August 31, 2019 and 2018, respectively, which were included as components of accrued liabilities on our consolidated balance sheets.

### **Acquired License Rights for Intellectual Property**

During the third quarter of fiscal 2017, we acquired the license rights for certain intellectual property owned by Higher Moment, LLC for \$0.8 million. The intellectual property is in part based on works authored and developed by Dr. Clayton Christensen, a well-known author and lecturer, who is a member of our Board of Directors. However, Dr. Christensen does not have an ownership interest in Higher Moment, LLC. The initial license period is five years and the agreement may be renewed for successive five-year periods for \$0.8 million at each renewal date. The agreement may be terminated by either party at any time, but if we choose to terminate the agreement prior to the third renewal date, we are required to pay \$0.3 million to Higher Moment, LLC.

### **Other Related Party Transactions**

We pay an executive officer of the Company a percentage of the royalty proceeds received from the sales of certain books authored by him in addition to his annual salary. During the fiscal years ended August 31, 2019, 2018, and 2017, we expensed \$0.1 million, \$0.2 million, and \$0.2 million for these royalties, and we had \$0.1 million accrued at each of August 31, 2019 and 2018 as payable under the terms of these arrangements. These amounts are included as components of accrued liabilities in our consolidated balance sheets.

We pay a company owned by the brother of a member of our executive management team for the production of video segments used in our offerings. During fiscal 2019, we paid \$0.8 million to this company for services provided.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

### ITEM 9A. CONTROLS AND PROCEDURES

#### Disclosure Controls and Procedures

Disclosure controls and procedures are designed with the objective of ensuring that information required to be disclosed in the Company's reports filed under the Exchange Act, such as this report, is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures are also designed with the objective of ensuring that such information is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

#### Evaluation of Disclosure Controls and Procedures

An evaluation was conducted under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act, as of the end of the period covered by this report.

Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

#### Management's Report on Internal Control Over Financial Reporting

The management of Franklin Covey Co. is responsible for establishing and maintaining adequate internal control over financial reporting for the Company (including its consolidated subsidiaries) and all related information appearing in the Company's Annual Report on Form 10-K. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance

with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes those policies and procedures that:

1. pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
2. provide reasonable assurance that the transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with the authorization of management and/or of our Board of Directors; and
3. provide reasonable assurance regarding the prevention or timely detection of any unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness in future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting using the criteria set forth in *Internal Control – Integrated Framework* as issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 COSO Framework). Based upon this evaluation, our management concluded that our internal control over financial reporting was effective as of the end of the period covered by this Annual Report on Form 10-K.

Our independent registered public accounting firm, Deloitte & Touche LLP, has audited the consolidated financial statements included in this annual report on Form 10-K and, as part of their audit, has issued an audit report, included herein, on the effectiveness of our internal control over financial reporting. Their report is included in Item 8 of this Report on Form 10-K.

#### Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) or 15d-15(f)) during the fourth quarter ended August 31,

2019 that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## ITEM 9B. OTHER INFORMATION

None.

## PART III

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Certain information required by this Item is incorporated by reference to the sections entitled “Nominees for Election to the Board of Directors,” “Delinquent Section 16(a) Reports,” “Corporate Governance,” and “Board of Director Committees and Meetings” in our definitive Proxy Statement for the annual meeting of shareholders, which is scheduled to be held on January 24, 2020. The definitive Proxy Statement will be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended. Executive officer biographies may be found in Item 1, under the section entitled “Information About Our Executive Officers,” of this report on Form 10-K.

The Board of Directors has determined that one of the Audit Committee members, Mr. Michael Fung, is a “financial expert” as defined in Regulation S-K 407(d)(5) adopted under the Securities Exchange Act of 1934, as amended. Our Board of Directors has also determined that Mr. Fung is an “independent director” as defined by the NYSE.

We have adopted a code of ethics for our senior financial officers that include the Chief Executive Officer, the Chief Financial Officer, and other members of our financial leadership team. This code of ethics is available on our website at [www.franklincovey.com](http://www.franklincovey.com). We intend to satisfy any disclosure requirements under Item 5.05 of Form 8-K regarding amendment to, or waiver from, a provision of this Code of Business Conduct and Ethics by posting such information on our web site at the address and location specified above.

### ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the sections entitled “Compensation Discussion and Analysis,” “Compensation Committee Interlocks and Insider Participation,” and “Compensation Committee Report” in our definitive Proxy Statement for the annual meeting of shareholders, which is scheduled to be held on January 24, 2020.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

#### Securities Authorized for Issuance Under Equity Compensation Plans

Plan Category	[a] Number of securities to be issued upon exercise of outstanding options, warrants, and rights <i>(in thousands)</i>	[b] Weighted-average exercise price of outstanding options, warrants, and rights	[c] Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column [a]) <i>(in thousands)</i>
Equity compensation plans approved by security holders	1,347 <sup>(1)(2)</sup>	\$11.67	1,565 <sup>(3)(4)</sup>

(1) Excludes 28,525 shares of unvested (restricted) stock awards that are subject to forfeiture.

(2) Amount includes 778,605 performance share awards that may be awarded under the terms of various long-term incentive plans. The number of shares eventually awarded to participants through our long-term incentive plans is variable and based upon the achievement of specified financial goals. For performance-based compensation awards where the number of shares may fluctuate within a range based on the achievement of the specified goal, this amount includes the maximum number of shares that may be awarded to participants. The actual number of shares issued to participants therefore, may be less than the amount disclosed. The weighted average exercise price of outstanding options, warrants, and rights does not include the impact of performance awards or restricted stock units. For further information on our stock-based compensation plans, refer to the notes to our financial statements as presented in Item 8 of this report.

(3) Amount is comprised of the remaining shares authorized under our 2019 Omnibus Incentive Plan and 2017 Employee Stock Purchase Plan. The number of performance-based plan shares expected to be awarded at August 31, 2019 may change in future periods based upon the achievement of specified goals and revisions to estimates.

(4) At August 31, 2019, we had approximately 903,000 shares authorized for purchase by participants in our Employee Stock Purchase Plan.

### Beneficial Ownership of Company Stock

The remaining information required by this Item is incorporated by reference to the section entitled “Principal Holders of Voting Securities” in our definitive Proxy Statement for the annual meeting of shareholders, which is scheduled to be held on January 24, 2020.

in our definitive Proxy Statement for the annual meeting of shareholders, which is scheduled to be held on January 24, 2020.

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

The information required by this Item is incorporated by reference to the section entitled “Certain Relationships and Related Transactions” and “Corporate Governance”

### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated by reference to the section entitled “Principal Accountant Fees” in our definitive Proxy Statement for the annual meeting of shareholders, which is scheduled to be held on January 24, 2020.

## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) List of documents filed as part of this report:

1. *Financial Statements.* The consolidated financial statements of the Company and Report of Independent Registered Public Accounting Firm thereon included in the Annual Report to Shareholders on Form 10-K for the year ended August 31, 2019, are as follows:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets at August 31, 2019 and 2018

Consolidated Statements of Operations and Statements of Comprehensive Loss for the fiscal years ended August 31, 2019, 2018, and 2017

Consolidated Statements of Cash Flows for the fiscal years ended August 31, 2019, 2018, and 2017

Consolidated Statements of Shareholders’ Equity for the fiscal years ended August 31, 2019, 2018, and 2017

Notes to Consolidated Financial Statements

2. *Financial Statement Schedules.*

Other financial statement schedules are omitted because they are not required or applicable, or the required information is shown in the financial statements or notes thereto, or contained in this report.

3. *Exhibit List.*

Exhibit No.	Exhibit	Incorporated By Reference	Filed Herewith
2.1	Master Asset Purchase Agreement between Franklin Covey Products, LLC and Franklin Covey Co. dated May 22, 2008	(8)	
2.2	Amendment to Master Asset Purchase Agreement between Franklin Covey Products, LLC and Franklin Covey Co. dated May 22, 2008	(9)	

Exhibit No.	Exhibit	Incorporated By Reference	Filed Herewith
3.1	Articles of Restatement dated March 4, 2005 amending and restating the Company's Articles of Incorporation	(4)	
3.2	Amendment to Amended and Restated Articles of Incorporation of Franklin Covey (Appendix C)	(7)	
3.3	Amended and Restated Bylaws of Franklin Covey Co.	(15)	
4.1	Specimen Certificate of the Registrant's Common Stock, par value \$.05 per share	(2)	
4.2	Stockholder Agreements, dated May 11, 1999 and June 2, 1999	(3)	
4.3	Registration Rights Agreement, dated June 2, 1999	(3)	
4.4	Amended and Restated Shareholders Agreement, dated as of March 8, 2005, between the Company and Knowledge Capital Investment Group	(4)	
4.5	Amended and Restated Registration Rights Agreement, dated as of March 8, 2005, between the Company and Knowledge Capital Investment Group	(4)	
4.6	Description of Securities Registered Under Section 12 of the Exchange Act	(31)	
10.1*	Forms of Nonstatutory Stock Options	(1)	
10.2	Master Lease Agreement, dated June 17, 2005, between Franklin SaltLake LLC (Landlord) and Franklin Development Corporation (Tenant)	(5)	
10.3	Purchase and Sale Agreement and Escrow Instructions between Levy Affiliated Holdings, LLC (Buyer) and Franklin Development Corporation (Seller) and Amendments	(5)	
10.4	Redemption Extension Voting Agreement between Franklin Covey Co. and Knowledge Capital Investment Group, dated October 20, 2005	(6)	
10.5	Master License Agreement between Franklin Covey Co. and Franklin Covey Products, LLC	(10)	
10.6	Master Shared Services Agreement between The Franklin Covey Products Companies and the Shared Services Companies	(10)	
10.7	Amended and Restated Operating Agreement of Franklin Covey Products, LLC	(10)	
10.8	Sublease Agreement between Franklin Development Corporation and Franklin Covey Products, LLC	(10)	
10.9	Sub-Sublease Agreement between Franklin Covey Co. and Franklin Covey Products, LLC	(10)	

Exhibit No.	Exhibit	Incorporated By Reference	Filed Herewith
10.10	Asset Purchase Agreement by and Among Covey/Link, LLC, CoveyLink Worldwide LLC, Franklin Covey Co., and Franklin Covey Client Sales, Inc. dated December 31, 2008	(11)	
10.11	Amended and Restated License of Intellectual Property by and Among Franklin Covey Co. and Covey/Link, LLC, dated December 31, 2008	(11)	
10.12*	Franklin Covey Co. Second Amended and Restated 1992 Stock Incentive Plan	(12)	
10.13	Amended and Restated Credit Agreement by and between JPMorgan Chase Bank, N.A. and Franklin Covey Co., dated March 14, 2011	(13)	
10.14	Amended and Restated Security Agreement by and among Franklin Covey Co., Franklin Development Corporation, Franklin Covey Travel, Inc., Franklin Covey Client Sales, Inc., and JPMorgan Chase Bank, N.A., dated March 14, 2011	(13)	
10.15	Amended and Restated Repayment Guaranty by and among Franklin Development Corporation, Franklin Covey Travel, Inc., Franklin Covey Client Sales, Inc., and JPMorgan Chase Bank, N.A., dated March 14, 2011	(13)	
10.16	Agreement dated July 26, 2011, between Franklin Covey Co., and Knowledge Capital Investment Group	(14)	
10.17	First Modification Agreement by and among JPMorgan Chase Bank, N.A. and Franklin Covey Co., dated March 13, 2012	(16)	
10.18	Second Modification Agreement by and among JPMorgan Chase Bank, N.A. and Franklin Covey Co., dated June 15, 2012	(17)	
10.19*	Form of Change in Control Severance Agreement	(18)	
10.20	Asset Purchase Agreement made as of March 11, 2013 by and among NinetyFive 5 LLC and Franklin Covey Client Sales, Inc. and other parties thereto	(19)	
10.21	Third Modification Agreement by and among JPMorgan Chase Bank, N.A. and Franklin Covey Co. dated March 25, 2013	(20)	
10.22*	Franklin Covey Co. 2015 Omnibus Incentive Plan	(21)	
10.23	Fourth Modification Agreement by and among JPMorgan Chase Bank, N.A. and Franklin Covey Co. dated March 31, 2015	(22)	
10.24	Fifth Modification Agreement by and among JPMorgan Chase Bank, N.A., Franklin Covey Co., and the subsidiary guarantors signatory thereto, dated May 24, 2016	(23)	
10.25	Secured Promissory Note between Franklin Covey Co. and JPMorgan Chase Bank, N.A., for \$15 million term loan, dated May 24, 2016	(23)	



Exhibit No.	Exhibit	Incorporated By Reference	Filed Herewith
10.26	Sixth Modification Agreement by and among JPMorgan Chase Bank, N.A., Franklin Covey Co., and the subsidiary guarantors signatory thereto, dated February 28, 2017	(24)	
10.27	Seventh Modification Agreement by and among JPMorgan Chase Bank, N.A., Franklin Covey Co., and the subsidiary guarantors signatory thereto, dated May 31, 2017	(25)	
10.28	Eighth Modification Agreement by and among JPMorgan Chase Bank, N.A., Franklin Covey Co., and the subsidiary guarantors signatory thereto, dated August 29, 2017	(26)	
10.29	Consent and Agreement of Guarantor by and between JPMorgan Chase Bank, N.A., Franklin Covey Co., and the subsidiary guarantors signatory thereto, dated August 29, 2017	(26)	
10.30*	Franklin Covey Co. 2017 Employee Stock Purchase Plan (incorporated by reference to Appendix A in the Company's Proxy Statement (File No. 001-11107) filed with the Securities and Exchange Commission on December 22, 2017)	(27)	
10.31	Ninth Modification Agreement by and among JPMorgan Chase Bank, N.A., Franklin Covey Co., and the subsidiary guarantors signatory thereto, dated August 17, 2018	(28)	
10.32*	Franklin Covey Co. 2019 Omnibus Incentive Plan	(29)	
10.32	Credit Agreement by and among JPMorgan Chase Bank, N.A., Franklin Covey Co., and the subsidiary guarantors party thereto, dated August 7, 2019	(30)	
10.33	Pledge and Security Agreement by and between JPMorgan Chase Bank, N.A., Franklin Covey Co., and the subsidiary guarantors party thereto, dated August 7, 2019	(30)	
21	Subsidiaries of the Registrant		★★
23	Consent of Independent Registered Public Accounting Firm		★★
31.1	Rule 13a-14(a) Certification of the Chief Executive Officer		★★
31.2	Rule 13a-14(a) Certification of the Chief Financial Officer		★★
32	Section 1350 Certifications		★★
101.INS	XBRL Instance Document		★★
101.SCH	XBRL Taxonomy Extension Schema		★★
101.CAL	XBRL Taxonomy Extension Calculation Linkbase		★★
101.DEF	XBRL Taxonomy Extension Definition Linkbase		★★
101.LAB	XBRL Taxonomy Extension Label Linkbase		★★
101.PRE	XBRL Extension Presentation Linkbase		★★

- (1) Incorporated by reference to Registration Statement on Form S-1 filed with the Commission on April 17, 1992, Registration No. 33-47283.
- (2) Incorporated by reference to Amendment No. 1 to Registration Statement on Form S-1 filed with the Commission on May 26, 1992, Registration No. 33-47283.
- (3) Incorporated by reference to Schedule 13D (CUSIP No. 534691090 as filed with the Commission on June 14, 1999). Registration No. 005-43123.
- (4) Incorporated by reference to Report on Form 8-K filed with the Commission on March 10, 2005.\*\*
- (5) Incorporated by reference to Report on Form 8-K filed with the Commission on June 27, 2005.\*\*
- (6) Incorporated by reference to Report on Form 8-K filed with the Commission on October 24, 2005.\*\*
- (7) Incorporated by reference to the Definitive Proxy Statement on Form DEF 14A filed with the Commission on December 12, 2005.\*\*
- (8) Incorporated by reference to Report on Form 8-K/A filed with the Commission on May 29, 2008.\*\*
- (9) Incorporated by reference to Report on Form 10-Q filed July 10, 2008, for the Quarter ended May 31, 2008.\*\*
- (10) Incorporated by reference to Report on Form 8-K filed with the Commission on July 11, 2008.\*\*
- (11) Incorporated by reference to Report on Form 10-Q filed with the Commission on April 9, 2009.\*\*
- (12) Incorporated by reference to the Definitive Proxy Statement on Form DEF 14A (Appendix A) filed with the Commission on December 15, 2010.\*\*
- (13) Incorporated by reference to Report on Form 8-K filed with the Commission on March 17, 2011.\*\*
- (14) Incorporated by reference to Report on Form 8-K filed with the Commission on July 28, 2011.\*\*
- (15) Incorporated by reference to Report on Form 8-K filed with the Commission on February 1, 2012.\*\*
- (16) Incorporated by reference to Report on Form 8-K filed with the Commission on March 15, 2012.\*\*
- (17) Incorporated by reference to Report on Form 8-K filed with the Commission on June 19, 2012.\*\*
- (18) Incorporated by reference to Report on Form 8-K filed with the Commission on March 14, 2012.\*\*
- (19) Incorporated by reference to Report on Form 8-K filed with the Commission on March 14, 2013.\*\*
- (20) Incorporated by reference to Report on Form 8-K filed with the Commission on March 27, 2013.\*\*
- (21) Incorporated by reference to the Definitive Proxy Statement on Form DEF 14A (Appendix A) filed with the Commission on December 22, 2014.\*\*
- (22) Incorporated by reference to Report on Form 8-K filed with the Commission on April 2, 2015.\*\*
- (23) Incorporated by reference to Report on Form 8-K filed with the Commission on May 24, 2016.\*\*
- (24) Incorporated by reference to Report on Form 8-K filed with the Commission on March 3, 2017.\*\*
- (25) Incorporated by reference to Report on Form 8-K filed with the Commission on June 1, 2017.\*\*
- (26) Incorporated by reference to Report on Form 8-K filed with the Commission on August 29, 2017.\*\*
- (27) Incorporated by reference to the Definitive Proxy Statement on Form DEF 14A (Appendix A) filed with the Commission on December 22, 2017.\*\*
- (28) Incorporated by reference to Report on Form 8-K filed with the Commission on August 20, 2018.\*\*
- (29) Incorporated by reference to the Definitive Proxy Statement on Form DEF 14A (Appendix A) filed with the Commission on December 20, 2018.\*\*
- (30) Incorporated by reference to Report on Form 8-K filed with the Commission on August 8, 2019.\*\*
- (31) Incorporated by reference to Report on Form 10-K/A filed with the Commission on December 2, 2019.\*\*

★★ Filed herewith and attached to this report.

\* Indicates a management contract or compensatory plan or agreement.

\*\* Registration No. 001-11107.

## ITEM 16. FORM 10-K SUMMARY

None.

## Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on November 14, 2019.

FRANKLIN COVEY CO.

By: /s/ ROBERT A. WHITMAN

Robert A. Whitman

Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ ROBERT A. WHITMAN</u> Robert A. Whitman	Chairman of the Board and Chief Executive Officer	November 14, 2019
<u>/s/ ANNE H. CHOW</u> Anne H. Chow	Director	November 14, 2019
<u>/s/ CLAYTON M. CHRISTENSEN</u> Clayton M. Christensen	Director	November 14, 2019
<u>/s/ MICHAEL FUNG</u> Michael Fung	Director	November 14, 2019
<u>/s/ DENNIS G. HEINER</u> Dennis G. Heiner	Director	November 14, 2019
<u>/s/ DONALD J. MCNAMARA</u> Donald J. McNamara	Director	November 14, 2019
<u>/s/ JOEL C. PETERSON</u> Joel C. Peterson	Director	November 14, 2019
<u>/s/ E. KAY STEPP</u> E. Kay Stepp	Director	November 14, 2019
<u>/s/ STEPHEN D. YOUNG</u> Stephen D. Young	Chief Financial Officer and Chief Accounting Officer	November 14, 2019

## Section 302 Certification

I, Robert A. Whitman, certify that:

1. I have reviewed this yearly report on Form 10-K of Franklin Covey Co.;
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 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 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: November 14, 2019

          /s/ ROBERT A. WHITMAN          

Robert A. Whitman  
Chief Executive Officer

## Section 302 Certification

I, Stephen D. Young, certify that:

1. I have reviewed this yearly report on Form 10-K of Franklin Covey Co.;
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 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 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: November 14, 2019

/s/ STEPHEN D. YOUNG  
Stephen D. Young  
Chief Financial Officer

## Certification

In connection with the yearly report of Franklin Covey Co. (the "Company") on Form 10-K for the period ended August 31, 2019, as filed with the Securities and Exchange Commission (the "Report"), we, Robert A. Whitman, President and Chief Executive Officer of the Company, and Stephen D. Young, Chief Financial Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of our knowledge:

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

This Certification has not been, and shall not be deemed, "filed" with the Securities and Exchange Commission.

/s/ ROBERT A. WHITMAN

Robert A. Whitman  
Chief Executive Officer

Date: November 14, 2019

/s/ STEPHEN D. YOUNG

Stephen D. Young  
Chief Financial Officer

Date: November 14, 2019

## Executive Team

Robert A. Whitman  
Chairman of the Board  
of Directors and Chief  
Executive Officer

Stephen D. Young  
Chief Financial Officer  
and Corporate Secretary

Paul S. Walker  
President & Chief  
Operating Officer  
President Enterprise  
Division

M. Sean Covey  
President  
Education Division

C. Todd Davis  
Executive Vice President  
Chief People Officer

Colleen Dom  
Executive Vice President  
of Operations

Scott J. Miller  
Executive Vice President  
Thought Leadership

## Board of Directors

Robert A. Whitman  
Chairman of the Board of  
Directors

Anne H. Chow  
Director

Clayton M. Christensen  
Director

Michael Fung  
Director

Dennis G. Heiner  
Director

Donald J. McNamara  
Director

Joel C. Peterson  
Director

E. Kay Stepp  
Director

Derek C.M van Bever  
Director

## Shareholder Information

### Annual Meeting

We invite shareholders to attend our Annual Meeting of Shareholders at 8:30 a.m. on Friday, January 24, 2020, at the Hyrum W. Smith Auditorium on the Franklin Covey Co. headquarters campus, 2200 West Parkway Boulevard, Salt Lake City, Utah 84119.

### Independent Registered Public Accountants

Deloitte & Touche, LLP  
111 S. Main Street Suite 1500  
Salt Lake City, Utah 84111

### Counsel


Dorsey & Whitney LLP  
111 S. Main Street Suite 2100  
Salt Lake City, Utah 84111-2176

Jones Day Reavis & Pogue  
222 East 41st Street  
New York, New York 10017-6702

### Registrar and Transfer Agent

Zions Bank, N.A.  
Stock Transfer Department  
One South Main Street  
Salt Lake City, Utah 84111

### FC Common Stock

 The Company's Common Stock is traded on the New York Stock Exchange under the ticker symbol FC. There were approximately 529 shareholders of record on the Company's record date of November 29, 2019.

### Certifications

The certifications required by Section 302 of the Sarbanes-Oxley Act have been filed as exhibits to the Company's SEC Form 10-K. The most recent certification required by Section 303A.12(a) of the New York Stock Exchange Listed Company Manual has been filed with the New York Stock Exchange without qualification.

### Dividend

No dividends have been paid or declared on the Company's common stock.

### Requests for Additional Information

Additional financial information is available to shareholders. Requests should be directed to the attention of Investor Relations, Franklin Covey Co., 2200 West Parkway Boulevard, Salt Lake City, Utah 84119-2331, or call at 801-817-1776. Additional information on the Company is available on the Internet at <http://www.franklincovey.com>.





# FRANKLIN COUNTY ANNOUNCES REPORT ON TONIC