

FRANKLIN COVEY CO
Form 10-K
November 14, 2016

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

Form 10-K

☐ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED
AUGUST 31, 2016

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

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(Address of principal executive offices, including zip code)

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

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

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

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

None

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

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

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

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

Indicate by check mark 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 26, 2016, the aggregate market value of the Registrant's Common Stock held by non-affiliates of the Registrant was approximately \$172.6 million, which was based upon the closing price of \$17.16 per share as reported by the New York Stock Exchange.

As of October 31, 2016, the Registrant had 13,791,937 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 20, 2017, 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 and Section 21E of the Securities Exchange Act of 1934, as amended, relating to our operations, results of operations, and other matters that are based on our current expectations, estimates, assumptions, and projections. Words such as “may,” “will,” “should,” “likely,” “anticipates,” “expects,” “intends,” “plans,” “projects,” “believes,” “estimates,” and similar expressions are used to identify these forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties, and assumptions that are difficult to predict. Forward-looking statements are based upon assumptions as to future events that might not prove to be accurate. Actual outcomes and results could differ materially from what is expressed or forecast in these forward-looking statements. 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.”

ITEM 1. BUSINESS

General

Franklin Covey Co. (we, us, our, the Company, or FranklinCovey) is a global company specializing in performance improvement. We help organizations achieve results that require a change in human behavior, and our mission is to “enable greatness in people and organizations everywhere.” We believe that our results-driven principle-centered content is a competitive advantage in the marketplace. From the foundational work of Dr. Stephen R. Covey in leadership and Hyrum W. Smith in productivity, 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 have over 870 employees worldwide delivering these principle-based offerings and effectiveness tools to our customers. Our consolidated net sales for the fiscal year ended August 31, 2016 totaled \$200.1 million and our shares of common stock are traded on the New York Stock Exchange (NYSE) under the ticker symbol “FC.”

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 operate three regional sales offices in the United States; an office that specializes in sales to governmental entities; wholly owned subsidiaries in Australia, Japan, and the United Kingdom; and we contract with licensee partners who deliver our content and provide services in over 150 other countries and territories around the world. On September 1, 2016, we opened three new sales offices in China. Our offerings and products were previously sold in China by an independent licensee.

Our business-to-business service utilizes our expertise in training, consulting, and technology that is designed to help our clients define great performance and execute at the highest levels. We also provide clients with training in management skills, relationship skills, and individual effectiveness, and we can provide personal-effectiveness literature and electronic educational solutions to our clients as needed.

During fiscal 2016 we introduced a new way to deliver our content and offerings to our clients. Through the All Access Pass, our clients have access to our world-class offerings and training materials. 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. We believe the flexibility of the All Access Pass will provide significant benefits to our clients and their organizations.

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.

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Services Overview

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. As we deliver our solutions to these problems, we believe there are four important characteristics that distinguish us from our competitors.

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 their 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 operate three regional sales offices in the United States; wholly owned subsidiaries in Australia, Japan, and the United Kingdom; and contract with 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. On September 1, 2016 we opened three new sales offices in China. Our offerings and products were previously sold in China by an independent licensee.
4. Transformational Impact and Reach – We hold ourselves responsible for and measure ourselves by our clients’ achievement of transformational results.

Our content, tools, and methodologies are organized into key practice areas, each offering targeted solutions that are designed to drive positive transformational results. We have divided our offerings into the following seven major practices:

1. Leadership
2. Execution
3. Productivity
4. Trust
5. Sales Performance
6. Customer Loyalty
7. Education

Our practices are designed to provide world-class content and delivery, including best-selling books and audio, innovative and widely recognized thought leadership, multiple delivery and teaching methods, a practice-centric focused sales force, and practice-specific marketing support. 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.

The following description of our practices and associated content describes what our offerings are designed to provide to our clients. The description should not be viewed as a warranty or guarantee of results. 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 a part of this annual report.

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1. Leadership

Dr. Stephen R. Covey, one of our co-founders, once said, “Leadership is communicating to people their worth and potential so clearly that they come to see it in themselves.” Leadership has a profound impact on performance, and is a key lever that mobilizes teams to produce results. We believe that in today’s fast-paced world, the most effective leaders address constant change with timeless principles of effectiveness and unwavering character. Leaders recognize that great leadership is not only about what they do, but about who they are. Franklin Covey’s Leadership practice develops leaders at three levels: personal, team, and organization-wide.

Franklin Covey’s Leadership practice is designed to develop leaders who achieve sustained superior performance, engage employees to achieve the most critical objectives, win the loyalty of customers and other stakeholders, and build a strategic advantage by identifying and making a distinctive contribution. Our key leadership solutions include the following:

The 7 Habits of Highly Effective People®—Signature Program 4.0

Based on the principles found in Dr. Stephen R. Covey’s best-selling business book, *The 7 Habits of Highly Effective People*, this program was re-created and released during fiscal 2014 with refreshed content and new award-winning video presentations. This program is designed to provide training that helps organizations achieve sustained superior results by helping individuals and leaders be measurably more effective. Participants gain hands-on experience, applying timeless principles that yield greater productivity, improved communication, strengthened relationships, increased influence, and laser-like focus on critical priorities.

The 7 Habits for Managers®

FranklinCovey’s *The 7 Habits for Managers* solution teaches the fundamentals of leading today’s mobile knowledge worker. Both new and experienced managers acquire a set of tools to help them meet today’s management challenges, including conflict resolution, prioritization, performance management, accountability and trust, execution, collaboration, and team and employee development.

Leadership: Great Leaders, Great Teams, Great Results™

This comprehensive offering contains the entire core content of Franklin Covey’s Leadership practice. The workshop features videos that present the latest on our own research and thinking, along with the best thinking of other leadership experts.

Leadership Modular Series

Drawn from the content of our leadership-development program, the Leadership Modular Series comprises seven stand-alone modules (of three to four hours in duration) that teach imperatives leaders can apply to create a work environment that addresses the needs of today’s knowledge worker.

Executive Coaching

We offer senior executives a coaching experience created in partnership with Columbia University, which includes methodologies approved by the International Coach Federation (ICF). In one-on-one or team sessions, we leverage content, methodology, and tools to guide leaders in discovering and unleashing the potential they already possess.

2. Execution

Execution remains one of the toughest challenges organizations face today. We believe that our Execution practice provides organizations with the paradigms, practices, and tools to address these challenges. We work directly with leadership teams to help them clarify the few “wildly important goals” that the execution of their strategy requires,

identify the few key measures that lead to the achievement of these goals, create clear and compelling scoreboards, and build a culture and cadence of accountability so that the goals are achieved. Our key execution offerings include:

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The 4 Disciplines of Execution®: Manager Certification

The purpose of manager certification includes helping managers not only develop specific skills, but to also create actual work plans. We help managers leave the session with clearly identified goals and measures, a draft scoreboard for their team, and an accountability plan to help everyone move forward on the goals.

My4DX.com

My4DX.com is designed to fully support the Company's 4 Disciplines of Execution methodology. This versatile on-line service assists organizations in developing and tracking progress on "wildly important goals," and provides a cadence of accountability to both organizations and individuals.

What the CEO Wants You to Know: Building Business Acumen™

This training supports the Execution practice disciplines by helping individuals and teams better understand the financial engine of their business and how they can positively affect it. The material is based on the popular book What the CEO Wants You to Know, by leading CEO and executive coach Ram Charan.

3. Productivity

Another of Franklin Covey's co-founders, Hyrum W. Smith, taught that adherence to specified natural laws of behavior would result in increased productivity and inner peace. In today's fast-paced world of knowledge workers "doing more with less," we believe that workforce productivity and engagement can be a competitive advantage. Franklin Covey's Productivity practice equips individuals, teams, and organizations to consistently make intentional high-value decisions and execute on high-impact goals and projects with excellence in the midst of unlimited choices, demands, and distractions. Our Productivity practice offerings include the following:

The 5 Choices to Extraordinary Productivity™

This program is designed to provide the in-depth skills, knowledge, and attitudes that allow individual contributors, teams, and organizations to be able to identify, validate, and act on what's most important. Instead of trying to get everything done, participants focus on how to get the right things done. This discernment enables them to make wiser decisions, harness technology to enhance workflow, and put their finest attention and energy on executing what matters most.

Project Management Essentials for the Unofficial Project Manager

Today's knowledge workers have quietly slipped into the role of the unofficial project manager. Stakeholder expectations, scope creep, no formal training, and a lack of process all combine to raise the probability of project failure costing organizations time, money, and employee morale. This work session helps participants consistently complete projects successfully by having them learn to implement a disciplined process to execute projects and to master informal authority of people.

Writing Advantage®

The FranklinCovey Writing Advantage program teaches participants how to set quality writing standards that help people increase productivity, resolve issues, avoid errors, and heighten credibility. Participants learn how to write faster with more clarity, and gain skills for revising and fine-tuning every style of document.

Presentation Advantage®

Unproductive meetings and lost opportunities may occur due to poor presentations. The lack of powerful methods to inform and persuade is one of the greatest hidden and pervasive costs of the 21st century workplace. This work session is designed to help participants consistently deliver highly successful presentations.

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4. Trust

We believe that trust is the hallmark of effective leaders, teams, and organizations. Trust-related problems like bureaucracy, fraud, and excessive turnover discourage productivity, divert resources, and chip away at a company's brand. On the other hand, leaders who make building trust an explicit goal of their job gain strategic advantages—accelerating growth, enhancing innovation, improving collaboration and execution, and increasing shareholder value. Our Trust practice is built on The New York Times best-selling book, *The Speed of Trust* by Stephen M. R. Covey, and includes offerings to help leaders and team members develop the competencies to make trust a strategic advantage.

Leading at the Speed of Trust®

This program engages leaders at all levels in identifying and closing the trust gaps in their organization. Instead of paying “trust taxes,” organizations can begin to realize “trust dividends.” We believe that doing business at the “speed of trust” lowers costs, speeds up results, and increases profits and influence.

Working at the Speed of Trust®—For Associates

This workshop helps individual contributors identify and address “trust gaps” in their personal credibility and in their relationships at work. Using examples from their work and focusing on real-world issues, participants discover how to communicate transparently with peers and managers, improve their track record of keeping commitments, focus on improving internal “customer service” with others who depend on their work, and much more.

5. Sales Performance

We believe that sales performance is about helping clients succeed. FranklinCovey provides an approach that delivers the “what to do” and “how to do” for mutual seller/buyer benefits. Through consulting, training, and coaching, our Sales Performance practice helps sales leaders and salespeople act as genuine trusted business advisors who create value and help clients succeed.

Helping Clients Succeed® is a mind-set, skill-set, and tool-set for becoming client-centered. It is a way of thinking, being, and behaving for sales professionals. We believe this content defines a process for creating candid dialogue, fresh thinking, innovative collaboration, and robust execution—with clients and within an organization. With our suite of consultative sales-training solutions, we believe clients can transform their salespeople into trusted business advisors who focus on helping their clients succeed, resulting in increased sales, shortened sales cycles, improved margins, and satisfied clients.

6. Winning Customer Loyalty®

Our Customer Loyalty practice helps leaders of multiunit organizations create a culture where employees are engaged and equipped to deliver great customer experiences. To do this, customer loyalty specialists draw from an array of offerings to craft a solution that works with each company's culture, operating environment, and strategic vision. We have partnered with Frank Reichheld, creator of the Net Promoter System™, to help organizations measure and improve customer and employee loyalty through accurate metrics and world-class training and development.

Our Customer Loyalty practice is designed to help organizations:

- Collect statistically valid feedback from a representative sample of customers and employees.
- Increase the visibility of customer-service metrics so managers get real-time feedback.

•

Apply an accountability process at frontline teams so they deliver exceptional customer service at a much higher percentage of the time.

- Measure and improve employee engagement.

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7. Education

The FranklinCovey Education practice is dedicated to helping educational organizations build a culture that will produce great results. Our offerings address all grade levels and help faculty and students develop the critical leadership and effectiveness skills they will need to succeed in a knowledge-based, networked world.

Primary Education Solutions: The Leader in Me®

The Leader in Me process is designed to be integrated into a school's core curriculum and everyday language. The methodology is designed to become part of the culture, gain momentum, and help to produce improved results year after year. We believe this methodology benefits schools and students in the following ways:

- Increases academic performance.
 - Improves school culture.
 - Decreases disciplinary issues.
- Increases teacher engagement and parent involvement.

Based on Dr. Stephen R. Covey's best-selling book *The 7 Habits of Highly Effective People*, *The Leader in Me* is a whole-school transformation process that integrates principles of leadership and effectiveness into school curriculum using every day, age-appropriate language. At August 31, 2016 there were over 3,000 schools worldwide participating in *The Leader in Me* program and we believe that the positive results experienced by schools around the world are a major reason why the Education practice is one of our fastest growing practices.

Secondary Education Solutions: *The 7 Habits of Highly Effective Teens*®

The Introduction to *The 7 Habits of Highly Effective Teens*® workshop is based on the best-selling book of the same name by Sean Covey and the No. 1 best-selling business book *The 7 Habits of Highly Effective People*, and gives young people a set of tools to deal with life's challenges.

Delivery Methods

We have multiple methods to deliver our world-class content to our clients that are designed to provide our customers with a learning environment that suits their needs. Our primary delivery methods include the following:

- All Access Pass
- Onsite Presentations
- Client Facilitators
- International Licensees
- E-Learning
- Public Workshops
- Custom Solutions
- Media Publishing

All Access Pass

During fiscal 2016, we launched the All Access Pass. The All Access Pass provides an intellectual property license that provides our clients access to our world-class content, assessments, tools, and videos through a web-based portal over a contracted period. Clients may use our well-known complete training programs or use individual portions of numerous offerings to customize a training or personnel solution that addresses specific organizational needs. Clients may also use our trainers and consultants in connection with AAP content and materials to further enhance the

learning experience for their employees.

Onsite Presentations

We employ highly-talented consultants and presenters to deliver our offerings in person at client locations. Based around the world, our consultants represent diverse global industry experience and can tailor their delivery to meet a client's precise needs. Whether the need is for consulting, training, or customized keynote speeches, our consultants can deliver our curriculums to any level

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of an organization, from the C-suite to a team or department. We believe that our delivery consultants provide high-quality services and are a competitive advantage in the marketplace.

Client Facilitators

For organizations seeking cost-effective ways to implement solutions involving large populations of managers and frontline workers, FranklinCovey certifies on-site client facilitators to teach our content and adapt it to their organizational needs. We have thousands of client facilitators around the world who are certified to teach in different content areas. In order to become a client facilitator, an individual must become certified to teach our offerings through a two-step process that is designed to ensure that these trained personnel can deliver our content in a professional and meaningful manner.

International Licensees

In foreign countries where we do not have an office, our content is delivered through independent licensees, who, under strict guidelines, may translate and adapt our offerings to local preferences and customs, if necessary. These licensee partners allow us to deliver the same high quality content to clients that have multinational operations or in countries that have specific cultural requirements. Our licensee partners pay us a royalty based on the programs and content delivered.

E-Learning

Our E-Learning capabilities bring our content to clients in innovative ways that transcend traditional E-learning solutions. Franklin Covey's online offerings allow participants to save travel time and expenses as well as providing the opportunity to view our content in smaller time increments.

Public Workshops

Each year, we offer a number of training events, primarily in the United States and Canada, which are open to the public. Prior to the event, we advertise in the geographic region where the event will be held and participants may register for the events in advance. Interested persons may also search for upcoming workshops based on the desired curriculum and register for these workshops through our website at www.franklincovey.com. In addition, our content is taught by certain professional training firms that also offer events to the public.

Custom Solutions

Whether clients need a program customized, or require a new product developed for their organization, our custom solutions department has the process to build the solution. Content customization builds upon our existing offerings and our clients' unique needs by using a specific process to deliver results and improve training return on investment for our clients.

Media Publishing

Our Media Publishing department extends our influence into both traditional publishing and new media channels. FranklinCovey Media Publishing offers books, e-books, audio products, downloadable and paper-based tools, and content-rich software applications for smart phones and other handheld devices to consumer and corporate markets.

Industry Information

According to the Training magazine 2016 Training Industry Survey, the total size of the U.S. training industry is estimated to be \$70.7 billion, which is essentially flat 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

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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.

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. In addition, we provide training content, measurement services, and implementation tools internationally, either through directly operated offices, or through independent licensed providers.

Segment Information

Our sales are primarily comprised of training and content sales and related products. Effective September 1, 2015, we changed our organizational structure to create four operating divisions, which were determined to be operating segments, and a corporate services group. The following is a brief description of these new reportable segments:

- Direct Offices – This segment consists of our geographic sales offices that serve the United States and Canada; our international sales offices located in Japan, the United Kingdom, and Australia; and our public programs group. This division will include our new sales offices in China that were opened on September 1, 2016.
- Strategic Markets – This segment includes our government services office, the Sales Performance practice, the Customer Loyalty practice, and a new “Global 50” group, which is specifically focused on sales to large, multi-national organizations.
- 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 16).

Clients

We have a relatively broad base of organizational and individual clients. In our direct offices that serve the United States, Canada, Japan, China, Australia, and the United Kingdom, we have more than 5,100 organizational clients consisting of corporations, governmental agencies, educational institutions, and other organizations. 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. Employees in each of our domestic and international distribution channels focus on helping our clients achieve measurably positive results from utilizing our content. Due to the nature of our business, we do not have a significant backlog of firm orders.

During the periods presented in this report, none of our clients were responsible for more than ten percent of our consolidated revenues.

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 2016 consolidated sales of \$200.1 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

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Consulting, Inc., American Management Association, Wilson Learning, Forum Corporation, Corporate Executive Board Co., The Hackett Group, and the Center for Creative Leadership.

We derive our revenues from a variety of companies with a broad range of sales volumes, governments, educational institutions, and other entities. We believe that the principal competitive factors in the industry in which we compete include the following:

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

Given the relative ease of entry into the training market, the number of our competitors could increase, many of whom may imitate existing methods of distribution, or could offer similar content and programs at lower prices. Some of these competitors may have greater financial and other resources than we do. 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 live presentations by our own training consultants, live presentations through Company certified client-employed facilitators, intellectual property licensing and the All Access Pass, 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 solutions 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. Increased competition from existing and future competitors could, however, have a negative impact on our sales and profitability in future fiscal years.

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 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.

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.

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During fiscal 2016 we entered into a three-year contract with HP Enterprise Services (HPE) to provide warehousing and distribution services for our training products and related accessories. Our materials are primarily warehoused and distributed from an HPE 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 550 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 own sole or joint copyrights on our books, manuals, text and other printed information provided in our training programs, and other electronic media products, including audio and video tapes. 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. Although we believe the protective measures with respect to our proprietary rights are important, there can be no assurance that such measures will provide significant protection from competitors.

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 870 associates located in the United States of America, Canada, China, Japan, the United Kingdom, and Australia. 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.

Available Information

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

We regularly file reports with the Securities Exchange Commission (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.

Investors should also be aware that while Franklin Covey does, from time to time, communicate with securities analysts, it is against our policy to disclose to them any material non-public information or other confidential commercial information. Accordingly, shareholders should not assume that the Company agrees with any statement or report issued by any analyst irrespective of the content of the statement or report. Furthermore, we do not confirm financial forecasts or projections issued by others. Thus, to the extent that reports issued by securities analysts contain any projections, forecasts, or opinions, such reports are not the responsibility of Franklin Covey Co.

We operate in an intensely competitive industry and our competitors may develop 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. 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.

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 (or drawn-out recovery) 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

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able to obtain. Such economic, political, and client spending conditions are influenced by a wide range of factors that are beyond our control and that we have no comparative advantage in forecasting. If we are unable to successfully anticipate these changing conditions, we may be unable to effectively plan for and respond to those changes, and our business could be adversely affected.

Our business success also depends in part upon continued growth in the use of training and consulting services and the renewal of existing contracts by our clients. In challenging economic environments, our clients may reduce or defer their spending on new services and consulting solutions in order to focus on other priorities. At the same time, many companies have already invested substantial resources in their current means of conducting their business and they may be reluctant or slow to adopt new approaches that could disrupt existing personnel and/or processes. If growth in the general use of training and consulting services in business or our clients' spending on these items declines, or if we cannot convince our clients or potential clients to embrace new services and solutions, our results of operations could be adversely affected.

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

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.

In fiscal 2016, we introduced the All Access Pass (AAP), which is an internet-based platform that allows our clients to purchase access to a broad base of 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. 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.

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

Our financial success depends, in part, upon our ability to protect our proprietary curriculums 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

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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 changes in services, business practices, or internal systems that 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.

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

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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 in fiscal 2009.

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, 2016 and 2015 we had \$3.2 million and \$4.0 million receivable from FCOP, net of related discount, which are recorded as assets 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.

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.
- 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.

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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 may be negatively affected if we cannot expand and develop our services and solutions in response to client demand or if newly developed or acquired services have increased costs.

Our success depends upon our ability to develop and deliver services and solutions that respond to rapid and continuing changes in client needs. We may not be successful in anticipating or responding to these developments on a timely basis, and our offerings may not be successful in the marketplace. The implementation, acquisition, and introduction of new programs and solutions may reduce sales of our other existing programs and services and may entail more risk than supplying existing offerings to our clients. Newly developed or acquired solutions may also require increased royalty payments or carry significant development costs that must be expensed. Any one of these circumstances may have an adverse impact upon our business and results of operations.

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 dependent, in part, 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.

In order to retain key personnel, we continue to offer a variable component of compensation, the payment of which is dependent upon our sales performance and profitability. We adjust our compensation levels and have adopted different methods of compensation in order to attract and retain appropriate numbers of employees with the necessary skills to serve our clients and grow our business. We may also use share-based performance incentives as a component of our executives' compensation, which may affect amounts of cash compensation. Variations in any of these areas of compensation may adversely impact our operating performance.

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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 \$44.9 million, or approximately 22 percent of consolidated sales, for the fiscal year ended August 31, 2016. On September 1, 2016 we opened three new directly owned sales offices in China. In previous periods, our offerings were sold in China by an independent licensee and we recognized royalty income from these sales. We believe that opening these sales offices in China will increase the amount of revenue generated outside the United States in future periods. 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

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us or our officers, prohibitions on doing business, and damage to our reputation. Violations of these regulations in connection with the performance of our obligations to our clients also could result in liability for monetary damages, fines, unfavorable publicity, and allegations by our clients that we have not performed our contractual obligations. Due to the varying degrees of development of the legal systems of the countries in which we operate, local laws may be insufficient to protect our rights.

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

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

Our common stock is publicly traded on the New York Stock Exchange (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.

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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, held a warrant to purchase 5.9 million shares of our common stock. Knowledge Capital exercised its warrant at various times on a net share basis and received 2.2 million shares of our common stock in addition to stock it already held. 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. Knowledge Capital currently holds 2.8 million shares, or approximately 20 percent, of our outstanding common shares. The sale or prospect of the sale of a substantial number of these shares may have an adverse effect on the market price of our common stock.

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.

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.

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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 and unbilled services 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.

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.

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, 2016 we had \$50.2 million of intangible assets, which were primarily generated from the fiscal 1997 merger with the Covey Leadership Center, and \$19.9 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 unit 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 declines 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.

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

Our line of 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 expansion of the business
- 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 lending arrangement expires on March 31, 2019 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.

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.

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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.

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, 2016, 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. We also lease warehouse and distribution space at independent facilities in certain foreign countries. 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 (4 locations)

International Facilities

International Administrative/Sales Offices:
England (1 location)
Japan (1 location)

International Distribution Facilities:

Australia (1 location)
England (1 location)
Japan (1 location)

During the second quarter of 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. In August 2015, we decided to combine our northeastern and southeastern United States sales regions. In connection with this decision, we closed our northeastern regional sales office located in Pennsylvania. There were no other significant changes to the properties used for our operations for the periods presented in this report. We consider our existing facilities to be in good condition and suitable for our current and anticipated level of operations in the upcoming fiscal year and in future periods.

On September 1, 2016 we opened three sales offices in China. Our offerings and products were previously sold in China by an independent licensee.

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, 2016, 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 for our common stock, as reported by the NYSE, for the fiscal years ended August 31, 2016 and 2015.

	High	Low
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
Fiscal Year Ended August 31, 2015:		
Fourth Quarter	\$ 20.93	\$ 14.39
Third Quarter	20.20	17.03
Second Quarter	20.24	16.68
First Quarter	20.33	18.27

We did not pay or declare dividends on our common stock during the fiscal years ended August 31, 2016 or 2015. 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.

As of October 31, 2016, we had 13,791,937 shares of common stock outstanding, which were held by 556 shareholders of record.

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Purchases of Common Stock

The following table summarizes the purchases of our common stock by monthly fiscal periods during the quarter ended August 31, 2016:

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)
May 29, 2016 to July 2, 2016	-	\$ -	none	\$ 23,803
July 3, 2016 to July 30, 2016	328,209	15.32	328,209	18,775
July 31, 2016 to August 31, 2016	67,500	16.55	67,500	17,658
Total Common Shares	395,709	\$ 15.53	395,709	

- (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 1,291,347 shares of our common stock for \$22.3 million through August 31, 2016.

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

Performance Graph

The following graph demonstrates a five-year comparison of cumulative total returns for Franklin Covey Co. common stock, the S&P SmallCap 600 Index, and the S&P 600 Commercial & Professional Services Index. The graph assumes an investment of \$100 on August 31, 2011 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 Securities Exchange Act of 1934, 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,	2016	2015(1)	2014(1)	2013(1)	2012
In thousands, except per-share data					
Income Statement Data:					
Net sales	\$ 200,055	\$ 209,941	\$ 205,165	\$ 190,924	\$ 170,456
Gross profit	133,154	138,089	138,266	128,989	112,683
Income from operations	13,849	19,529	24,765	21,614	17,580
Income before income taxes	11,911	17,412	21,759	19,398	13,747
Income tax provision	4,895	6,296	3,692	5,079	5,906
Net income	7,016	11,116	18,067	14,319	7,841
Earnings per share:					
Basic	\$.47	\$.66	\$ 1.08	\$.83	\$.44
Diluted	.47	.66	1.07	.80	.43
Balance Sheet Data:					
Total current assets	\$ 89,741	\$ 95,425	\$ 93,016	\$ 81,108	\$ 64,915
Other long-term assets	13,713	14,807	14,785	9,875	9,534
Total assets	190,871	200,645	205,186	189,405	164,080
Long-term obligations	48,511	36,978	36,885	41,100	40,368
Total liabilities	97,156	75,139	78,472	82,899	73,525
Shareholders' equity	93,715	125,506	126,714	106,506	90,555
Cash flows from operating	\$ 32,665	\$ 26,190	\$ 18,124	\$ 15,528	\$ 15,562

activities

- (1) 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 870 employees worldwide are organized to help individuals and organizations achieve sustained superior performance through changes in human behavior. Our expertise extends 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. 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 their own great purposes.
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 operate three regional sales offices in the United States; wholly owned subsidiaries in Australia, Japan, and the United Kingdom; and contract with licensee partners who deliver our offerings and provide services in over 150 other countries and territories around the world. On September 1, 2016, we opened three new sales offices in China and we expect that these offices will add to our global reach and capabilities.

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. 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.

Business Development

All Access Pass

During fiscal 2016, we introduced the All Access Pass (AAP). The All Access Pass provides an intellectual property license to our clients that provides them with access to our world-class content, assessments, tools, and videos through a web-based portal. We believe that the AAP enables our clients to significantly improve their organizations through utilization of well-known established offerings or the use of specific topics and instruction from a variety of offerings to solve their specific organizational challenges.

The launch of the All Access Pass was well received by our existing and potential clients during fiscal 2016. However, based on the nature of AAP sales and applicable accounting guidance for multiple element arrangements, we defer a portion of AAP sales and recognize the deferred portion over the life of the contract. For instance, during fiscal 2016 we invoiced \$23.2 million of AAP contracts and related services and recognized \$15.9 million of this amount as sales. Of the \$8.1 million increase in deferred revenue at August 31, 2016, \$7.3 million was attributable to AAP contracts invoiced during fiscal 2016. Future periods will benefit from the recognition of these deferred revenues.

As our experience with the All Access Pass has continued to evolve, and the necessity of providing regular content updates to our clients has become more evident, subsequent to August 31, 2016, for new contracts we have determined to provide our clients with access to updated content, which requires us to account for future sales of AAP contracts as subscriptions. Accordingly, substantially all AAP contract amounts will be deferred and recognized as revenue over the contracted period. We anticipate that this change in revenue recognition will have a profound impact on reported revenues and operating results as AAP sales grow and the transition of other sale types, such as facilitator sales, to AAP or other intellectual property sales continues in future periods. Accordingly, we believe that reported revenues and operating results will be significantly less during fiscal 2017 when compared with fiscal 2016 financial measures. However, since AAP contracts are invoiced at the inception of the contract, we do not believe that our cash flows from operating activities will be adversely impacted by the increased deferral of AAP revenues.

New China Direct Offices

On September 1, 2016, we opened three new sales offices in China. Prior to fiscal 2017, our offerings were sold in China through an independent licensee. We were able to hire many of the previous licensee's sales and administrative personnel in the transition from a licensee to a directly owned operation. Accordingly, we anticipate that direct office and overall consolidated sales will be favorably impacted by these new offices since we will recognize total sales in China rather than a smaller percentage of sales, which were previously recorded as royalty revenue through our international licensee division. We currently believe that there are potential opportunities for growth and expansion of our offerings in China.

Financial Overview

Compared with fiscal 2015, our consolidated sales and overall financial results for the fiscal year ended August 31, 2016 were significantly impacted by the following items:

- Launch of the All Access Pass – As previously described, we launched the AAP in fiscal 2016 and invoiced our clients for \$23.2 million of AAP services and products. Approximately \$7.3 million of those invoiced contracts remain unrecognized at August 31, 2016 and will benefit future periods. However, the deferral of AAP revenue had an unfavorable impact on our financial results in fiscal 2016 when compared with fiscal 2015 as these deferred revenues also have high gross margins and had a substantial corresponding impact on our operating income during the fiscal year.

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- Large Government Contract – In fiscal 2015, we renewed a contract with a large federal agency and recognized \$6.6 million of revenue from this contract during fiscal 2015. However, due to administrative changes at the federal agency, the contract was not opened for renewal bids in fiscal 2016. We recognized \$3.9 million of operating income from this large government contract in fiscal 2015 that did not repeat during fiscal 2016.
- Foreign Exchange Rates – The U.S. dollar strengthened against many of the functional currencies in which our direct offices and international licensees conduct business. The strengthening U.S. dollar had a \$0.9 million adverse impact on our consolidated sales (primarily during the first two quarters of fiscal 2016) and had a \$0.8 million adverse impact on our operating income. Foreign exchange rate fluctuations did not materially impact our gross profit as \$0.6 million of the adverse foreign exchange impacted our licensee royalty revenues, which do not have a significant cost of sales.

Including the factors noted above, our net sales in fiscal 2016 were \$200.1 million compared with \$209.9 million in fiscal 2015, and \$205.2 million in fiscal 2014. Our fiscal 2016 fourth-quarter sales remained strong and totaled \$64.8 million, which excludes a significant deferral of invoiced AAP contracts. For instance, we invoiced \$73.1 million in the fourth quarter of fiscal 2016 compared with \$70.7 million in the fourth quarter of fiscal 2015. The following table sets forth consolidated sales data by category and by our primary delivery channels (in thousands):

YEAR ENDED AUGUST 31,	2016	Percent change	2015	Percent change	2014
Sales by Category:					
Training and consulting services	\$ 189,661	(5)	\$ 198,695	3	\$ 193,720
Products	6,009	(13)	6,885	(8)	7,518
Leasing	4,385	1	4,361	11	3,927
	\$ 200,055	(5)	\$ 209,941	2	\$ 205,165
Sales by Segment:					
Direct offices	\$ 103,613	(8)	\$ 113,087	(2)	\$ 115,085
Strategic markets	29,778	(20)	37,039	16	31,841
Education practice	40,361	22	33,128	7	30,883
International licensees	17,629	3	17,100	-	17,065
Corporate and other	8,674	(10)	9,587	(7)	10,291
	\$ 200,055	(5)	\$ 209,941	2	\$ 205,165

Our gross profit for fiscal 2016 was \$135.2 million, compared with \$138.1 million in the prior year. The decrease in gross profit was primarily due to sales activity as described above. Our gross margin, which is gross profit as a percent of sales, increased to 67.6 percent compared with 65.8 percent in fiscal 2015. The improvement was primarily due to a change in the mix of sales, which produced increased intellectual property sales, including All Access Pass

sales, and decreased onsite presentations.

Our operating expenses increased \$2.7 million compared with fiscal 2015 primarily due to a \$4.8 million increase in selling, general, and administrative expenses, which was partially offset by a \$1.3 million decrease in impaired asset charges, a \$0.5 million decrease in depreciation expense, and a \$0.5 million decrease in intangible asset amortization expense. The increase in selling, general, and administrative expenses was primarily related to the addition of new sales and sales support personnel; a \$1.5 million increase in the contingent consideration liability from a previous business acquisition; and \$0.6 million of increased non-cash stock-based compensation expense.

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Our income from operations for fiscal 2016 reflected the factors noted above and was \$13.8 million, compared with \$19.5 million in the prior year. Pre-tax income was \$11.9 million for fiscal 2016 compared with \$17.4 million in fiscal 2015. Our effective income tax rate was approximately 41 percent in fiscal 2016 compared with approximately 36 percent in fiscal 2015. During fiscal 2015, we finalized the calculations relating to the amendment of previously filed U.S. 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. Our income tax provision was \$4.9 million in fiscal 2016 compared with \$6.3 million in the prior year. Net income for fiscal 2016 was \$7.0 million, or \$.47 per diluted share, compared with \$11.1 million, or \$.66 per diluted share, in fiscal 2015.

Further details regarding these items can be found in the comparative analysis of fiscal 2016 with fiscal 2015 as discussed within this management's discussion and analysis.

Our liquidity position remained strong during fiscal 2016 and we had \$10.5 million of cash and cash equivalents at August 31, 2016 compared with \$16.2 million at August 31, 2015, with no borrowings on our revolving line of credit at the end of either fiscal 2016 or fiscal 2015. Our net working capital (current assets minus current liabilities) was \$35.7 million at August 31, 2016 compared with \$55.8 million at the end of fiscal 2015.

Our primary source of cash is our ongoing business operations. Cash flows from operating activities increased 25 percent to \$32.7 million in fiscal 2016 compared with \$26.2 million in fiscal 2015. Historically, we have funded our operations, capital purchases, curriculum development, share repurchases, and business acquisitions from our operating activities and from our revolving line of credit facility. Our positive cash flows in fiscal 2016 enabled us to repurchase over \$43 million of our common stock during the year, including a 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 the combination of: (1) creating best-in-class content and solutions in each of our practice areas, and continuing to invest in the refinement and expansion of each of our content categories; and (2) significantly increasing the size and capabilities of our various sales and content-delivery channels are the foundation of our long-term strategic growth plan. Each year we make significant investments in the development and enhancement of our existing content, and the development of new services, features, and products that help individuals and organizations achieve their own great purposes. We expect to continue the introduction of new or refreshed content and delivery methods and consider them key to our long-term success. At the same time, we continue to make substantial investments each year to expand the size and capabilities of our sales and delivery forces to take our solutions to market in a way which attracts and retains client organizations.

One of our key strategic objectives is to consistently deliver quality results to our clients. This initiative is focused on ensuring that our content and offerings are best-in-class, and that they have a measurable, lasting impact on our clients' results. We believe that measurable improvement in our clients' organizations is key to retaining current clients and to obtaining new sales opportunities.

Other key factors that influence our operating results include: the 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.

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Our fiscal year ends on August 31, and unless otherwise indicated, fiscal 2016, fiscal 2015, and fiscal 2014 refer to the twelve-month periods ended August 31, 2016, 2015, 2014, and so forth.

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 before income taxes in our consolidated income statements. This table should be read in conjunction with the following discussion and analysis and the consolidated financial statements, including the related notes to the consolidated financial statements.

YEAR ENDED AUGUST 31,	2016	2015	2014
Sales:			
Training and consulting services	94.8 %	94.6 %	94.4 %
Products	3.0	3.3	3.7
Leasing	2.2	2.1	1.9
Total sales	100.0	100.0	100.0
Cost of sales:			
Training and consulting services	29.6	31.6	30.0
Products	1.6	1.6	1.7
Leasing	1.2	1.0	0.9
Total cost of sales	32.4	34.2	32.6
Gross profit	67.6	65.8	67.4
Selling, general, and administrative			
	56.8	51.8	51.6
Impaired assets	-	0.6	0.1
Restructuring costs	0.4	0.3	-
Depreciation	1.9	2.0	1.7
Amortization	1.6	1.8	1.9
Total operating expenses	60.7	56.5	55.3
Income from operations	6.9	9.3	12.1
Interest income	0.2	0.2	0.2
Interest expense	(1.1)	(1.0)	(1.1)
Discount on related party receivable	-	(0.2)	(0.6)
Income before income taxes	6.0 %	8.3 %	10.6 %

FISCAL 2016 COMPARED WITH FISCAL 2015

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, 2016 is based on activity through our operating segments as shown in the preceding comparative sales table.

Direct Offices – This channel includes our three regional sales offices that serve clients in the United States and Canada; our directly owned international offices in Japan, the United Kingdom, and Australia; and our public program operations. 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

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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 will be 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.

We continue to be encouraged by the initial acceptance and strengthening business pipeline for potential AAP sales. While we expect increased AAP sales to improve overall revenue levels, a portion of AAP sales will continue to be deferred into future periods. As previously mentioned, subsequent to August 31, 2016 we decided to allow clients to have access to content upgrades for new contracts, which generally requires us to account for future AAP contracts on a subscription basis. Accordingly, all invoiced AAP contract amounts will be deferred and recognized as revenue over the contracted service period. We anticipate that this change in revenue recognition will have a profound impact on reported revenues and operating results as AAP sales grow and the transition of other sale types, such as facilitator sales, to AAP or other intellectual property sales continues in future periods. Accordingly, we believe that reported revenues and operating results will be significantly less during fiscal 2017 when compared with fiscal 2016 financial measures for the corresponding periods. However, since AAP contracts are invoiced at the inception of the contract, we do not believe that our cash flows from operating activities will be adversely impacted by the deferral of AAP revenues.

In addition, we expect our newly opened offices in China to increase sales from our direct offices in future periods. Our offerings were previously sold in China through an independent licensee.

Strategic Markets – This division includes our government services office, Sales Performance practice, Customer Loyalty practice, and the new “Global 50” group, which is specifically focused on sales to large, multi-national organizations. The \$7.3 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 – 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. 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. We continue to make substantial investments in new sales personnel for our Education practice and expect that our sales will continue to grow compared with prior periods in the future.

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 royalties increased \$0.5 million as certain of

our licensee partners' sales increased compared

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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. As previously mentioned, effective September 1, 2016, we opened three new sales offices in China and we will recognize actual sales in China rather than royalty revenue on our licensee's sales. Accordingly, we anticipate a significant decrease in total licensee sales during fiscal 2017 when compared with the corresponding periods of fiscal 2016. While we continue to be confident in our other international licensee partners' ability to grow during future periods, a strengthening U.S. dollar may offset all or a portion of their growth in their functional currencies.

Corporate and other – Our “corporate and other” sales are mainly comprised of leasing, books and audio product sales, and shipping and handling revenues. During fiscal 2016, these 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

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 gross profit for the fiscal year ended August 31, 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.

Operating Expenses

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

YEAR ENDED			\$	%
AUGUST 31,	2016	2015	Change	Change
Selling, general, and administrative	\$ 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
Total selling, general, and administrative 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 (SG&A) – 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 earn out liability associated with the acquisition of NinetyFive 5; 3) a \$1.4 million increase in software costs primarily related to our new enterprise resource planning system that is expected to be placed in service during mid-fiscal 2017; 4) a

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\$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 continue to invest in new sales and sales-related personnel and had 204 client partners at August 31, 2016 compared with 180 client partners at August 31, 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.

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. Based on previous property and equipment acquisitions during fiscal 2016 and expected capital additions during fiscal 2017, we expect depreciation expense will total approximately \$3.9 million in fiscal 2017.

Amortization – Our consolidated amortization expense decreased compared with the prior year due to the amortization of previously acquired intangibles, which are amortized more heavily early in their estimated useful lives. Based on current carrying amounts of intangible assets and remaining estimated useful lives, we anticipate amortization expense from intangible assets will total \$2.9 million in fiscal 2017.

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. Consistent with fiscal 2016, we expect our effective income tax rate to remain near statutory rates in future periods.

During fiscal 2016, we paid \$3.4 million in cash for income taxes, which was less than our income tax provision for fiscal 2016 primarily due to our utilization of foreign tax credit carryforwards. 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 if All Access Pass

sales continue to increase. A significant increase in AAP sales will create substantial amounts of deferred revenue both for financial statement and income tax purposes and may result in reduced income before taxes. Accordingly, the time over which we will utilize our foreign tax credit carryforwards and other deferred income tax assets may lengthen, resulting in lower total cash payments for income taxes than our income tax provision amounts over future periods.

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FISCAL 2015 COMPARED WITH FISCAL 2014

Sales

The following sales analysis for the fiscal year ended August 31, 2015 is based on activity through our operating segments as previously described, and as shown in the preceding comparative sales table.

Direct Office Sales – During fiscal 2015, our direct office sales were primarily impacted by a \$1.9 million decrease in sales from our domestic sales offices and by \$3.7 million of adverse foreign exchange rate fluctuations at our foreign direct offices. The decrease over the prior year at our domestic sales offices was primarily due to the successful second quarter fiscal 2014 launch of the re-created 7 Habits Signature Program, which is our best-selling offering worldwide, and \$0.5 million of adverse impact from foreign exchange rates on sales in Canada. During fiscal 2015, we did not launch an offering with such widespread acceptance.

Reported sales from our international direct offices were significantly impacted by the U.S. dollar strengthening against the functional currencies of these offices. The fluctuation in exchange rates produced a \$3.7 million decrease in translated sales when compared with the prior year. Excluding the unfavorable impact of foreign currency translation, sales grew in two of our three international direct offices when compared with the prior year. Our office in the United Kingdom maintained the momentum gained in fiscal 2014 and grew sales by 39 percent (in functional currency), primarily due to a \$1.0 million contract obtained during the first quarter combined with strong growth in new clients and contracts during the year. Despite a slowing economy and weak first quarter performance, our office in Japan increased its sales by one percent in functional currency compared with the same period of fiscal 2014. The weakening Japanese Yen created a \$2.4 million unfavorable impact on translated sales from our Japan office. Sales decreased by \$0.8 million at our office in Australia, of which \$0.6 million was due to the translation of Australian dollars into U.S. dollars. The remaining decrease was primarily due to reduced demand during the first half of fiscal 2015.

Strategic Markets – Sales through our strategic market segment increased \$5.2 million compared with fiscal 2014. The improvement was primarily due to a \$3.5 million increase in government services sales and a \$1.9 million increase in Sales Performance practice revenues. The increase in government service sales was due to 1) the renewal of a large government contract that was obtained during the first quarter of fiscal 2015 and the significant delivery of services on this contract during fiscal 2015; and 2) new contracts obtained with other governmental entities during the year. Our Sales Performance practice grew as a result of increased demand and new contracts for these services during fiscal 2015. Partially offsetting these increases was a \$0.2 million, or two percent, decrease in our Customer Loyalty practice revenues.

Education Practice – Our Education practice sales increased \$2.2 million, or seven percent, compared with fiscal 2014. 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 the increase in Education practice revenues. At August 31, 2015, over 2,500 schools were using The Leader in Me program. We have made substantial investments in new sales and sales support personnel in our Education practice and we expect that our sales will continue to grow compared with prior periods.

International Licensees – Despite the unfavorable effects of a strengthening U.S. dollar during fiscal 2015, certain of our licensees had increased sales, which provided a slight increase in our international licensee sales when compared with fiscal 2014. Foreign exchange rates had a \$1.0 million adverse impact on our international licensee royalty revenues during the fiscal year ended August 31, 2015.

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Corporate and Other – Our other sales decreased primarily due to a \$0.6 million contract that was won in the third quarter of fiscal 2014 and which did not repeat in fiscal 2015 and decreased shipping and handling revenues. These declines were partially offset by additional leasing revenues from new contracts on our corporate campus located in Salt Lake City, Utah.

Gross Profit

Our consolidated gross profit for the fiscal year ended August 31, 2015 was \$138.1 million compared with \$138.3 million in fiscal 2014. Gross profit in fiscal 2015 was adversely impacted by the effects of foreign exchange on translated sales and cost of sales; \$1.3 million of increased capitalized curriculum amortization costs, primarily resulting from fiscal 2014 expenditures to re-create the 7 Habits Signature Program; the mix of offerings sold, including lower intellectual property license sales, which have higher gross margins than the majority of our other offerings; and additional coaches hired during the year to support growth in the Education practice. Our consolidated gross margin for fiscal 2015 reflected the combination of the above factors and was 65.8 percent of sales in fiscal 2015 compared with 67.4 percent in fiscal 2014.

Operating Expenses

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

YEAR ENDED			\$	%
AUGUST 31,	2015	2014	Change	Change
Selling, general, and administrative	\$ 108,802	\$ 105,801	\$ 3,001	3
Impaired assets	1,302	363	939	259
Restructuring costs	587	-	587	n/a
Depreciation	4,142	3,383	759	22
Amortization	3,727	3,954	(227)	(6)
	\$ 118,560	\$ 113,501	\$ 5,059	4

Selling, General and Administrative – Our SG&A expenses during fiscal 2015 increased by \$3.0 million compared with fiscal 2014. The increase in SG&A expenses over the prior year was primarily due to 1) a \$3.7 million increase related to the addition of new sales and sales support personnel in our direct offices and Education practice, and increased commissions on higher sales; 2) fiscal 2014 reductions to estimated contingent earn out payment from the acquisition of Ninety-Five 5 LLC totaling \$1.6 million, which did not repeat in fiscal 2015; and 3) \$1.0 million of increased foreign exchange transaction losses as the U.S. dollar strengthened during the year. The impact of these increases was partially offset by reduced executive short-term incentive bonus expense as specified growth goals were not fully met, by decreased stock-based compensation expense, by the translation of foreign currency denominated expenses into U.S. dollars, and by cost cutting efforts in various 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 – During the fourth quarter of fiscal 2015, we realigned our regional sales offices that serve the United States and Canada. As a result of this realignment, we closed our northeastern regional

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sales office located in Pennsylvania and created three geographic sales regions. In connection with this restructuring, we incurred costs related to involuntary severance and office closure costs totaling \$0.6 million. The majority of these costs were paid prior to August 31, 2015.

Depreciation – Depreciation expense increased by \$0.8 million compared with fiscal 2014 primarily due to the addition of fixed assets, which consisted primarily of computer hardware, software, and leasehold improvements during fiscal 2015 and in the previous year.

Amortization – Our consolidated amortization expense decreased \$0.2 million compared with the prior year due to the amortization of previously acquired intangibles, which are amortized more heavily early in their estimated useful lives.

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 discounted the long-term portion of the FCOP receivable 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. We also adjusted the discount on the long-term portion of our receivables from FCOP in fiscal 2014.

Income Taxes

Our effective tax rate for the fiscal year ended August 31, 2015 was approximately 36 percent compared with approximately 17 percent in fiscal 2014.

Our effective tax rate increased primarily due to the fiscal 2014 recognition of benefits from claiming foreign tax credits instead of foreign tax deductions for fiscal 2008 through fiscal 2010. The net tax benefit of claiming these foreign tax credits totaled \$4.2 million in fiscal 2014. 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. At August 31, 2015 we have amended all available prior year returns to claim foreign tax credits instead of tax deductions.

QUARTERLY RESULTS

The following tables set forth selected unaudited quarterly consolidated financial data for the fiscal years ended August 31, 2016 and 2015. 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, 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	\$.05	\$ (.03)	\$ (.07)	\$.55
Diluted	.05	(.03)	(.07)	.55

YEAR ENDED
AUGUST 31, 2015
(unaudited)

	November 29	February 28	May 30	August 31
Net sales	\$ 47,875	\$ 46,316	\$ 48,306	\$ 67,444
Gross profit	31,204	30,015	30,322	46,547
Selling, general, and administrative	25,699	26,841	25,934	30,327
Impaired assets	-	-	1,082	220
Restructuring costs	-	-	-	587
Depreciation	964	1,040	980	1,158
Amortization	953	953	912	909
Income from operations	3,588	1,181	1,414	13,346
Income before income taxes	3,030	753	753	12,876
Net income	1,828	427	1,191	7,669

Net income per share:

Basic	\$.11	\$.03	\$.07	\$.47
Diluted	.11	.02	.07	.46

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 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 2016, we used a substantial amount of our liquidity and capital resources to acquire outstanding shares of our common stock. During the second quarter of fiscal 2016 we completed a modified Dutch auction tender offer whereby we purchased 1,971,832 shares of our common stock for \$17.75 per share. The total cost of the tender offer, including various professional services fees, was \$35.3 million. We also purchased 531,433 shares of our common stock for \$8.3 million on the open market under the terms of a Board of Director approved plan during the third and fourth quarters of fiscal 2016. We have \$17.7 million remaining under that Board approved common stock purchase plan at August 31, 2016. Our cash balance at August 31, 2016 was \$10.5 million, with no borrowings on our line of credit, compared with \$16.2 million of cash, and no borrowings on the line of credit, at August 31, 2015. As part of the regular renewal of our existing credit facility (refer to discussion below), we

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borrowed \$15.0 million on a promissory note that matures in May 2019 to help finance the acquisition of our common stock during fiscal 2016. For further information regarding the impact on our cash flows from these purchases of our common stock, refer to the discussion entitled “cash flows from financing activities.”

Our net working capital (current assets less current liabilities) was \$35.7 million at August 31, 2016 compared with \$55.8 million at August 31, 2015. The reduction in our working capital was primarily due to reduced cash resulting from the purchases of our common stock during fiscal 2016, a significant increase in deferred revenues primarily from sales of the All Access Pass, and new term-loan borrowing to assist in financing the purchases of our common stock. Of our \$10.5 million in cash at August 31, 2016, \$8.5 million was held outside the U.S. at 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 recently renewed revolving line of credit facility. Our primary uses of liquidity include payments for operating activities, purchases of our common stock, capital expenditures (including curriculum development), 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,	2016	2015	2014
Total cash provided by (used for):			
Operating activities	\$ 32,665	\$ 26,190	\$ 18,124
Investing activities	(6,229)	(4,874)	(17,424)
Financing activities	(32,535)	(14,903)	(2,445)
Effect of exchange rates on cash	321	(662)	(63)
Increase (decrease) in cash and cash equivalents	\$ (5,778)	\$ 5,751	\$ (1,808)

Fifth Modification to 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. The proceeds from the term loans may be used for general corporate purposes.

The Term Loan provided us \$15.0 million at an interest rate of LIBOR plus 1.85% per annum. Interest is payable monthly and principal payments of \$937,500 are due and payable on the first day of each January, April, July, and October until May 2019. The remaining \$3.75 million of principal due at the Term Loan maturity date may be repaid by the Company or converted into another term loan. The Term Loan may also be repaid sooner than May 2019 at the Company’s discretion. Subsequent to August 31, 2016, we obtained an additional term loan with a principal balance of \$5.0 million. Principal payments of \$312,500 are due and payable on the first day of each January, April, July, and

October until October 2019. The other terms and conditions of this term loan are the same (except principal payment amounts) as the Term Loan described above.

The Fifth Modification Agreement preserves existing debt covenants that include (i) a Funded Debt to EBITDAR ratio of less than 3.0 to 1.0; (ii) a Fixed Charge Coverage ratio greater than 1.15 to 1.0 as discussed above; (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

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exceed 150 percent of consolidated accounts receivable. The other key terms and conditions of the Fifth Modification Agreement are substantially the same as those defined in the Restated Credit Agreement. We believe that we were in compliance with the financial covenants and other terms applicable to the Restated Credit Agreement at August 31, 2016.

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.

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, 2016.

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 increased to \$32.7 million for the fiscal year ended August 31, 2016 compared with \$26.2 million in fiscal 2015. Although our net income during fiscal 2016 was reduced by the deferral of a portion of AAP sales, we invoice our clients at the inception of the contracted period and collect invoiced amounts within normal terms. Accordingly, we do not expect our cash flows from operating activities to be unfavorably impacted by increased sales of AAP contracts in future periods.

Although our collections of accounts receivable improved significantly during fiscal 2016, our overall collections continue to be hampered by slower-than-anticipated collections from governmental sales, including Education practice sales, licensees, and longer payment terms on certain services contracts. The longer payment terms granted to certain clients were within our normal credit policy. We anticipate that these longer collection periods may continue in future periods and lengthen our collection cycle.

Cash Flows from Investing Activities and Capital Expenditures

Our cash used for investing activities during fiscal 2016 totaled \$6.2 million. Our primary uses of cash for investing activities included purchases of property and equipment, in the normal course of business, and spending on curriculum development.

Our purchases of property and equipment, which totaled \$4.0 million, consisted primarily of computer software, hardware, and leasehold improvements. We currently anticipate that our purchases of property and equipment will total approximately \$5.4 million in fiscal 2017. However, we are currently in the process of replacing our existing enterprise resource planning software, which may result in increased capital spending compared with current expectations. We currently anticipate that the new enterprise resource planning software will be placed into service in mid-fiscal 2017.

For the fiscal year ended August 31, 2016, we spent \$2.2 million on various curriculums, including significant revisions and development to offerings related to The Leader In Me, which is offered through our Education practice, Customer Loyalty, and for the newly released All Access Pass. Our anticipated spending for capitalized curriculum in fiscal 2017 is expected to be approximately \$8.0 million. During fiscal 2017 we expect to make significant additions to our All Access Pass offerings and various other practices and offerings.

Cash Flows from Financing Activities

In fiscal 2016 we used \$32.5 million of net cash for financing activities. Our primary uses of cash for financing activities consisted of \$35.3 million used to purchase 1,971,832 shares of our common stock in a modified Dutch auction tender offer (as previously described); the purchase of 531,433 shares of our

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common stock for \$8.3 million on the open market under the terms of a Board of Director approved plan; \$2.4 million used for principal payments on our long-term financing obligation and Term Loan; and \$2.2 million for the payment of contingent consideration from the purchase of NinetyFive 5 in a prior period. Partially offsetting these uses of cash were \$15.0 million of proceeds from a term note payable that matures in May 2019 and \$0.7 million of cash received from participants in our employee stock purchase plan. Subsequent to August 31, 2016, we obtained an additional term loan with a principal balance of \$5.0 million.

On January 23, 2015, our Board of Directors approved a new plan to repurchase up to \$10.0 million of the Company's 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 1,291,347 shares of our common stock for \$22.3 million through August 31, 2016. Future purchases of common stock under the terms of this Board approved plan will increase the amount of cash used for financing activities.

During fiscal 2013, we completed the acquisition of NinetyFive 5, an entity that provides sales success training services. The consideration for the acquisition consisted of an initial \$4.2 million payable in four installments through December 2013, and additional potential earn out payments up to a maximum of \$8.5 million based on cumulative EBITDA as set forth in the purchase agreement. Based on significantly improved EBITDA from our sales performance group during the first half of fiscal 2016, we paid the first contingent earn out payment of \$2.2 million in the third quarter of fiscal 2016 and may have to pay additional contingent earn out payments in fiscal 2017. The contingent earn out liability to the former owners of NinetyFive 5 is required to be recorded at fair value based on current and expected EBITDA performance. At August 31, 2016, the fair value of this liability was \$1.9 million, which was recorded as a component of other long-term liabilities in our consolidated balance sheet. The contingent consideration measurement period for this acquisition ends on August 31, 2017.

Sources of Liquidity

We expect to meet our projected capital expenditures, service our existing financing obligation, and meet other working capital requirements during fiscal 2017 from current cash balances, future cash flows from operating activities, and borrowings on our available 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 2019 and we expect to renew the Restated Credit Agreement on a regular basis to maintain the long-term borrowing capacity 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.

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.

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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); term loans payable to our bank; short-term purchase obligations for inventory items and other products and services used in the ordinary course of business; an expected contingent consideration payment to the former owners of NinetyFive 5; minimum operating lease payments for domestic regional and foreign sales office space; and payments to HP Enterprise Services (HPE) for minimum outsourced warehousing and distribution service charges. At August 31, 2016, our expected payments on these obligations over the next five fiscal years and thereafter are as follows (in thousands):

Contractual Obligations	Fiscal 2017	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021	Thereafter	Total
Required lease payments on corporate campus	\$ 3,509	\$ 3,579	\$ 3,651	\$ 3,724	\$ 3,798	\$ 15,157	\$ 33,418
Term Loan payable to bank(1)	4,039	3,949	6,660	-	-	-	14,648
Purchase obligations	5,168	-	-	-	-	-	5,168
NinetyFive 5 contingent consideration payment(2)	-	2,167	-	-	-	-	2,167
Minimum operating lease payments	466	298	307	326	325	362	2,084
Minimum required payments to HPE for warehousing services(3)	216	216	180	-	-	-	612
Total expected contractual obligation payments	\$ 13,398	\$ 10,209	\$ 10,798	\$ 4,050	\$ 4,123	\$ 15,519	\$ 58,097

- (1) Payment amounts shown include interest at 2.4 percent, which is the current rate on our Term Loan obligation.
- (2) The NinetyFive 5 contingent consideration measurement period ends on August 31, 2017, and we currently anticipate the payment amount will be earned in the fourth quarter of fiscal 2017 and paid during the first quarter of fiscal 2018. Actual amounts paid may differ based on the achievement of specified performance objectives.
- (3) Our required minimum payments for warehousing services contains an annual escalation based upon changes in the Employment Cost Index, the impact of which was not estimated in the above table. The warehousing services contract expires in June 2019.

Our contractual obligations presented above exclude unrecognized tax benefits of \$3.0 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.

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

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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 curriculum 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 curriculum, 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. BESP is 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 BESP 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

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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 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 and curriculum, adapt the content and curriculum to the local culture, and sell our training seminars 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 income statements.

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

Share-Based Compensation

Our shareholders have approved performance-based long-term incentive plans (LTIP) that provide for grants of share-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 financial 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. 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.

We have also previously granted share-based compensation awards that have share-price, or market-based, vesting conditions. Accordingly, we used “Monte Carlo” simulation models to determine the fair value and expected service period of these awards. The Monte Carlo pricing models required the input of subjective assumptions, including items such as the expected term of the options. If factors change, and we use different assumptions for estimating share-based compensation expense related to future awards, our share-based compensation expense may differ materially from that recorded in previous periods.

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

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decrease our total allowance for doubtful accounts. For example, a 10 percent increase to our allowance for doubtful accounts at August 31, 2016 would decrease our reported income 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, 2016, 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 income statements. 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 and fiscal 2014 resulted in impaired asset charges and increased discount expense during those periods.

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 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, 2016 would decrease our reported income from operations by \$0.1 million.

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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 was generated by the merger with the Covey Leadership Center 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 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. We tested goodwill for impairment at August 31, 2016 at the reporting unit level using a quantitative approach. The first step of the goodwill impairment testing process (Step 1) involves determining whether the estimated fair value of the reporting unit exceeds its respective book value. In performing Step 1, we compare the carrying amount of the reporting unit to its estimated fair value. If the fair value exceeds the book value, goodwill of that reporting unit is not impaired. 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.

If the Step 1 result concludes that the fair value does not exceed the book value of the reporting unit, goodwill may be impaired and additional analysis is required (Step 2). Step 2 of the goodwill impairment test compares the implied fair value of a reporting unit's goodwill to its carrying value. The implied fair value of goodwill is derived by performing a hypothetical purchase price allocation for the reporting unit as of the measurement date, allocating the reporting unit's estimated fair value to its assets and liabilities, including any recognizable intangible assets. The residual amount from performing this allocation represents the implied fair value of goodwill. To the extent this amount is below the carrying value of goodwill, an impairment loss is recorded.

Under the two-step impairment test, we determine the fair value of our reporting units using both an income approach and a market approach, and weigh both approaches to determine the fair value of each reporting unit. Under the income approach, we perform a discounted cash flow analysis which incorporates our cash flow projections over a five-year period and a terminal value is calculated by applying a capitalization rate to terminal year projections based on an estimated long-term growth rate. The five-year projected cash flows and calculated terminal value are discounted using a weighted average cost of capital (WACC) which takes into account the costs of debt and equity. The cost of equity is based on the risk-free interest rate, equity risk premium, and industry and size equity premiums. To arrive at a fair value for each reporting unit, the terminal value is discounted by the WACC and added to the present value of the estimated cash flows over the discrete five-year period. There are a number of other variables which impacted the projected cash flows, such as expected revenue growth and profitability levels, working capital requirements, capital expenditures, and related depreciation expense. Under the market approach, we perform a comparable public company analysis and apply revenue and earnings multiples from the identified set of companies to the reporting unit's actual and forecasted financial performance to determine the fair value of each reporting unit. We evaluate the reasonableness of the fair value calculations of our reporting units by reconciling the total of the fair values of all our reporting units to our total market capitalization, and adjusting for an appropriate control premium. In addition, we make certain judgments in allocating shared assets and liabilities to determine the carrying values for each of our reporting units.

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

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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 the fiscal 2016 goodwill test, we did not record an impairment charge against our goodwill during fiscal 2016 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.

The acquisition of NinetyFive 5 in fiscal 2013 requires us to reassess the fair value of the contingent earn out payments each reporting period. Although subsequent changes to the contingent consideration liability do not affect the goodwill generated from the acquisition transaction, the valuation of expected contingent consideration 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, we recorded increases totaling \$1.5 million to the fair value of expected contingent consideration payments during fiscal 2016 which resulted in a corresponding increase to 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.

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

We record previously unrecognized tax benefits in the financial statements when it becomes more likely than not (greater than a 50 percent likelihood) that the tax position will be sustained. To assess the

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probability of sustaining a tax position, we consider all available evidence. In many instances, sufficient positive evidence may not be available until the expiration of the statute of limitations for audits by taxing jurisdictions, at which time the entire benefit will be recognized as a discrete item in the applicable period.

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

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

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENT

In November 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. This guidance requires all deferred tax assets and liabilities to be classified as non-current in the statement of financial position. The provisions of ASU No. 2015-17 are effective for annual periods beginning after December 15, 2016, including interim periods within that reporting period. We have elected, as permitted by the guidance, to early adopt ASU No. 2015-17 on a prospective basis as of August 31, 2016 and prior periods were not restated. The adoption of this standard did not have a material effect on our consolidated balance sheet at August 31, 2016.

ACCOUNTING PRONOUNCEMENTS ISSUED NOT YET ADOPTED

On May 28, 2014 the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. This new standard was issued in conjunction with the International Accounting Standards Board (IASB) and is designed to create a single, principles-based process by which all businesses calculate revenue. The new standard replaces numerous individual, industry-specific revenue rules found in U.S. generally accepted accounting principles and is required to be adopted in fiscal years beginning after December 15, 2017 and for interim periods therein. The new standard may be applied using the “full retrospective” or “modified retrospective” approach. As of August 31, 2016, we have not yet determined the method of adoption nor the impact that ASU No. 2014-09 will have on our reported revenue or results of operations.

In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606) - Identifying Performance Obligations and Licensing. The guidance in ASU 2016-10 clarifies aspects of Topic 606 related to identifying performance obligations and the licensing implementation guidance, while retaining the related core principles for those areas. The effective date and transition requirements for ASU 2016-10 are the same as the effective date and transition requirements for Topic 606 (ASU 2014-09) discussed above. While we do not expect the

adoption of ASU 2016-10 to have a material effect on our business, we are evaluating the potential impact that adoption of ASU 2016-10 may have on our financial position, results of operations, and cash flows.

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On February 25, 2016 the FASB issued ASU No. 2016-02, Leases. The new lease accounting standard is the result of a collaborative effort with the IASB (similar to the new revenue standard described above), although some differences remain between the two standards. This new standard will affect all entities that lease assets and will require lessees to recognize a lease liability and a right-of-use asset for all leases (except for short-term leases that have a duration of less than one year) as of the date on which the lessor makes the underlying asset available to the lessee. For lessors, accounting for leases is substantially the same as in prior periods. For public companies, the new lease standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted for all entities. For leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, lessees and lessors must apply a modified retrospective transition approach. While we expect the adoption of this new standard will increase reported assets and liabilities, as of August 31, 2016, we have not yet determined the full impact that the adoption of ASU 2016-02 will have on our financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718) - Improvements to Employee Share-Based Payment Accounting. The guidance in ASU 2016-09 simplifies several aspects of the accounting for stock-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification of items on the statement of cash flows. ASU 2016-09 is effective for public companies' annual periods, including interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted subject to certain requirements, and the method of application (i.e., retrospective, modified retrospective or prospective) depends on the transaction area that is being amended. Following adoption, the primary impact on our consolidated financial statements will be the recognition of excess tax benefits in the provision for income taxes rather than additional paid-in capital, which will likely result in increased volatility in the reported amounts of income tax expense and net income. As of August 31, 2016, we have not completed our evaluation of the impact of ASU 2016-09 on our results of operations or cash flows.

In June 2014, the FASB issued ASU No. 2014-12, Compensation - Stock Compensation (Topic 718). The guidance in ASU No. 2014-12 addresses accounting for stock-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. ASU 2014-12 indicates that, in such situations, the performance target should be treated as a performance condition and, accordingly, the performance target should not be reflected in estimating the grant-date fair value of the award. Instead, compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved. The guidance in ASU 2014-12 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. We do not expect the adoption of ASU 2014-12 in fiscal 2017 will have a material effect on our financial position, results of operations, or cash flows.

REGULATORY COMPLIANCE

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

INFLATION AND CHANGING PRICES

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

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

Certain written and oral statements made by us in this report are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934 as amended (the Exchange Act). Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate, or imply future results, performance, or achievements, and may contain words such as “believe,” “anticipate,” “expect,” “estimate,” “project,” or words or phrases of similar meaning. In our reports and filings we may make forward-looking statements regarding our expectations about future reported revenues and operating results, future sales growth, including the impact of our new China offices, expected introduction of new or refreshed offerings, including additions to the All Access Pass, future training and consulting sales activity, renewal of existing contracts, the release and success of new publications, anticipated expenses, the adequacy of existing capital resources, projected cost reduction and strategic initiatives, expected levels of depreciation and amortization expense, expectations regarding tangible and intangible asset valuation expenses, the seasonality of future sales, the seasonal fluctuations in cash used for and provided by operating activities, future compliance with the terms and conditions of our Restated Credit Agreement, the ability to borrow on, and renew, our Restated Credit Agreement, expectations regarding income tax expenses as well as tax assets and credits and the amount of cash expected to be paid for income taxes, estimated capital expenditures, and cash flow estimates used to determine the fair value of long-lived assets. These, and other forward-looking statements, are subject to certain risks and uncertainties that may cause actual results to differ materially from the forward-looking statements. These risks and uncertainties are disclosed from time to time in reports filed by us with the SEC, including reports on Forms 8-K, 10-Q, and 10-K. Such risks and uncertainties include, but are not limited to, the matters discussed in Item 1A of this annual report on Form 10-K for the fiscal year ended August 31, 2016, entitled “Risk Factors.” In addition, such risks and uncertainties may include unanticipated developments in any one or more of the following areas: unanticipated costs or capital expenditures; difficulties encountered by HP Enterprise Services in operating and maintaining our information systems and controls, including without limitation, the systems related to demand and supply planning, inventory control, and order fulfillment; delays or unanticipated outcomes relating to our strategic plans; dependence on existing products or services; the rate and consumer acceptance of new product introductions; foreign currency exchange rates; competition; the number and nature of customers and their product orders, including changes in the timing or mix of product or training orders; pricing of our products and services and those of competitors; adverse publicity; adverse effects on certain licensee’s performance due to civil unrest in some of the countries where our licensees operate; and other factors which may adversely affect our business.

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

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

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

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk of Financial Instruments

We are exposed to financial instrument market risk primarily through fluctuations in foreign currency exchange rates and interest rates. To manage risks associated with foreign currency exchange and interest rates, we may make limited use of derivative financial instruments. Derivatives are financial instruments that derive their value from one or more underlying financial instruments. As a matter of policy, our derivative instruments are entered into for periods consistent with the related underlying exposures and do not constitute positions that are independent of those exposures. In addition, we do not enter into derivative contracts for trading or speculative purposes, nor are we party to any leveraged derivative instrument. The notional amounts of derivatives do not represent actual amounts exchanged by the parties to the instrument; and thus are not a measure of exposure to us through our use of derivatives. Additionally, we enter into derivative agreements only with highly rated counterparties and we do not expect to incur any losses resulting from non-performance by other parties.

Foreign Exchange Sensitivity

Due to the global nature of our operations, we are subject to risks associated with transactions that are denominated in currencies other than the United States dollar, as well as the effects of translating amounts denominated in foreign currencies to United States dollars as a normal part of the reporting process. The objective of our foreign currency risk management activities is to reduce foreign currency risk in the consolidated financial statements. In order to manage foreign currency risks, we may make limited use of foreign currency forward contracts and other foreign currency related derivative instruments. However, we did not utilize any foreign currency forward or related derivative contracts during fiscal 2016, fiscal 2015, or fiscal 2014.

Interest Rate Sensitivity

Our long-term liabilities primarily consist of term loans payable obtained from the lender on our Restated Credit Agreement, a long-term lease agreement (financing obligation) associated with the sale of our corporate headquarters facility, deferred income taxes, and the fair value of expected contingent consideration payments from the acquisition of NinetyFive 5. Our overall interest rate sensitivity is primarily influenced by any amounts borrowed on term loans or on our revolving line of credit facility, and the prevailing interest rate on these instruments, which may create additional expense if interest rates increase in future periods. The effective interest rate on the term loans and revolving line of credit facility was 2.3 percent at August 31, 2016. At current borrowing levels, a one percent increase in the interest rate on these debt instruments would increase our interest expense in fiscal 2017 by \$0.2 million. Our financing obligation has a payment structure equivalent to a long-term leasing arrangement with a fixed interest rate of 7.7 percent.

During the fiscal years ended August 31, 2016, 2015, and 2014, we were not party to any interest rate swap agreements or similar derivative instruments.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Franklin Covey Co.
Salt Lake City, Utah

We have audited the internal control over financial reporting of Franklin Covey Co. (the “Company”) as of August 31, 2016, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

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

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of August 31, 2016, based on the criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended August 31, 2016 of the Company and our report dated November 14, 2016 expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the Company's early adoption of Financial Accounting Standards Board Accounting Standards Update No. 2015-17, "Balance Sheet Classification of Deferred Taxes," as of August 31, 2016 on a prospective basis.

/s/ Deloitte & Touche LLP

Salt Lake City, Utah
November 14, 2016

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Salt Lake City, Utah

We have audited the accompanying consolidated balance sheet of Franklin Covey Co. (the "Company") as of August 31, 2016, and the related consolidated statements of income and comprehensive income, shareholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Franklin Covey Co. as of August 31, 2016, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company early adopted the Financial Accounting Standards Board Accounting Standards Update No. 2015-17, "Balance Sheet Classification of Deferred Taxes," as of August 31, 2016 on a prospective basis.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of August 31, 2016, based on the criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated November 14, 2016 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Salt Lake City, Utah
November 14, 2016

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REPORT OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Franklin Covey Co.

We have audited the accompanying consolidated balance sheets of Franklin Covey Co. as of August 31, 2015, and the related consolidated statements of income and comprehensive income, shareholders' equity, and cash flows for each of the two years in the period ended August 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Franklin Covey Co. at August 31, 2015, and the consolidated results of its operations and its cash flows for each of the two years in the period ended August 31, 2015, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Salt Lake City, Utah
November 12, 2015

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CONSOLIDATED BALANCE SHEETS

AUGUST 31,	2016	2015
In thousands, except per-share data		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 10,456	\$ 16,234
Accounts receivable, less allowance for doubtful accounts of \$1,579 and \$1,333	65,960	65,182
Receivable from related party	1,933	2,425
Inventories	5,042	3,949
Deferred income tax assets	-	2,479
Prepaid expenses	2,949	2,570
Other assets	3,401	2,586
Total current assets	89,741	95,425
Property and equipment, net	16,083	15,499
Intangible assets, net	50,196	53,449
Goodwill	19,903	19,903
Long-term receivable from related party	1,235	1,562
Other long-term assets	13,713	14,807
	\$ 190,871	\$ 200,645
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of financing obligation	\$ 1,662	\$ 1,473
Current portion of term note payable	3,750	-
Accounts payable	10,376	8,306
Income taxes payable	4	221
Deferred revenue	20,847	12,752
Accrued liabilities	17,418	16,882
Total current liabilities	54,057	39,634
Financing obligation, less current portion	22,943	24,605
Term note payable, less current portion	10,313	-
Other liabilities	3,173	3,802
Deferred income tax liabilities	6,670	7,098
Total liabilities	97,156	75,139
Commitments and contingencies (Notes 6 and 7)		
Shareholders' equity:		
Common stock, \$.05 par value; 40,000 shares authorized, 27,056 shares issued	1,353	1,353
Additional paid-in capital	211,203	208,635

Retained earnings	76,628	69,612
Accumulated other comprehensive income	1,222	192
Treasury stock at cost, 13,332 shares and 10,909 shares	(196,691)	(154,286)
Total shareholders' equity	93,715	125,506
	\$ 190,871	\$ 200,645

See accompanying notes to consolidated financial statements.

Table of ContentsFRANKLIN COVEY CO.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

YEAR ENDED AUGUST 31,	2016	2015	2014
In thousands, except per-share amounts			
Net sales:			
Training and consulting services	\$ 189,661	\$ 198,695	\$ 193,720
Products	6,009	6,885	7,518
Leasing	4,385	4,361	3,927
	200,055	209,941	205,165
Cost of sales:			
Training and consulting services	59,158	66,370	61,474
Products	3,206	3,306	3,502
Leasing	2,537	2,176	1,923
	64,901	71,852	66,899
Gross profit	135,154	138,089	138,266
Selling, general, and administrative	113,589	108,802	105,801
Impaired assets	-	1,302	363
Restructuring costs	776	587	-
Depreciation	3,677	4,142	3,383
Amortization	3,263	3,727	3,954
Income from operations	13,849	19,529	24,765
Interest income	325	383	427
Interest expense	(2,263)	(2,137)	(2,237)
Discount on related-party receivables	-	(363)	(1,196)
Income before income taxes	11,911	17,412	21,759
Provision for income taxes	(4,895)	(6,296)	(3,692)
Net income	\$ 7,016	\$ 11,116	\$ 18,067
Net income per share:			
Basic	\$ 0.47	\$ 0.66	\$ 1.08
Diluted	0.47	0.66	1.07
Weighted average number of common shares:			
Basic	14,944	16,742	16,720
Diluted	15,076	16,923	16,947
COMPREHENSIVE INCOME:			
Net income	\$ 7,016	\$ 11,116	\$ 18,067

Foreign currency translation adjustments, net of income tax benefit (provision) of \$115, \$52, and (\$24)	1,030	(1,259)	(235)
Comprehensive income	\$ 8,046	\$ 9,857	\$ 17,832

See accompanying notes to consolidated financial statements.

Table of ContentsFRANKLIN COVEY CO.
CONSOLIDATED STATEMENTS OF CASH FLOWS

YEAR ENDED AUGUST 31,	2016	2015	2014
In thousands			
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 7,016	\$ 11,116	\$ 18,067
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	6,943	7,875	7,326
Amortization of capitalized curriculum costs	3,865	4,093	2,824
Deferred income taxes	1,854	3,665	(679)
Stock-based compensation expense	3,121	2,536	3,534
Impairment of assets	-	1,302	363
Excess tax expense (benefit) from stock-based compensation	52	(137)	(2,477)
Increase (decrease) of estimated acquisition earn out liability	1,538	35	(1,579)
Changes in assets and liabilities, net of effect of acquired business:			
Increase in accounts receivable, net	(576)	(4,355)	(9,548)
Decrease (increase) in inventories	(908)	2,239	(2,136)
Decrease in receivable from related party	820	620	2,248
Increase in prepaid expenses and other assets	(1,119)	(2,010)	(1,543)
Increase (decrease) in accounts payable and accrued liabilities	2,264	(5,654)	359
Increase in deferred revenue	8,112	2,481	3,287
Increase (decrease) in income taxes payable/receivable	(316)	2,548	(1,347)
Decrease in other long-term liabilities	(1)	(164)	(575)
Net cash provided by operating activities	32,665	26,190	18,124
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	(3,993)	(2,446)	(3,470)

Capitalized curriculum development	(2,236)	(2,166)	(7,787)
Acquisition of business, net of cash acquired	-	(262)	(6,167)
Net cash used for investing activities	(6,229)	(4,874)	(17,424)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from line of credit borrowings	46,454	-	35,331
Payments on line of credit borrowings	(46,454)	-	(35,331)
Proceeds from term notes payable financing	15,000	-	-
Principal payments on term notes payable	(937)	-	-
Principal payments on financing obligation	(1,472)	(1,302)	(1,155)
Purchases of common stock for treasury	(43,586)	(14,427)	(4,381)
Payment of contingent consideration liability	(2,167)	-	-
Income tax benefit (expense) recorded in paid-in capital	(52)	137	2,477
Proceeds from sales of common stock held in treasury	679	689	614
Net cash used for financing activities	(32,535)	(14,903)	(2,445)
Effect of foreign currency exchange rates on cash and cash equivalents	321	(662)	(63)
Net increase (decrease) in cash and cash equivalents	(5,778)	5,751	(1,808)
Cash and cash equivalents at beginning of the year	16,234	10,483	12,291
Cash and cash equivalents at end of the year	\$ 10,456	\$ 16,234	\$ 10,483

Supplemental disclosure of cash flow information:

Cash paid for income taxes	\$ 3,410	\$ 2,383	\$ 6,323
Cash paid for interest	2,231	2,130	2,237

Non-cash investing and financing activities:

Purchases of property and equipment financed by accounts payable	\$ 334	\$ 134	\$ 104
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See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock Shares	Treasury Stock Amount
In thousands							
Balance at August 31, 2013	27,056	\$ 1,353	\$ 210,227	\$ 40,429	\$ 1,686	(10,759)	\$ (147,189)
Issuance of common stock from							
treasury			(9,010)			698	9,624
Purchase of treasury shares						(222)	(4,381)
Unvested share award			(202)			15	202
Stock-based compensation			3,666				
Cumulative translation adjustments					(235)		
Tax benefits recorded in							
paid-in capital			2,477				
Other			(10)			2	10
Net income				18,067			
Balance at August 31, 2014	27,056	1,353	207,148	58,496	1,451	(10,266)	(141,734)
Issuance of common stock from							
treasury			(847)			111	1,536
Purchase of treasury shares						(778)	(14,427)
Unvested share award			(336)			24	336
Stock-based compensation			2,536				
Cumulative translation							