FRANKLIN COVEY CO
Form 10-K
November 14, 2017

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

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Form 10-K

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ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED AUGUST 31, 2017

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 o 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer £ Accelerated filer

Non-accelerated filer £ (Do not check if a smaller reporting company) Smaller reporting company £

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

As of February 28, 2017, the aggregate market value of the Registrant's Common Stock held by non-affiliates of the Registrant was approximately $171.7 million, which was based upon the closing price of $17.95 per share as reported by the New York Stock Exchange.

As of October 31, 2017, the Registrant had 13,702,759 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 26, 2018, are incorporated by reference in Part III of this Form 10-K.

FranklinCovey Co.
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## 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, 2017 totaled $185.3 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.

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Recent Business Developments

During fiscal 2016, we introduced the All Access Pass (AAP), which 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 content to clients of various sizes, including large, multinational organizations. 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. During fiscal 2017, we invested significant capital to further develop the AAP offering and increase its usefulness to our clients. We are currently translating AAP materials into 15 additional languages and completing significant upgrades of the AAP portal. These enhancements to the AAP are expected to be launched in fiscal 2018.

While we anticipated that the introduction of the AAP would be disruptive to our current business, especially during the transition to this new business model, we believe that the AAP will provide long-term benefits to our clients and to our financial results. During the first quarter of fiscal 2017, we decided to allow new AAP agreements to receive updated content throughout the contracted period. As a result of this decision, we are required to defer substantially all AAP revenue at the inception of the agreement and recognize the revenue over the life of the corresponding contract. This decision had a significant impact on our fiscal 2017 financial statements, especially reported revenue, as we deferred significant AAP contract revenues. However, we anticipate that the recognition of deferred AAP sales will benefit future periods and reduce seasonal revenue fluctuations.

In addition to the continued development of the All Access Pass, we made a number of changes to our business in fiscal 2017, including the following:

- New China Offices –On September 1, 2016 we opened three new sales offices in China. These offices are located in Beijing, Shanghai, and Guangzhou. Subsequent to August 31, 2017, we opened another sales office in Shenzhen, China. Our sales operations in China were previously managed by an independent licensee partner.

- Acquisition of Robert Gregory Partners – In May 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 anticipate that RGP services and methodologies will become key offerings in our training and consulting business.

- Acquisition of Jhana Education – In July 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. We anticipate that the Jhana content and delivery methodologies acquired will become key features of our AAP offering.

- License Rights for Intellectual Property – During fiscal 2017, we acquired the license rights for certain intellectual property owned by Higher Moment, LLC. 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. As we seek to expand offerings available on the AAP, we anticipate additional purchases or licenses of intellectual property in future periods.

For further information on the impacts of these activities on our operations, refer to Management's Discussion and Analysis of Financial Condition and Results of Operations as found in Item 7 of this report, and our consolidated financial statements and related footnotes located in Item 8.

Services Overview

We operate globally with one common brand and business model designed to enable us to provide clients around the world with the same high level of service. To achieve this 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, and the United Kingdom. In foreign

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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 150 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 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.

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 international licensee partners who deliver our content in over 150 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. However, the information contained in, or that can be accessed through, our website does not constitute any part of this Annual Report.

Segment Information

Our sales are primarily comprised of training and content sales and related products. During fiscal 2017, we managed our business in four segments, which are primarily focused on targeted client markets. These segments were as follows in fiscal 2017:

- Direct Offices – This segment consists of our sales force that serves the United States and Canada; our international sales offices located in Japan, China, the United Kingdom, and Australia; and our public programs group.

- Strategic Markets – This segment includes our government services office, the Sales Performance practice, the Customer Loyalty practice, and the "Global 50" group, which is specifically focused on sales to large, multi-national organizations.

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- Education practice – This segment is comprised of our domestic and international Education practice operations, which are centered on sales to educational institutions such as elementary schools, high schools, and colleges and universities.

- International Licensees – This segment is primarily comprised of our international licensees' royalty revenues.

For financial and other information regarding our operating segments, refer to the notes to our consolidated financial statements (Note 17). For risks inherent in our foreign operations, refer to the risk factors identified in Item 1A and elsewhere in this Annual Report.

As we continue to transition to an AAP-focused business model, subsequent to August 31, 2017, we merged the Strategic Markets segment into the Direct Offices segment since our primary sales focus will be All Access Pass clients, Education clients, and our international licensee partners.

Industry Information

According to the Training magazine 2017 Training Industry Survey, the total size of the U.S. training industry is estimated to be $93.7 billion, which is a significant increase (32%) compared with the prior year. One of our competitive advantages in this highly fragmented industry stems from our fully integrated principle-centered training offerings, measurement methodologies, and implementation tools to help organizations and individuals measurably improve their effectiveness. This advantage allows us to deliver not only training to both corporations and individuals, but also to implement the training through the use of powerful behavior-changing tools 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. We are not dependent on a single client or industry group, and during the periods presented in this report, none of our clients were responsible for more than ten percent of our consolidated revenues.

Over our history, we have provided content, services, and products to 97 of the Fortune 100 companies and more than 75 percent of the Fortune 500 companies. We also provide content and services to a number of U.S. and foreign governmental agencies, as well as numerous educational institutions. 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 that offer services comparable with those that we offer. The nature of the competition in the performance improvement industry, however, is highly fragmented with few large competitors. Based upon our fiscal 2017 consolidated sales of $185.3 million, we believe that we are a leading competitor in the performance skills and education market. Other significant comparative companies in the performance improvement market are Development Dimensions International, CRA International, Inc., Learning Tree International Inc., GP Strategies Corp., FTI Consulting, Inc., American Management Association, Wilson Learning, Forum Corporation, The Hackett Group, and the Center for Creative Leadership.

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

- Quality of offerings, services, and solutions

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- 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, live presentations by our own training consultants, live presentations though 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, and individual effectiveness content.

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 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.

We believe that the recognition of deferred revenue from All Access Pass sales over the lives of the underlying arrangements will reduce some of the seasonality in our financial statements as described above. However, the underlying sales activity as described above will continue to produce some measure of seasonality in our financial statements in future 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 580 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 200 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

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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 850 associates. None of our associates are represented by a union or other collective bargaining group. Management believes that its relations with its associates are good and we do not currently foresee a shortage in qualified personnel needed to operate and grow our business.

Executive Officers

The executive officers of Franklin Covey Co. at August 31, 2017, were as follows:

M. Sean Covey, 53, currently serves as Executive Vice President of Global Solutions and Partnerships and Education Practice Leader, and has been an Executive Officer since September 2008. Sean was formerly 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; xQ; 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. Sean is also the author of several books, including The 4 Disciplines of Execution, The 6 Most Important Decisions You'll Ever Make, the New York Times Best Seller The 7 Habits of Happy Kids, and the international bestseller The 7 Habits of Highly Effective Teens, which has been translated into 20 languages and has sold over 4 million copies. 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 R. Covey.

Colleen Dom, 55, 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., Ms. Dom 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, Ms. Dom worked in retail management and in the financial investment industry.

C. Todd Davis, 60, 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, Todd 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 and The 4 Disciplines of Execution. He also worked for several

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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 the recently released Get Better: 15 Proven Practices to Build Effective Relationships at Work.

Scott J. Miller, 49, was appointed as Executive Vice-President of Business Development and Marketing in March 2012. Mr. Miller, who has been with Franklin Covey for nearly 19 years, previously served as Vice-President of Business Development and Marketing. Mr. Miller's role as an 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.

Shawn D. Moon, 50, was the Executive Vice-President of Strategic Markets, where he was responsible for the Company's Government Sales, Sales Performance Practice, Customer Loyalty Practice, and Global 50 team. Mr. Moon has been an Executive Officer since July 2010 and served previously as our Executive Vice-President of Global Sales and Delivery. Mr. Moon has more than twenty-nine years of experience in sales and marketing, program development, and consulting services. From November 2002 to June 2005, Shawn was a Principal with Mellon Financial Corporation where he was responsible for business development for their human resources outsourcing services. Shawn also coordinated activities within the consulting and advisory community for Mellon Human Resources and Investor Solutions. Prior to November 2002, he served as the Vice President of Business Development for our Training Process Outsourcing Group, managed vertical market sales for nine of our business units, and managed our eastern regional sales office. Shawn received a Bachelor of Arts from Brigham Young University in English Literature and he is the author of the books, The Ultimate Competitive Advantage: Why Your People Make All the Difference and the 6 Practices You Need to Engage Them; and Talent Unleashed: Three Leadership Conversations for Tapping the Unlimited Potential of People.

In September 2017, Mr. Shawn D. Moon left his full-time role with the Company. Mr. Moon will continue to be involved with the Company on a part-time consulting basis in connection with the implementation of certain key initiatives, including speaking at key thought leadership events, helping to launch new books, and other activities.

Paul S. Walker, 42, is a 17-year veteran of Franklin Covey Co. On September 1, 2015, Mr. Walker was appointed Executive Vice-President of Global Sales and Delivery. Mr. Walker 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, 64, 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, 64, 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.

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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 public may read and copy any materials that the Company files with the SEC at the SEC's Public Reference Room located at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. 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.

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. These reports are provided through our website as soon as is reasonably practicable after we file or furnish these reports with the SEC.

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ITEM 1A. RISK FACTORS

Our business environment, current domestic and international economic conditions, 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 and services 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 an All Access Pass 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. Clients may utilize entire training offerings or use individual portions of numerous programs to customize a training or personnel program that fits their needs. We expected that the change to an AAP focused business model would be disruptive in the short term as we transition to the new business model, but we believe the benefits of the AAP to our clients and to our business will prove beneficial in future periods.

The change to an AAP-focused business model has required a transition both operationally, as our sales force adapts its structure and strategy to sell the AAP, and from an accounting and reporting point of view. Operationally, the AAP sales cycle is typically longer than previous transactional type sales, such as facilitator and onsite programs. We believe this change reflects the strategic nature of the AAP sale and the need for additional approvals at our clients. In addition, we have reorganized our domestic sales force to focus on and support AAP sales and renewals. During the first quarter of fiscal 2017, we decided to allow new AAP intellectual property agreements to receive updated content throughout the contract period. Accordingly, we are required to defer substantially all AAP revenues at the inception of the contracts and recognize the revenue over the life of the corresponding arrangement.

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If we are unable to effectively adapt our sales force and sales strategy to sell the AAP, or if technological development of the AAP portal is delayed or not accepted by the market, the transition period to the AAP-focused business model may be lengthened and our financial results may be adversely affected.

The All Access Pass is an internet-based platform, 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 the AAP, we collect, process, and retain a limited amount of sensitive and confidential information regarding our customers. Because the AAP is an internet-based platform, our facilities and systems associated with the AAP 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 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.

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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.

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 could have liability 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 Privacy Shield, is intended to address shortcomings identified by the European Court of Justice in a predecessor mechanism. The Privacy Shield and other mechanisms are likely to be reviewed by the European courts, 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

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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.

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 training consultants and other key training representatives, 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 work with governmental clients exposes us to additional risks that are inherent in the government contracting process.

Our clients include national, provincial, state, 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.

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- 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.

Our results of operations and cash flows may be adversely affected if FC Organizational Products LLC is unable to pay the working capital settlement, reimbursable acquisition costs, or reimbursable operating expenses.

In fiscal 2008, we sold our planning products operation to FC Organizational Products, LLC (FCOP), an entity in which we own a 19.5 percent interest. According to the agreements associated with the sale, we were entitled to receive a $1.2 million payment for working capital delivered on the closing date of the sale and to receive $2.3 million as reimbursement for specified costs necessary to complete the transaction. Payment for these costs was originally due in January 2009, but we extended the due date of the payment at FCOP's request and obtained a promissory note from FCOP for the amount owed, plus accrued interest. At the time we received the promissory note from FCOP, we believed that we could obtain payment for the amounts owed, based on prior year performance and forecasted financial performance in 2009. However, the financial position of FCOP deteriorated significantly late in fiscal 2009 and the deterioration accelerated subsequent to August 31, 2009. As a result of its deteriorating financial position, we reassessed the collectability of the promissory note. Based on revised expected cash flows and other operational issues, we recorded a $3.6 million impaired asset charge against these receivables.

We also receive reimbursement from FCOP for certain operating costs, such as rent, and, although not required by governing documents or our ownership interest, we have previously provided working capital and other advances to FCOP. At August 31, 2017, we had $1.7 million receivable from FCOP, net of related discount, which is recorded as an asset on our consolidated balance sheets. Although we believe that we will obtain payment from FCOP for these receivables, the valuation of amounts receivable from FCOP is dependent upon the estimated future earnings and cash flows of FCOP. If FCOP's estimated future earnings and cash flows decline, or if FCOP fails to pay amounts receivable and we fail to obtain payment on the previously impaired promissory note, our future cash flows and results of operations may be adversely affected.

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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, 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
- 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 and it is expected that the British government will commence negotiations to determine the terms of Brexit. 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 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.

We may experience foreign currency gains and losses.

Our sales outside of the United States totaled $48.0 million, or approximately 26 percent of consolidated sales, for the fiscal year ended August 31, 2017. As our international operations grow and become a larger component of our overall financial results, our revenues and operating results may be adversely affected when the dollar strengthens relative to other currencies and may be favorably affected when the dollar weakens. In order to manage a portion of our foreign currency risk, we may make limited use of foreign currency derivative contracts to hedge certain transactions and translation exposure. However, there can be no guarantee that our foreign currency risk management strategy will be effective in reducing the risks associated with foreign currency transactions and translation.

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.

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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 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.

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 21 percent, of our outstanding common shares. On January 26, 2015, the SEC declared effective a registration statement on Form S-3 to register shares held by Knowledge Capital. On May 20, 2015, Knowledge Capital sold 400,000 shares of our common stock on the open market and we did not purchase any of these shares. 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.

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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
- Our ability to accurately estimate, attain, and sustain engagement sales, margins, and cash flows over longer contract periods

Our utilization rates are also affected by a number of factors, including:

- Seasonal trends, primarily as a result of scheduled training
- Our ability to forecast demand for our products and services and thereby maintain an appropriate headcount in our employee base
- Our ability to manage attrition

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

If we are unable to collect our accounts receivable on a timely basis, our results of operations and cash flows could be adversely affected.

Our business depends on our ability to successfully obtain timely payment from our clients of the amounts they owe us for services performed. We evaluate the financial condition of our clients and usually bill and collect on relatively short cycles. However, as our sales to governmental entities, including school districts, continue to grow, our collection cycle may take longer due to procurement and payment procedures at these clients. We maintain allowances against our receivables that we believe are adequate to reserve for potentially uncollectible amounts. Actual losses on client balances could differ from those that we currently anticipate and, as a result, we may need to adjust our allowances. In addition, there is no guarantee that we will accurately assess the creditworthiness of our clients. Macroeconomic conditions could also result in financial difficulties for our clients, and as a result could cause clients to delay payments to us, request modifications to their payment arrangements that could increase our receivables balance, or not pay their obligations to us. Timely collection of client balances also depends on our ability to complete our contractual commitments and bill and collect our invoiced revenues. If we are unable to meet our contractual requirements, we might experience delays in collection of and/or be unable to collect our client balances, and if this occurs, our results of operations and cash flows may be adversely affected.

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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.

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 facility requires 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.  Our existing credit arrangement expires on March 31, 2020 and we expect to regularly renew our lending agreement 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.

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We may have exposure to additional tax liabilities.

As a multinational company, we are subject to income taxes as well as non-income based taxes in both the United States and various foreign tax jurisdictions.  Significant judgment is required in determining our worldwide provision for income taxes and other tax liabilities.  In the normal course of a global business, there are many intercompany transactions and calculations where the ultimate tax determination is uncertain.  As a result, we are routinely subject to audits by various taxing authorities.  Although we believe that our tax estimates are reasonable, we cannot guarantee that the final determination of these tax audits will not be different from what is reflected in our historical income tax provisions and accruals.

We are also subject to non-income taxes such as payroll, sales, use, value-added, and property taxes in both the United States and various foreign jurisdictions.  We are routinely audited by tax authorities with respect to these non-income taxes and may have exposure from additional non-income tax liabilities.

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

At August 31, 2017 we had $57.3 million of intangible assets, which were primarily generated from the fiscal 1997 merger with the Covey Leadership Center, and $24.2 million of goodwill.  Our intangible assets are evaluated for impairment based on qualitative factors or upon cash flows (definite-lived intangible assets) 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.  Our intangible assets, goodwill, and other long-term assets may become impaired if the corresponding cash flows associated with these assets decline in future periods or if our market capitalization declines significantly in future periods.  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.

International hostilities, terrorist activities, and natural disasters may prevent us from effectively serving our clients and thus adversely affect our operating results.

Acts of terrorist violence, armed regional and international hostilities, and international responses to these hostilities, natural disasters, global health risks or pandemics, or the threat of or perceived potential for these events, could have a negative impact on our directly owned or licensee operations.  These events could adversely affect our clients' levels of business activity and precipitate sudden significant changes in regional and global economic conditions and cycles.  These events also pose significant risks to our people and to physical facilities and operations around the world, whether the facilities are ours or those of our alliance partners or clients.  By disrupting communications and travel and increasing the difficulty of obtaining and retaining highly skilled and qualified personnel, these events could make it difficult or impossible for us or our licensee partners to deliver services to clients.  Extended disruptions of electricity, other public utilities, or network services at our facilities, as well as system failures at, or security breaches in, our facilities or systems, could also adversely affect our ability to serve our clients.  While we plan and prepare to defend against each of these occurrences, we might be unable to protect our people, facilities, and systems against all such occurrences.  In addition, our information systems' disaster recovery plan may be insufficient to maintain our business at acceptable levels.  We generally do not have insurance for losses and interruptions caused by terrorist attacks, conflicts, and wars.  If these disruptions prevent us from effectively serving our clients or maintaining our other operations, our operating results could be adversely affected.

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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.

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## ITEM 2. PROPERTIES

Our principal executive offices are located in Salt Lake City, Utah and as of August 31, 2017, all of the facilities used in our operations are leased. Our leased facilities primarily consist of sales and administrative offices both in the United States and various countries around the world, and 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.

Our corporate headquarters lease is accounted for as a financing arrangement and all other facility lease agreements are accounted for as operating leases that expire at various dates through the year 2025.

Corporate Facilities
Corporate Headquarters and Administrative Offices:
Salt Lake City, Utah (7 buildings)

U.S./Canada Sales Offices
Regional Sales Offices:
United States (2 locations)

International Facilities
International Administrative/Sales Offices:
England (1 location)
Japan (1 location)
China (3 locations)
China (1 retail store)

In the third quarter of 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 two remaining sales offices in the United States are used by Robert Gregory Partners and Jhana Education, two businesses that we acquired during fiscal 2017. During fiscal 2016, we restructured the operations of our Australian direct office. As part of the restructuring we closed our sales offices located in Brisbane, Sydney, and Melbourne. Sales personnel in Australia work from their home offices, similar to many of our sales personnel located in the U.S. and Canada. There were no other significant changes to the properties used for our operations for the periods presented in this report.

Subsequent to August 31, 2017, we opened a new office and retail store in Shenzhen, China.

A significant portion of our corporate headquarters campus located in Salt Lake City, Utah is subleased to multiple unrelated entities.

## ITEM 3. LEGAL PROCEEDINGS

We are the subject of certain legal actions, which we consider routine to our business activities. At August 31, 2017, we believe that, after consultation with legal counsel, any potential liability to the Company under these actions will not materially affect our financial position, liquidity, or results of operations.

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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." The following table sets forth the high and low sale prices per share of our common stock for the fiscal years ended August 31, 2017 and 2016.

| | High | Low |
|---|---|---|
| Fiscal Year Ended August 31, 2017: | | |
| Fourth Quarter | $21.10 | $17.35 |
| Third Quarter | 22.30 | 15.20 |
| Second Quarter | 21.45 | 16.95 |
| First Quarter | 22.45 | 15.44 |
| | | |
| Fiscal Year Ended August 31, 2016: | | |
| Fourth Quarter | $17.53 | $13.45 |
| Third Quarter | 18.14 | 13.83 |
| Second Quarter | 18.28 | 14.36 |
| First Quarter | 17.81 | 13.77 |

We did not pay or declare dividends on our common stock during the fiscal years ended August 31, 2017 or 2016. We currently anticipate that we will retain all available funds to repay our obligations, finance future growth and business opportunities, and to repurchase outstanding shares of our common stock.

Although we have historically not paid a dividend on our common stock, since September 1, 2014, we have returned $63.4 million of cash to our shareholders through the purchase of our shares by means of a $35.0 million tender offer, open market purchases, and from shares withheld for minimum statutory taxes on stock-based compensation awards.

As of October 31, 2017, we had 13,702,759 shares of common stock outstanding, which were held by 557 shareholders of record.

Purchases of Common Stock

The following table summarizes the purchases of our common stock by monthly fiscal periods during the quarter ended August 31, 2017:

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| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs[1] (in thousands) |
|---|---|---|---|---|
| June 1, 2017 to June 30, 2017 | - | $ - | - | $ 16,394 |
| July 1, 2017 to July 31, 2017 | 24,000 | 18.46 | 24,000 | 15,951 |
| August 1, 2017 to August 31, 2017 | 153,089 | 18.14 | 153,089 | 13,174 |
| Total Common Shares[2] | 177,089 | $ 18.18 | 177,089 | |

(1) 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, 2017.

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.

(2) Amounts shown above exclude 6,365 shares of our common stock that were withheld for minimum statutory taxes on stock-based compensation awards issued to employees during the quarter ended August 31, 2017. The withheld shares were valued at the market price on the date that the shares were distributed to participants and were acquired at a weighted average price of $19.14 per share.

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, 2012 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.

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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 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.

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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 report on Form 10-K.

| August 31,<br>In thousands, except per-share data | 2017[1] | 2016 | 2015[2] | 2014[2] | 2013[2] |
|---|---|---|---|---|---|
| Income Statement Data: | | | | | |
| Net sales | $185,256 | $200,055 | $209,941 | $205,165 | $190,924 |
| Gross profit | 122,667 | 133,154 | 138,089 | 138,266 | 128,989 |
| Income (loss) from operations | (8,880) | 13,849 | 19,529 | 24,765 | 21,614 |
| Income (loss) before income taxes | (10,909) | 11,911 | 17,412 | 21,759 | 19,398 |
| Income tax benefit (provision) | 3,737 | (4,895) | (6,296) | (3,692) | (5,079) |
| Net income (loss) | (7,172) | 7,016 | 11,116 | 18,067 | 14,319 |
| Earnings (loss) per share: | | | | | |
| Basic | $(.52) | $.47 | $.66 | $1.08 | $.83 |
| Diluted | (.52) | .47 | .66 | 1.07 | .80 |
| Balance Sheet Data: | | | | | |
| Total current assets | $91,835 | $89,741 | $95,425 | $93,016 | $81,108 |
| Other long-term assets | 16,925 | 13,713 | 14,807 | 14,785 | 9,875 |
| Total assets | 210,731 | 190,871 | 200,645 | 205,186 | 189,405 |
| Long-term obligations | 53,158 | 48,511 | 36,978 | 36,885 | 41,100 |
| Total liabilities | 125,666 | 97,156 | 75,139 | 78,472 | 82,899 |
| Shareholders' equity | 85,065 | 93,715 | 125,506 | 126,714 | 106,506 |
| Cash flows from operating activities | $17,357 | $32,665 | $26,190 | $18,124 | $15,528 |

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(1) During fiscal 2017 we decided to allow new All Access Pass intellectual property 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.

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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 FranklinCovey) 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.

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. Our expertise and offerings extend to 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 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 four 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 content is designed to build new skillsets, establish new mindsets, and provide enabling toolsets.

2. Transformational Impact and Reach – We hold ourselves responsible for and measure ourselves by our clients' achievement of transformational results. Our commitment to achieving lasting impact extends to all of our clients—from CEOs to elementary school students, and from senior management to front-line workers in corporations, governmental, and educational environments.

3. Breadth and Scalability of Delivery Options – We have a wide range of content delivery options, including: the All Access Pass 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.

4. Global Capability – We have sales professionals in the United States and Canada who serve clients in the private sector and in governmental organizations; wholly owned subsidiaries in Australia, China, Japan, and the United Kingdom; and we contract with independent licensee partners who deliver our content and provide services in over 150 other countries and territories around the world.

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

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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 content helps 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. 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 2017, fiscal 2016, and fiscal 2015 refer to the twelve-month periods ended August 31, 2017, 2016, 2015, and so forth.

Fiscal 2017 Business Development

Development of the All Access Pass

During mid-2016, we introduced the All Access Pass (AAP), which allows our clients unlimited access to our intellectual property through an electronic portal. We believe the All Access Pass is a revolutionary and innovative way to deliver content to clients of various sizes, from large, multinational entities to smaller organizations that are seeking to improve their culture and results. The All Access Pass allows our clients to: purchase unlimited access to our collection of best-in-class content to address their most important performance needs; assemble, integrate, and deliver that content through any of a broad combination of delivery modalities; have the help of our implementation specialists to design customized impact journeys; and do so at a very attractive price per person trained. 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. During fiscal 2017, we invested significant capital to further develop the AAP offering and increase its functionality and usefulness to our clients. We are currently translating AAP materials into 15 languages and completing significant upgrades of the AAP portal. These enhancements to the All Access Pass are expected to be launched in mid-fiscal 2018.

While we anticipated that the introduction of the AAP would be disruptive to our current business, especially during the transition to this new business model, we believe that the AAP will provide long-term benefits to our clients and to our financial results. During the first quarter of fiscal 2017, we decided to allow new AAP agreements to receive updated content throughout the contracted period. As a result of this decision, we are required to defer substantially all All Access Pass revenues at the inception of the arrangements and recognize the revenue over the lives of the corresponding contracts. This decision had a significant impact on our fiscal 2017 financial statements, especially reported revenue, as we deferred significant AAP contract revenues. However, we anticipate that the recognition of deferred AAP sales will benefit future periods and reduce seasonal revenue fluctuations.

Business Acquisitions

In May 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 recognized $1.2 million of sales from RGP in fiscal 2017, and we anticipate that RGP services and methodologies will become key offerings in our training and consulting business in future periods.

In July 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. While our fiscal 2017 sales were not significantly impacted by the Jhana acquisition, we anticipate that the acquired Jhana content and delivery methodologies will become key features of our AAP offering.

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New China Direct Offices

On September 1, 2016 we opened three new sales offices in China. These offices are located in Beijing, Shanghai, and Guangzhou. During fiscal 2017, we recognized $11.0 million in sales from these new offices and we expect to see growth in fiscal 2018 and beyond as we develop our business in the China marketplace. Subsequent to August 31, 2017, we opened another sales office in Shenzhen, China. Prior to fiscal 2017, our sales operations in China were managed by an independent licensee partner.

Acquisition of Intellectual Property License Rights

During fiscal 2017, we acquired the license rights for certain intellectual property owned by Higher Moment, LLC. 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. As we seek to expand the content and offerings available on the All Access Pass, we anticipate additional purchases of intellectual property licenses in future periods.

The following is a description of the impact that these developments had on our financial results for the fiscal year ended August 31, 2017.

Financial Overview

As previously mentioned, the decision to allow new AAP contracts to receive updated content over the lives of the arrangements had a significant impact on our fiscal 2017 financial results as we were required to defer substantially all AAP revenues at the inception of the contracts and recognize the revenue over the lives of the arrangements. This change resulted in less recognized sales during fiscal 2017 compared with fiscal 2016 and increased deferred revenue on our balance sheet. Since its introduction in the first quarter of fiscal 2016, AAP and AAP add-on amounts invoiced have grown steadily on a year-over-year basis, from $23.2 million in fiscal 2016 to $63.1 million in fiscal 2017, including unbilled deferred revenue from multi-year contracts as described below. At times we may invoice our clients in advance of the renewal service period, and depending upon the timing of AAP expansions and upgrades, renewal invoices may occur in a different quarter than the original invoice. We believe that the transition to the All Access Pass will provide significant future benefits to us as the average client sales size is expected to increase, the retention rate of our clients improves, the ability to reach additional customers expands, and clients realize greater value to their organizations through access to expanded content and purchase additional services and training materials.

However, the change to the AAP-focused business model has required a significant transition both operationally, as our sales force adapts its sales strategy, and from an accounting and reporting point of view. Operationally, the AAP sales cycle is typically longer than previous transactional type sales for revenues such as facilitator and onsite contracts. We believe this change reflects the strategic nature of the AAP sale and the need for additional approvals at our clients. During fiscal 2017, we also restructured our sales force in the United States and Canada into teams that are designed to focus on the sale and support of AAP arrangements.

We believe that fiscal 2018 will provide an inflection point in our financial operations when compared with fiscal 2017 results. As we recognize previously deferred AAP sales, continue to realize a similar dollar value of AAP renewals, and attract new clients, we believe that our financial results will improve over fiscal 2017 results. During the fourth quarter of fiscal 2017, we also introduced the opportunity for clients to purchase multi-year AAP contracts. At August 31, 2017 we had $16.5 million of unbilled deferred revenue, which represents business that is contracted but unbilled and excluded from our balance sheet. We believe that multi-year contractual arrangements will provide value to our clients and a more predictable revenue stream for the Company.

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Including the factors noted above, our net sales in fiscal 2017 were $185.3 million compared with $200.1 million in fiscal 2016, and $209.9 million in fiscal 2015. Deferred revenues on our balance sheet increased $20.7 million from August 31, 2016, to a total of $41.5 million at August 31, 2017. Our fiscal 2017 fourth-quarter sales remained strong and totaled $59.5 million, which excludes a significant deferral of invoiced AAP contracts and multi-year contracts as described above. The following table sets forth consolidated sales data by category and by our primary delivery channels (in thousands):

| YEAR ENDED AUGUST 31, | 2017 | Percent change | 2016 | Percent change | 2015 |
|---|---|---|---|---|---|
| Sales by Category: | | | | | |
| Training and consulting services | $177,816 | (6) | $189,661 | (5) | $198,695 |
| Products | 3,881 | (35) | 6,009 | (13) | 6,885 |
| Leasing | 3,559 | (19) | 4,385 | 1 | 4,361 |
| | $185,256 | (7) | $200,055 | (5) | $209,941 |
| | | | | | |
| Sales by Segment: | | | | | |
| Direct offices | $96,662 | (7) | $103,605 | (8) | $113,087 |
| Strategic markets | 22,974 | (23) | 29,819 | (19) | 37,039 |
| Education practice | 44,122 | 8 | 40,844 | 21 | 33,681 |
| International licensees | 13,571 | (21) | 17,113 | 3 | 16,547 |
| Corporate and other | 7,927 | (9) | 8,674 | (10) | 9,587 |
| | $185,256 | (7) | $200,055 | (5) | $209,941 |

Our gross profit in fiscal 2017 totaled $122.7 million, compared with $135.2 million in the prior year. The decrease in gross profit was primarily due to sales activity as described above, and our decision to exit the publishing business in Japan during the third quarter of fiscal 2017. Our gross margin, which is gross profit as a percent of sales, was 66.2 percent compared with 67.6 percent in fiscal 2016. Excluding the impact of the charge to exit the Japan publishing business, which totaled $2.1 million, our gross margin was 67.4 percent for the fiscal year ended August 31, 2017.

Our operating expenses increased $10.2 million compared with fiscal 2016, primarily due to a $7.6 million increase in selling, general, and administrative (SG&A) expenses; $1.5 million of contract termination costs; $0.7 million of increased restructuring costs; and $0.5 million of increased depreciation and amortization expense. The increase in SG&A expenses was primarily related to opening three new sales offices in China; the addition of new sales and sales support personnel and increased travel to promote the AAP and new China offices; increased computer software costs primarily related the installation of a new enterprise resource planning (ERP) system; and increased non-cash stock-based compensation expense. These increases were partially offset by a $1.9 million decrease in contingent consideration costs resulting from a prior period business acquisition.

As a result of the factors noted above, our loss from operations in fiscal 2017 was $(8.9) million, compared with income of $13.8 million in the prior year. Pre-tax loss for fiscal 2017 was $(10.9) million compared with pre-tax income of $11.9 million in fiscal 2016. Our effective income tax benefit rate was approximately 34 percent in fiscal 2017 compared with an income tax rate of approximately 41 percent in fiscal 2016. Our income tax benefit was $3.7 million in fiscal 2017 compared with an income tax provision of $4.9 million in fiscal 2016. Net loss for fiscal 2017 was $(7.2) million in fiscal 2017, or $(.52) per share, compared with $7.0 million of net income, or $.47 per diluted share, in fiscal 2016.

Further details regarding these items can be found in the comparative analysis of fiscal 2017 with fiscal 2016 as discussed within this management's discussion and analysis.

During fiscal 2017, we invested our available cash and proceeds from our secured credit facility to make substantial and significant investments in our business that we believe will drive results and provide benefits in future periods. We invested $7.3 million of cash to acquire RGP and Jhana during the last half of fiscal 2017; we used $7.2 million of cash to purchase property and equipment, which was primarily comprised of software for our new ERP system and a significant upgrade to our AAP portal; and we invested $6.5 million in new curriculum development, including the translation of AAP content into 15 languages. We currently anticipate that the new ERP system and upgraded AAP portal will be completed and placed into service in fiscal 2018.

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Our liquidity position remained healthy during fiscal 2017 and we had $8.9 million of cash and cash equivalents at August 31, 2017, with $25.6 million of remaining credit available on our revolving credit facility, compared with $10.5 million of cash at August 31, 2016. During fiscal 2017 we also converted $10.0 million of borrowings on our revolving credit facility into term loans. At August 31, 2017, we had $19.1 million payable on term loans to the lender on our secured credit facility.

Our primary source of cash is our ongoing business operations. Historically, we have funded our operations, business acquisitions, capital purchases, curriculum development, and share repurchases from our operating activities and from our long-term revolving line of credit facility. Our positive cash flows over the past three years have enabled us to repurchase $63.4 million of our common stock since September 1, 2014, including a $35.0 million tender offer that was completed in January 2016. We anticipate that cash flows from our operating activities, proceeds from our line of credit facility, and term-loan borrowing will be sufficient to support our operations for the foreseeable future. For further information regarding our cash flows and liquidity 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 content, 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 2018 and beyond:

- New All Access Pass Sales and the Renewal of Existing Client Contracts – We are focused on sales of AAP contracts and have restructured our domestic sales force and sales support functions to more effectively sell and support the AAP. We believe we are well positioned to expand sales of the All Access Pass in the United States and Canada and reach new clients. The fiscal 2017 acquisition of Jhana Education is expected to attract new clients through its delivery of content in bite-sized modules. We are currently in the process of translating AAP content into 15 new languages and expect to release the content and a new improved AAP portal in fiscal 2018. These additional languages will allow us to launch the AAP at our offices in Japan and China, as well as with many of our licensee partners.

- Education Segment Sales – Our Education segment has consistently grown over the past several years. We intend to continue to invest in new content and additional sales personnel to reach out to new schools and retain existing schools. We believe there are significant growth opportunities, both domestically and internationally, for our Education segment and its well-known The Leader in Me offering.

- Growth of our Direct Office and International Licensee Channels – We are actively focused on growing the size and productivity of our direct office channel through expansion of our sales force to reach potential clients. We believe that the structural changes made in fiscal 2017 will help us improve sales and lower costs in future periods. In addition, we believe the acquisition of Robert Gregory Partners, LLC in fiscal 2017 will open new opportunities as we seek to expand our coaching business. We are also actively seeking to expand the size and productivity of our international licensee partners through the development of additional content, such as the translated AAP offerings, and additional licensee support activities.

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.

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Other key factors that influence our operating results include: the size and productivity of our sales force; 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 All Access Pass 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.

| YEAR ENDED AUGUST 31, | 2017 | 2016 | 2015 |
|---|---|---|---|
| Sales: | | | |
| Training and consulting services | 96.0 % | 94.8 % | 94.6 % |
| Products | 2.1 | 3.0 | 3.3 |
| Leasing | 1.9 | 2.2 | 2.1 |
| Total sales | 100.0 | 100.0 | 100.0 |
| | | | |
| Cost of sales: | | | |
| Training and consulting services | 30.5 | 29.6 | 31.6 |
| Products | 2.2 | 1.6 | 1.6 |
| Leasing | 1.1 | 1.2 | 1.0 |
| Total cost of sales | 33.8 | 32.4 | 34.2 |
| Gross profit | 66.2 | 67.6 | 65.8 |
| | | | |
| Selling, general, and administrative | 65.4 | 56.8 | 51.8 |
| Contract termination costs | 0.8 | - | - |
| Restructuring costs | 0.8 | 0.4 | 0.3 |
| Impaired assets | - | - | 0.6 |
| Depreciation | 2.1 | 1.9 | 2.0 |
| Amortization | 1.9 | 1.6 | 1.8 |
| Total operating expenses | 71.0 | 60.7 | 56.5 |
| Income (loss) from operations | (4.8 ) | 6.9 | 9.3 |
| Interest income | 0.2 | 0.2 | 0.2 |
| Interest expense | (1.3 ) | (1.1 ) | (1.0 ) |
| Discount on related party receivable | - | - | (0.2 ) |
| Income (loss) before income taxes | (5.9 )% | 6.0 % | 8.3 % |

FISCAL 2017 COMPARED WITH FISCAL 2016

Sales

We offer a variety of training courses, consulting services, and training-related products that are focused on solving organizational problems which require a change in human behavior. Our training and consulting solutions are provided both domestically and internationally through the All Access Pass, our sales and delivery personnel, client facilitators, international licensees, and the internet on various web-based delivery platforms. The following sales analysis for the fiscal year ended August 31, 2017 is based on activity through our operating segments as shown in the preceding comparative sales table.

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Direct Offices – This channel includes our sales personnel that serve clients in the United States and Canada; our directly owned international offices in Japan, China, the United Kingdom, and Australia; and our public program operations. During fiscal 2017, our China sales offices recognized $11.0 million of sales, which was in line with our expectations for these new offices. However, the increase in sales from the new China offices was offset by decreased domestic direct office revenues and decreased revenues from our office in the United Kingdom. Our domestic direct office revenues decreased $14.2 million compared with the prior year primarily due to the transition to the AAP business model and decreased onsite revenues. The majority of new AAP contract revenue was deferred and will be recognized over the lives of the underlying contracts. Onsite presentation revenues during fiscal 2017 decreased $5.6 million compared to the prior year due to fewer days booked and discounted pricing available to AAP clients.

International direct office sales increased $7.6 million compared with the prior year due to the new China sales offices. Partially offsetting the sales from the China was a $2.0 million decrease in sales at our office in the United Kingdom, a $0.8 million decrease in Japan, and a $0.7 million decrease in Australia. The decrease in sales at the United Kingdom office was primarily due to the growth and deferral of AAP contract sales, a large contract that did not renew during fiscal 2017, and $0.6 million of adverse currency exchange impact during the year. Our sales in Japan decreased due to reduced book publishing sales, which was primarily attributable to our decision to exit the publishing business in Japan during fiscal 2017. Partially offsetting decreased publishing sales in Japan was a $1.0 million increase in training sales. The decrease in sales in Australia was primarily due to the growth and deferral of AAP revenues during the year. During fiscal 2017, combined foreign exchange rates had a $0.4 million adverse impact on international direct office sales, which was primarily attributable to the U.S. dollar strengthening against the British Pound.

Strategic Markets – This division includes our government services office, Sales Performance practice, Customer Loyalty practice, and the "Global 50" group, which is specifically focused on sales to large, multi-national organizations. The decrease in Strategic Market segment sales was primarily due to a $5.3 million decrease in Sales Performance practice revenues; a $1.4 million decrease in Customer Loyalty practice revenues; and a $0.3 million decrease in Global 50 sales. Sales Performance practice sales declined due to fewer new contracts obtained during the fiscal year. Our Customer Loyalty practice sales decreased primarily due to the completion of certain contracts with certain large, multi-unit retailers and fewer new contracts to replace the lost revenue. Partially offsetting these decreases was $1.2 million of coaching revenue from the recently completed acquisition of Robert Gregory Partners, LLC and a $0.2 million increase in government services sales. During the third quarter of fiscal 2017, we restructured the Sales Performance practice to incorporate client partners in the regional sales teams rather than as a stand-alone sales group and made leadership changes in this practice. These changes are designed to improve sales in the Sales Performance practice during forthcoming periods.

Education Practice – Our Education practice division is comprised of our domestic and international Education practice operations (focused on sales to educational institutions) and includes our widely acclaimed The Leader In Me program designed for students primarily in K-6 elementary schools. During fiscal 2017, we continued to see increased demand for The Leader in Me program in many school districts in the United States as well as in some international locations, which contributed to a $3.3 million, or 8 percent, increase in Education practice revenues compared with the prior year. At August 31, 2017 over 3,500 schools around the world were using The Leader in Me curriculum. We continue to make substantial investments in new sales personnel and content for our Education practice and expect that our sales will continue to grow compared with prior periods.

International Licensees – In countries or foreign locations where we do not have a directly owned office, our training and consulting services are delivered through independent licensees, which may translate and adapt our offerings to local preferences and customs, if necessary. Our international licensee revenues decreased $3.5 million compared with the prior year. The decrease was primarily

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due to the conversion of our China licensee into a direct office ($2.5 million of royalty revenues during fiscal 2016) and by decreased sales at certain of our licensee partners during the fiscal year. Foreign exchange rates did not have a material impact on licensee sales in fiscal 2017.

Corporate and other – Our "corporate and other" sales are mainly comprised of leasing, books and audio product sales, and shipping and handling revenues. These sales declined primarily due to a $0.8 million decrease in leasing revenues. Under the terms of a previously existing outsourcing services agreement, we were responsible for leasing space in our former warehouse. However, the services contract expired in June 2016, and we are no longer responsible for leasing the former warehouse space. The corresponding sublease agreement also expired, resulting in reduced lease revenue compared with the prior year.

Cost of Sales and Gross Profit

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 practice solutions sold to clients, prices of materials, labor rates, changes in product discount levels, and freight costs.

Our cost of sales totaled $62.6 million in fiscal 2017 compared with $64.9 million in fiscal 2016. Our gross profit for fiscal 2017 was $122.7 million compared with $135.2 million in fiscal 2016. The decrease in gross profit during fiscal 2017 was primarily due to sales activity, as described above, and our decision to exit the publishing business in Japan and write off the majority of our book inventory. Our gross margin for fiscal 2017 was 66.2 percent of sales compared with 67.6 percent in fiscal 2016. Excluding the impact of the $2.1 million charge to exit the Japan publishing business, our gross margin was 67.4 percent for the fiscal year ended August 31, 2017.

Operating Expenses

Our operating expenses consisted of the following for the periods indicated (in thousands):

| YEAR ENDED AUGUST 31, | 2017 | 2016 | $ Change | % Change |
|---|---|---|---|---|
| SG&A expenses | $114,207 | $108,930 | $5,277 | 5 |
| China SG&A expenses | 5,219 | - | 5,219 | n/a |
| Increase (decrease) to contingent payment liabilities | (1,936 ) | 1,538 | (3,474 ) | (226 ) |
| Stock-based compensation expense | 3,658 | 3,121 | 537 | 17 |
| Consolidated SG&A expense | 121,148 | 113,589 | 7,559 | 7 |
| Contract termination costs | 1,500 | - | 1,500 | n/a |
| Restructuring costs | 1,482 | 776 | 706 | 91 |
| Depreciation | 3,879 | 3,677 | 202 | 5 |
| Amortization | 3,538 | 3,263 | 275 | 8 |
| | $131,547 | $121,305 | $10,242 | 8 |

Selling, General and Administrative Expense – The increase in our SG&A expenses during fiscal 2017 was primarily due to 1) opening three new sales offices in China during the fiscal year, including $0.5 million of non-repeating start-up costs; 2) a $5.5 million increase in spending related to new sales and sales-related personnel, additional bonuses for sales associates related to multi-year deferred sales contracts, and increased travel to promote our new offices in China and the AAP; 3) a $1.9 million increase in computer costs primarily resulting from the installation of our new ERP system; and 4) a $0.5 million increase in non-cash stock-based compensation. We continue to invest in new sales and sales-related personnel and had 221 client partners at August 31, 2017 compared with 204 client partners at August 31, 2016. These increases were partially offset by a $3.5 million decrease from the change in estimated earn out payments to the former owners of NinetyFive 5, reduced warehousing and distribution expense, and cost savings in various other areas of our operations.

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Contract Termination Costs – 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 $16.1 million (at current exchange rates) over the life of the arrangement. Under a previously existing profit-sharing agreement, we would have been obligated to pay one-third of the royalty, or $5.4 million, 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 made during the second quarter.

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, as previously described. 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.

Depreciation – Depreciation expense increased primarily due to the acquisition of assets in fiscal 2017. Based on property and equipment acquisitions during fiscal 2017 and expected capital additions during fiscal 2018, including the completion of the installation of a new ERP system and new All Access Pass portal, we expect depreciation expense will total approximately $5.5 million in fiscal 2018.

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. Based on current carrying amounts of intangible assets and remaining estimated useful lives, we anticipate amortization expense from intangible assets will total $5.4 million in fiscal 2018.

Income Taxes

Our effective income tax benefit rate for the fiscal year ended August 31, 2017 was approximately 34 percent compared with an effective income tax expense rate of approximately 41 percent in fiscal 2016. Our effective benefit rate in fiscal 2017 was increased by $0.5 million in previously unrecognized tax benefits, but was reduced by recording additional valuation allowance against the deferred tax assets of a foreign subsidiary, disallowed travel and entertainment expenses, and disallowed executive compensation. In fiscal 2016, our effective income tax rate was increased primarily due to a $0.3 million valuation allowance against the deferred tax assets of a foreign subsidiary with recent and substantial taxable losses combined with disallowed travel and entertainment expenses.

During fiscal 2017, we paid $2.6 million in cash for income taxes, primarily to foreign jurisdictions. We expect to recover a significant portion of our 2017 tax payments as we utilize foreign tax credit carryforwards in the future. Over the next four to six years, we expect that our total cash paid for income taxes will be less than our total income tax provision as we utilize carryforwards of net operating losses and foreign tax credits.

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FISCAL 2016 COMPARED WITH FISCAL 2015

Sales

The following sales analysis for fiscal 2016 compared with fiscal 2015 is based on activity through our operating segments as described in the fiscal 2017 sales analysis, and as shown in the preceding comparative sales table.

Direct Offices – As previously mentioned, we introduced the AAP in our domestic direct offices in late January 2016. The AAP was well received by existing and new clients and we invoiced $19.4 million of new AAP contracts during fiscal 2016 through our direct offices, including $10.7 million in the fourth quarter. However, in accordance with applicable revenue recognition guidance, we deferred $6.2 million (net of amounts previously deferred and subsequently recognized during fiscal 2016) of revenue that was primarily recognized in fiscal 2017 over the lives of the respective contracts. While sales of new AAP contracts grew significantly in the fourth quarter compared with previous quarters of fiscal 2016, our onsite presentation sales declined compared with the prior year. Our international direct office sales declined by $1.7 million during the fiscal year, primarily due to decreased demand for certain programs in these offices and $0.2 million of unfavorable foreign exchange rates, primarily during the first half of fiscal 2016.

Strategic Markets – The $7.2 million decrease in sales was primarily due to the renewal of a $6.6 million government contract in fiscal 2015, which did not repeat in fiscal 2016 due to administrative changes at the federal agency that resulted in the contract not being opened for renewal bids, and a $2.7 million decrease in Customer Loyalty practice sales. Partially offsetting these decreases were $1.0 million of sales from our Global 50 group, $0.7 million of increased government services sales (excluding the impact of the government contract that was not renewed), and $0.3 million of increased revenue from the Sales Performance practice. Our Customer Loyalty practice sales decreased primarily due to the termination of a contract with a large, multi-unit retailer. Sales Performance practice sales increased due to new contracts obtained primarily during the first half of fiscal 2016.

Education Practice – We continue to see increased demand for The Leader in Me program in many school districts in the United States as well as in some international locations, which contributed to a $7.2 million, or 22 percent, increase in Education practice revenues compared with the prior year. At August 31, 2016 over 3,000 schools around the world were using The Leader in Me curriculum. Sales of subscription services during the previous fiscal year also improved sales during fiscal 2016 as we recognized a portion of the revenue that was deferred in previous periods.

International Licensees – Our international licensee royalties increased $0.5 million as certain of our licensee partners' sales increased compared with the prior year. Licensee sales during the fiscal year ended August 31, 2016 were reduced by $0.6 million due to foreign exchange rate fluctuations as the U.S. dollar strengthened during the year.

Corporate and other – During fiscal 2016, corporate and other sales decreased primarily due to a $0.4 million decrease in shipping and handling revenues and a $0.2 million decrease in book and audio revenues from royalties on publications.

Gross Profit

Our gross profit for fiscal 2016 was $135.2 million compared with $138.1 million in fiscal 2015. The decrease in gross profit was primarily due to sales activity during fiscal 2016 as previously described. Our gross margin for fiscal 2016 increased to 67.6 percent of sales compared with 65.8 percent in fiscal 2015. The improvement in gross margin was primarily due to a change in the mix of sales, which produced increased intellectual property sales, including All Access Pass sales, decreased onsite presentations, increased international licensee royalty revenues, and decreased costs associated with our online offerings as we restructured our online program operations during the first quarter of fiscal 2016.

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Operating Expenses

Our operating expenses consisted of the following for the periods indicated (in thousands):

| YEAR ENDED AUGUST 31, | 2016 | 2015 | $ Change | % Change |
|---|---|---|---|---|
| SG&A expense | $108,930 | $106,231 | $2,699 | 3 |
| Increase to NinetyFive 5 contingent payment liability | 1,538 | 35 | 1,503 | 4,294 |
| Stock-based compensation expense | 3,121 | 2,536 | 585 | 23 |
| Consolidated SG&A expense | 113,589 | 108,802 | 4,787 | 4 |
| Impaired assets | - | 1,302 | (1,302) | (100) |
| Restructuring costs | 776 | 587 | 189 | 32 |
| Depreciation | 3,677 | 4,142 | (465) | (11) |
| Amortization | 3,263 | 3,727 | (464) | (12) |
| | $121,305 | $118,560 | $2,745 | 2 |

Selling, General and Administrative Expense – The increase in our SG&A expenses during fiscal 2016 was primarily due to 1) a $2.0 million increase in associate costs, primarily due to new sales and sales-related personnel; 2) a $1.5 million increase in the contingent consideration liability associated with the acquisition of NinetyFive 5; 3) a $1.4 million increase in software costs primarily related to our new ERP system; 4) a $1.1 million increase in bad debt expense resulting primarily from the write off of an Education practice contract and receivables from a large retailer that declared bankruptcy, plus other increases to the allowance for doubtful accounts throughout the fiscal year; and 5) a $0.6 million increase in non-cash stock-based compensation. We had 204 client partners at August 31, 2016 compared with 180 client partners at the end of fiscal 2015. A significant improvement in Sales Performance practice EBITDA during the first half of fiscal 2016 increased the probability of a second $2.2 million contingent consideration payment to the former owners of NinetyFive 5, which led to the significant increase in expense during fiscal 2016. Partially offsetting these increases were $0.8 million of decreased foreign exchange losses, $0.8 million of reduced advertising and promotional expenses, and cost savings in various other areas of our operations.

Impaired Assets – During fiscal 2015, we impaired $1.3 million of long-term assets, which consisted of $0.6 million of capitalized curriculum that was discontinued (and related prepaid royalties), $0.5 million of long-term receivables from FC Organizational Products (FCOP), and an investment in an unconsolidated subsidiary totaling $0.2 million. We determined that we will receive payment from FCOP for certain rent expenses earlier than previously estimated. While this determination improves cash flows from FCOP in the short term, the present value of our share of cash distributions to cover remaining long-term receivables was reduced and was less than the present value of the receivables previously recorded and accordingly, we recalculated the discount on the long-term receivables and impaired the difference. During the fourth quarter of fiscal 2015, we became aware of financial difficulties at an unconsolidated subsidiary in which we previously invested $0.2 million. Based on this information, we determined that the carrying value of this investment would not be recoverable and we wrote off the investment. We previously accounted for this investment using the cost method based on our insignificant ownership and influence in the entity.

Restructuring Costs – In the fourth quarter of fiscal 2016, we restructured the operations of certain of our domestic sales offices to reduce ongoing operational costs. The cost of this restructuring was $0.4 million and was primarily comprised of employee severance costs, which were paid in August and September 2016.

During fiscal 2016 we also restructured the operations of our Australian direct office. The restructuring was designed to reduce ongoing operating costs by closing the sales offices in Brisbane, Sydney, and Melbourne, and by reducing headcount for administrative functions. Our remaining sales and support personnel in Australia now work from home offices, as do most of our sales personnel located in the U.S.

and Canada. The $0.4 million charge recorded during the second quarter of fiscal 2016 was primarily for office closure costs, including remaining lease expense on the offices that were closed, and for employee severance costs.

Depreciation – Depreciation expense decreased due to certain assets becoming fully depreciated during fiscal 2016.

Amortization – Our consolidated amortization expense decreased compared with the prior year due to the amortization of previously acquired intangibles, some of which are amortized more heavily early in their estimated useful lives.

Income Taxes

Our effective tax rate for the fiscal year ended August 31, 2016 was approximately 41 percent compared with approximately 36 percent in fiscal 2015.

Our effective tax rate increased primarily due to the fiscal 2015 recognition of benefits from claiming foreign tax credits instead of foreign tax deductions for fiscal 2008 through fiscal 2010. In fiscal 2015 we finalized the calculations of the impact of amending previously filed federal income tax returns to realize foreign tax credits previously treated as expired under the tax positions taken in the original returns. The income tax benefit recognized from these foreign tax credits totaled $0.6 million in fiscal 2015. As of August 31, 2015, we have amended all available prior year returns to claim foreign tax credits instead of tax deductions. In fiscal 2016, we also recorded a valuation allowance of $0.3 million against the deferred tax assets of a foreign subsidiary with recent and substantial taxable losses.

Discount on Related Party Receivable

We record receivables from FCOP for reimbursement of certain operating costs, office space rent, and for working capital and other advances that we make, even though we are not contractually required to make advances or absorb the losses of FCOP. Based on expected payment, some of these receivables are recorded as long-term receivables and are required to be recorded at net present value. We have discounted the long-term portion of the FCOP receivables based on forecasted repayments at a discount rate of 15 percent, which was the estimated risk-adjusted borrowing rate of FCOP.

During fiscal 2015, we adjusted the discount and carrying value of our receivables from FCOP as described above in the section entitled "Impaired Assets." The corresponding adjustment to the discount on our long-term receivables from FCOP totaled $0.4 million.

QUARTERLY RESULTS

The following tables set forth selected unaudited quarterly consolidated financial data for the fiscal years ended August 31, 2017 and 2016. 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).

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YEAR ENDED AUGUST 31, 2017 (unaudited)

| | November 26 | February 28 | May 31 | August 31 |
|---|---|---|---|---|
| Net sales | $ 39,787 | $ 42,196 | $ 43,751 | $ 59,523 |
| Gross profit | 25,308 | 28,031 | 27,341 | 41,988 |
| Selling, general, and administrative | 29,095 | 29,370 | 30,713 | 31,970 |
| Contract termination costs | - | 1,500 | - | - |
| Restructuring costs | - | - | 1,335 | 147 |
| Depreciation | 866 | 928 | 949 | 1,136 |
| Amortization | 722 | 721 | 835 | 1,261 |
| Income (loss) from operations | (5,375) | (4,488) | (6,491) | 7,474 |
| Income (loss) before income taxes | (5,879) | (5,002) | (7,023) | 6,995 |
| Net income (loss) | (3,958) | (3,333) | (4,541) | 4,659 |
| | | | | |
| Net income (loss) per share: | | | | |
| Basic | $ (.29) | $ (.24) | $ (.33) | $ .34 |
| Diluted | (.29) | (.24) | (.33) | .33 |

YEAR ENDED AUGUST 31, 2016 (unaudited)

| | November 28 | February 27 | May 28 | August 31 |
|---|---|---|---|---|
| Net sales | $ 45,218 | $ 45,269 | $ 44,738 | $ 64,831 |
| Gross profit | 30,071 | 29,854 | 29,562 | 45,667 |
| Selling, general, and administrative | 26,489 | 27,936 | 29,095 | 30,069 |
| Restructuring costs | - | 376 | - | 400 |
| Depreciation | 912 | 894 | 1,003 | 868 |
| Amortization | 910 | 909 | 722 | 721 |
| Income (loss) from operations | 1,760 | (261) | (1,258) | 13,609 |
| Income (loss) before income taxes | 1,296 | (730) | (1,741) | 13,086 |
| Net income (loss) | 790 | (448) | (1,052) | 7,726 |
| | | | | |
| Net income (loss) per share: | | | | |
| Basic and diluted | $ .05 | $ (.03) | $ (.07) | $ .55 |

Our fourth quarter of each fiscal year 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 AAP and facilitator 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 filed 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.

## LIQUIDITY AND CAPITAL RESOURCES

### Introduction

During fiscal 2017, we used our cash provided by operating activities and a portion of the available capital from our secured credit facility to make substantial and significant investments in our business that we believe will provide benefits in future periods.  We spent $7.3 million of cash to acquire the businesses of Robert Gregory Partners, LLC, and Jhana Education during the last half of fiscal 2017.  We used $7.2 million of cash for purchases of property and equipment in fiscal 2017, primarily for software and hardware related to our new ERP system and significantly upgraded All Access Pass portal.  The new ERP system and AAP portal are expected to be completed and launched during fiscal 2018.  We also spent $6.5 million of cash to develop additional offerings primarily related to the AAP, including the translation of AAP materials into additional languages, and The Leader in Me courses offered through our Education

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segment. In addition to these uses of cash for investing activities, we also spent $5.4 million to purchase shares of our common stock on both the open market and from shares withheld on vested stock-based incentive awards. For further information on these investments in our business during fiscal 2017, refer to the discussions under "Cash Flows from Investing Activities" and "Cash Flows from Financing Activities" found later in this analysis of liquidity and capital resources.

Our cash balance at August 31, 2017 was $8.9 million, with $25.6 million of available credit on our secured credit agreement, compared with $10.5 million of cash at August 31, 2016. During fiscal 2017 we also converted $10.0 million of borrowings on our secured credit facility into term loans. At August 31, 2017, we had $19.1 million payable on term loans to the lender on our secured credit facility.

Our net working capital (current assets less current liabilities) was $11.2 million at August 31, 2017 compared with $35.7 million at August 31, 2016. The reduction in our net working capital was primarily due to a $20.7 million increase in deferred revenues resulting primarily from increased AAP sales, and borrowings used in fiscal 2017 to invest in our business as described above. Of our $8.9 million in cash at August 31, 2017, $7.3 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 secured credit facility. Our primary uses of liquidity include payments for operating activities, capital expenditures (including curriculum development), acquisition of businesses and intellectual property licenses, purchases of our common stock, working capital expansion, and debt payments.

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

| YEAR ENDED AUGUST 31, | 2017 | 2016 | 2015 |
|---|---|---|---|
| Total cash provided by (used for): | | | |
| Operating activities | $17,357 | $32,665 | $26,190 |
| Investing activities | (21,675) | (6,229) | (4,874) |
| Financing activities | 3,134 | (32,535) | (14,903) |
| Effect of exchange rates on cash | (348) | 321 | (662) |
| Increase (decrease) in cash and cash equivalents | $(1,532) | $(5,778) | $5,751 |

Modifications to the Amended and Restated Credit Agreement

On May 24, 2016, we entered into the Fifth Modification Agreement to our existing amended and restated secured credit agreement (the Restated Credit Agreement) with our existing lender. The primary purposes of the Fifth Modification Agreement were to (i) obtain a term loan from the lender for $15.0 million (the Term Loan); (ii) increase the maximum principal amount of the revolving line of credit from $30.0 million to $40.0 million; (iii) extend the maturity date of the Restated Credit Agreement from March 31, 2018 to March 31, 2019; (iv) permit us to convert balances outstanding from time to time under the revolving line of credit to term loans; and (v) adjust the fixed charge coverage ratio from 1.40 to 1.15. During fiscal 2017, we entered into the Sixth, Seventh, and Eighth Modification Agreements to the Restated Credit Agreement. The Sixth Modification and Eighth Modification agreements adjusted the definition of EBITDAR in the funded debt to EBITDAR and fixed charge coverage ratios applicable to our debt covenants to include the change in deferred revenue. The Seventh Modification Agreement extended the maturity date of the Restated Credit Agreement to March 31, 2020.

The amount of available credit on our revolving credit line is reduced by amounts converted to term loans. Term loans are due three years from the inception of each new loan. Principal payments on our term loans are due quarterly and are equal to the original amount of each term loan divided by 16. Any remaining principal at the maturity date is immediately payable or may be rolled into a new term loan. Interest is charged at the same rate as the revolving line of credit and is payable monthly. As a result of the $10.0 million of term loans obtained during fiscal 2017, our maximum available credit on the revolving line of credit is $30.0 million (less amounts borrowed) at August 31, 2017.

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The various modification agreements preserve 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) outstanding borrowings on the revolving line of credit may not exceed 150 percent of consolidated accounts receivable. The other key terms and conditions of the various modification agreements are substantially the same as those defined in the Restated Credit Agreement, except as described above. We believe that we were in compliance with the financial covenants and other terms applicable to the Restated Credit Agreement at August 31, 2017.

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, 2017.

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. Our cash provided by operating activities was $17.4 million for the fiscal year ended August 31, 2017 compared with $32.7 million in fiscal 2016. The decline was primarily attributable to decreased operating income when compared with the prior year. Our operating income during fiscal 2017 was significantly reduced by the deferral of All Access Pass sales and costs associated with the transition to an AAP-focused business model. Following the transition period to the AAP focused business model, we anticipate that cash flows from operating activities will improve and return to levels consistent with prior years.

Cash Flows from Investing Activities and Capital Expenditures

Our cash used for investing activities during fiscal 2017 totaled $21.7 million. Our primary uses of cash for investing activities included purchases of property and equipment, the acquisition of businesses, and spending on curriculum development, including the acquisition of intellectual property rights.

Our purchases of property and equipment totaled $7.2 million, and consisted primarily of computer software and hardware. We are currently in the process of implementing new ERP software and developing a significantly improved AAP portal. Both of these projects are expected to be completed in fiscal 2018. We currently anticipate that our purchases of property and equipment will total approximately $5.0 million in fiscal 2018.

In the third quarter of fiscal 2017, we acquired Robert Gregory Partners, LLC, a corporate coaching firm, for $3.5 million in cash plus up to $4.5 million of contingent consideration. We paid the first contingent consideration payment, which totaled $0.5 million, during the fourth quarter of fiscal 2017. This payment was classified as a component of cash flows from investing activities due to short-term timing of the payment. During the fourth quarter of fiscal 2017, we acquired Jhana Education for $3.3 million in cash (net of cash acquired) plus up to $7.2 million of contingent consideration. Jhana Education specializes in the creation and dissemination of relevant, bite-sized content and learning tools for leaders and managers. For further information regarding our business acquisitions during fiscal 2017, refer to the notes to our consolidated financial statements in Item 8 of this report on Form 10-K.

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Throughout fiscal 2017 we spent $6.5 million on various offerings, which was primarily for All Access Pass content, including the translation of AAP items into 15 additional languages; new development and offerings related to The Leader in Me; and for various other offerings and content. Our anticipated spending for capitalized curriculum in fiscal 2018 is expected to be approximately $6.4 million. During fiscal 2018, we expect to continue to make investments in our All Access Pass offerings, The Leader in Me, and in various other courses.

During fiscal 2017, we acquired the license rights to 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. Acquisitions of other businesses and intellectual property licenses in future periods will increase our use of cash for investing activities.

Cash Flows from Financing Activities

During fiscal 2017, our net cash provided by financing activities totaled $3.1 million. Our primary sources of cash from financing activities during fiscal 2017 were $10.0 million borrowed on term notes payable, including a $5.0 term loan obtained in August 2017, $4.4 million of borrowings from our revolving line of credit, and $0.7 million of proceeds from participants in our employee stock purchase plan. Our primary uses of cash for financing activities were $5.4 million spent on purchases of our common stock, including shares withheld for minimum statutory taxes on stock-based compensation awards, $5.0 million used to repay term loans payable, and $1.7 million used to pay the financing obligation on our corporate campus.

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, 2017. Since September 1, 2014, we have returned $63.4 million of cash to our shareholders through the purchase of our shares by means of a $35.0 million tender offer, open market purchases, and from shares withheld for minimum statutory taxes on stock-based compensation awards. Future purchases of our common stock will increase the amount of cash used for financing activities in those periods.

During fiscal 2017, we completed the acquisitions of Robert Gregory Partners and Jhana Education 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 will increase.

Sources of Liquidity

We expect to meet our projected capital expenditures, service our existing financing obligation, and meet other working capital requirements during fiscal 2018 from current cash balances, future cash flows from operating activities, and available borrowings on our secured credit facility. 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 Restated Credit Agreement expires in March 2020 and we expect to renew the Restated Credit Agreement on a regular basis to maintain the long-term borrowing capacity of this credit facility. At August 31, 2017, we had $25.6 million of borrowing capacity on our Restated Credit Agreement. 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.

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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 in the foreseeable future. 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 loans payable; 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 primarily for leased office space; and minimum payments for outsourced warehousing and distribution service charges. At August 31, 2017, our expected payments on these obligations over the next five fiscal years and thereafter are as follows (in thousands):

| Contractual Obligations | Fiscal 2018 | Fiscal 2019 | Fiscal 2020 | Fiscal 2021 | Fiscal 2022 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Required lease payments on corporate campus | $3,579 | $3,651 | $3,724 | $3,798 | $3,874 | $ 11,283 | $29,909 |
| Term loans payable to bank[1] | 6,736 | 10,581 | 2,557 | - | - | - | 19,874 |
| Jhana Education contingent consideration payments[2] | 2,371 | 599 | 831 | 1,020 | 1,160 | 1,219 | 7,200 |
| Purchase obligations | 6,608 | - | - | - | - | - | 6,608 |
| Minimum operating lease payments | 866 | 321 | 84 | 84 | 84 | 268 | 1,707 |
| Robert Gregory Partners, LLC contingent consideration payments[2] | - | 1,000 | - | - | - | - | 1,000 |
| Minimum required payments for warehousing services[3] | 216 | 180 | - | - | - | - | 396 |
| Total expected contractual obligation payments | $20,376 | $16,332 | $7,196 | $4,902 | $5,118 | $ 12,770 | $66,694 |

(1) Payment amounts shown include interest at 3.1 percent, which is the current rate on our Term Loan and revolving credit obligations.

(2) The payment of contingent consideration from 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) Our required minimum payments for warehousing services contains an annual escalation based upon changes in the Employment Cost Index, the impact of which is not estimated in the above table. The warehousing services contract expires in June 2019.

Our contractual obligations presented above exclude unrecognized tax benefits of $2.4 million for which we cannot make a reasonably reliable estimate of the amount and period of payment. For further information regarding our unrecognized tax benefits, refer to the notes to our consolidated financial statements as presented in Part II, Item 8 of this report on Form 10-K.

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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 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 derive revenues primarily from the following sources:

- Training and Consulting Services – We provide training and consulting services to both organizations and individuals in leadership, productivity, strategic execution, trust, sales force performance, customer loyalty, and communication effectiveness skills.

- Products – We sell books, audio media, and other related products.

We recognize revenue when: 1) persuasive evidence of an arrangement exists, 2) delivery of product has occurred or services have been rendered, 3) the price to the customer is fixed or determinable, and 4) collectability is reasonably assured. For training and service sales, these conditions are 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 are met upon shipment of the product to the customer. At times, our customers may request access to our intellectual property for the flexibility to print certain training materials or to have access to certain training videos and other training aids at their convenience. For intellectual property license sales, the revenue recognition conditions are generally met at the later of delivery of the content to the client or the effective date of the arrangement.

Revenue recognition for multiple-element arrangements requires judgment to determine if multiple elements exist, whether elements can be accounted for as separate units of accounting, and if so, the fair value for each of the elements. A deliverable constitutes a separate unit of accounting when it has standalone value to our clients. We routinely enter into arrangements that can include various combinations of multiple training offerings, consulting services, and intellectual property licenses. The timing of delivery and performance of the elements typically varies from contract to contract. Generally, these items qualify as separate units of accounting because they have value to the customer on a standalone basis.

When the Company's training and consulting arrangements contain multiple deliverables, consideration is allocated at the inception of the arrangement to all deliverables based on their relative selling prices at the beginning of the agreement, and revenue is recognized as each curriculum, consulting service, or intellectual property license is delivered. We use the following selling price hierarchy to determine the fair value to be used for allocating revenue to the elements: (i) vendor-specific objective evidence of fair value (VSOE), (ii) third-party evidence (TPE), and (iii) best estimate of selling price (BESP). Generally, VSOE is based on established pricing and discounting practices for the deliverables when sold separately. In determining VSOE, we require that a substantial majority of the selling prices fall within a narrow range. When VSOE cannot be established, judgment is applied with respect to whether a selling price can be established based on TPE, which is determined based on competitor prices for similar offerings when sold separately. Our products and services normally contain a significant level of differentiation such that the comparable pricing of services with similar functionality cannot be obtained. When we are unable to establish a selling price using VSOE or TPE, BESP is used in our allocation of arrangement consideration. BESPs are established as best estimates of what the selling price would be if the deliverables were sold regularly on a stand-alone basis. Our process for determining BESPs requires judgment and considers multiple factors, such as market conditions, type of customer, geographies, stage of product lifecycle, internal costs, and gross margin objectives. These factors may vary over time depending upon the unique facts and circumstances related to each deliverable. However, we do not expect the effect of changes in the selling price or method or assumptions used to determine selling price to have a significant effect on the allocation of arrangement consideration.

Our multiple-element arrangements generally do not include performance, cancellation, termination, or refund-type provisions.

Our international strategy includes the use of independent licensees in countries where we do not have a wholly owned operation. Licensee companies are unrelated entities that have been granted a license to translate our content, adapt the content to the local culture, and sell our offerings and products 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. International royalty revenue is reported as a component of training and consulting service sales in our consolidated statements of operations.

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

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 the All Access Pass and its impact on reported 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.

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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. For example, a 10 percent increase to our allowance for doubtful accounts at August 31, 2017 would increase our reported loss from operations by approximately $0.2 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.

Related Party Receivable

At August 31, 2017, we had receivables from FCOP, an entity in which we own 19.5 percent, for reimbursement of certain operating costs and for working capital and other advances, even though we are not obligated to provide advances to, or fund the losses of FCOP. We make use of estimates to account for these receivables, including estimates of the collectability of amounts receivable from FCOP in future periods and, based upon the timing of estimated collections, we were required to classify a portion of the receivable to long-term. In accordance with applicable accounting guidance, we are required to discount the long-term portion of the receivable to its net present value using an estimated effective borrowing rate for FCOP.

We estimated the effective risk-adjusted borrowing rate to discount the long-term portion of the receivable at 15 percent, which was recorded as a discount on a related party receivable in our consolidated statements of operations in certain periods. Our estimate of the effective borrowing rate required us to estimate a variety of factors, including the availability of debt financing for FCOP, projected borrowing rates for comparable debt, and the timing and realizability of projected cash flows from FCOP. These estimates were based on information known at the time of the preparation of these financial statements. A change in the assumptions and factors used, including estimated interest rates, may change the amount of discount taken.

Our assessments regarding the collectability of the FCOP receivable require us to make assumptions and judgments regarding the financial health of FCOP and are dependent on projected financial information for FCOP in future periods. Such financial information contains inherent uncertainties, and is subject to factors that are not within our control. Failure to receive projected cash flows from FCOP in future periods may result in adverse consequences to our liquidity, financial position, and results of operations. For instance, changes in expected cash flows during fiscal 2015 resulted in impaired asset charges and increased discount expense during that fiscal year.

For further information regarding our investment in FCOP, refer to the notes to our financial statements as presented in Item 8 of this report on Form 10-K.

Inventory Valuation

Our inventories are primarily comprised of training materials and related accessories. Inventories are reduced to their fair market value through the use of inventory valuation reserves, which are recorded during the normal course of business. Our inventory valuation calculations contain uncertainties because the calculations require us to make assumptions and judgments regarding a number of factors, including future inventory demand requirements and pricing strategies. During the evaluation process we consider historical sales patterns and current sales trends, but these may not be indicative of future inventory losses. While we have not made material changes to our inventory valuation methodology during the past three years, our inventory requirements may change based on projected customer demand, technological and product life cycle changes, longer or shorter than expected usage periods, and other

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factors that could affect the valuation of our inventories. If our estimates regarding consumer demand and other factors are inaccurate, we may be exposed to losses that may have an adverse impact upon our financial position and results of operations. For example, a 10 percent increase to our inventory valuation reserves at August 31, 2017 would increase our reported loss from operations by $0.1 million.

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, in the third quarter of fiscal 2017 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 product cost of sales in the accompanying consolidated statements of operations for fiscal 2017.

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. During August 2017, we adopted Accounting Standards Update (ASU) 2017-04, Intangibles—Goodwill and Other: Simplifying the Test for Goodwill Impairment. This guidance simplifies the subsequent measurement of goodwill and eliminates the two-step goodwill impairment test. Under the new 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. The amendments also eliminate the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and two-step goodwill impairment test.

We tested goodwill for impairment at August 31, 2017 at the reporting unit level using a quantitative approach. The goodwill impairment testing process involves determining whether the estimated fair value of the reporting unit exceeds its respective book value. If the fair value exceeds the book value, goodwill of that reporting unit is not impaired. If the book value exceeds the fair value, an impairment charge is recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. 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.

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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 2017, we determined that no impairment existed at August 31, 2017, 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 us 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 2017 we recorded $1.9 million of decreases to the fair value of the contingent consideration liability related to a business acquisition from a previous period, which resulted in a corresponding decrease in selling, general, and administrative expenses.

Impairment of Long-Lived Assets

Long-lived tangible assets and definite-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.

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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 definite-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.&#