

FranklinCovey All Access Pass[®]

All of FranklinCovey's World-Class Content, Whenever and Wherever You Need It

2018



Annual Report

Mission Statement

We enable greatness in people and organizations everywhere.

Vision

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

Foundational Beliefs

We believe:

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

Values

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



TABLE OF CONTENTS

Letter from the Chairman	2
Financial Highlights	7
Proxy Statement	9
Form 10-K	79
Management's Discussion and Analysis	99
Report of Independent Registered Public Accounting Firm ..	121
Consolidated Financial Statements	123
Notes to Consolidated Financial Statements	127
Corporate Information	Inside Back Cover





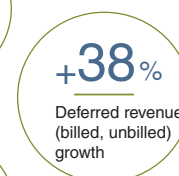
Fellow Shareholders —

Three years ago we set out on the journey to transform our business to a subscription model. This decision resulted in a significant change in our accounting, in our offerings, and in how we engage with our clients. We invested millions of dollars in new content, new solutions, new services, new portals, new implementation specialists, and even a new ERP system to handle our expected growth... and more.

I am delighted to report that as a result of these investments and efforts, the Enterprise Division (which accounts for approximately 80% of our total revenues) crossed the bridge on its business model transition in fiscal 2018. Its revenue grew more than 17%, its gross margin increased 643 basis points, and its EBITDA increased by 96% (\$10.2 million).

This strong growth and performance was driven by the success of our All Access Pass subscription offering:

- All Access Pass and pass-related sales grew \$25.3 million, or 72%.
- Our number of paid All Access Pass subscribers grew 37% to 435,000.
- Deferred Revenue (billed and unbilled) in the Enterprise Division grew 38% to \$55.7 million.



Our All Access Pass revenue is very “sticky.” This stickiness results from the tremendous value our customers are receiving from All Access Pass. It is gratifying to see clients receive such value and impact, that they renew, expand and extend the term of their pass, and purchase add-on services to help them achieve even stronger results.

- Annual revenue retention was more than 90% for the 12th straight quarter.
- Upon renewal, the average All Access passholder organization increased the size of its passholder population by an average of 32%, and increased the average length of its All Access Pass contract by 31%.
- Our customers also purchased additional services to help them achieve their organizational objectives, driving a services attach rate of 44%.

Our 2018 Results: The All Access Pass drove very strong results in the Enterprise Division, which in turn drove strong overall results for FranklinCovey in fiscal 2018.

Enterprise Division Performance: In the Enterprise Division which accounts for nearly 80% of our total revenues, as shown in Table 1, in fiscal 2018:

- Net sales grew 17.2% (\$23.2 million).
- Gross Profit increased 28.2%, driven by the combination of a significant growth in sales, and a 643 basis point increase in Gross Margin to 74.3%, attributable to All Access Pass.
- Of the \$23.2 million increase in revenue, a very strong 44% flowed-through to increased EBITDA. As a result, the Enterprise Division's EBITDA increased to \$20.9 million, from \$10.7 million in fiscal 2017, an increase of +\$10.2 million, or 96%. Almost all of this \$10.2 million increase in EBITDA also flowed-through to a pre-tax contribution to Net Cash Generated.

Importantly, this high double-digit growth in EBITDA and Cash Flow in the Enterprise Division was achieved even after making more than \$10 million in incremental growth investments during fiscal 2018. We expect incremental annual growth investments to be relatively modest in fiscal 2019 and beyond.

The potential for achieving this kind of high EBITDA and high Cash Flow growth drove our decision, three years ago, to convert to this subscription model.

Education Division: Now I'll turn to the fiscal 2018 results in the Education Division, which represents about 20% of our business. Driven by its own *Leader in Me* subscription offering, the Education Division's revenue has grown rapidly and steadily over the last eight years, increasing from \$8.4 million in fiscal 2010 to \$44.1 million in fiscal 2017. In fiscal 2018, however, as shown in Table 2, Education's revenue was up just 2.6%. The primary reason for this apparent slowdown was the expiration of a large six-year funding commitment from a charitable educational foundation focused on funding new *Leader in Me* schools.

Excluding revenue from this Foundation contract in both fiscal 2017 and fiscal 2018 to enable a more apples-to-apples comparison of the two years, Education's revenue would have grown 10% in fiscal 2018, and gross profit would have grown +15%. That the Education Division was able to grow even modestly despite the expiration of this foundation contract is attributable to it having very loyal customers, with an 86% annual school retention rate in its *Leader in Me* subscription model.

During fiscal 2018, the Education Division made significant growth investments in additional sales support infrastructure, new content, and its share of the Company's new ERP system to set the foundation for future growth. While fiscal 2018 wasn't Education's strongest growth year in *reported* revenue, it achieved a 27% increase in the amount of subscription sales it invoiced in fiscal 2018, which will be recognized primarily in fiscal 2019, establishing a positive foundation for growth in fiscal 2019 and beyond. The Education Division's performance has been strong for many years, on both the top and bottom lines, and it still made a significant absolute contribution to the Company's strong overall fiscal 2018 results. Going forward, we expect the Education Division to resume a strong growth trajectory in fiscal 2019 and beyond.

Consolidated Results: Looking now to the Company's overall results for fiscal 2018. As shown in Table 3, the Enterprise Division's very strong performance more than offset the impact of the expiration of the large foundation contract and infrastructure investments in the Education Division, and drove strong overall Company results in fiscal 2018.

- Total Company revenue grew \$24.5 million, or 13.2%, to \$209.8 million.
- Gross Profit increased \$25.6 million, or 20.9%, driven by significantly increased sales, and a 448 basis point increase in Gross Margin to 70.7%.
- Adjusted EBITDA grew \$4.2 million, or 54%, Operating Income increased \$5.5 million, and Net Cash Generated increased 17.5%, or \$2.7 million.

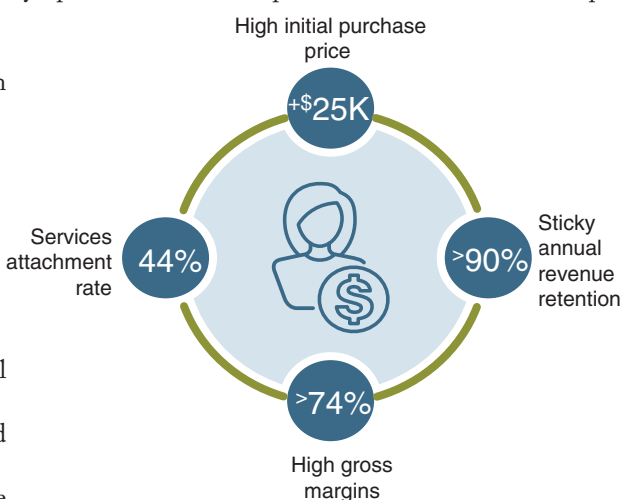
We were very pleased with this strong performance in fiscal 2018!

As a result of our business model transition, we are really becoming a new kind of company: a company that has tens of millions of dollars in recurring, high-margin subscription revenue; a company that can be the leader in the most lucrative and valuable strategic space in the performance improvement industry, with thousands of loyal clients for life; and a company with hundreds of sales people, and dozens of international license partners providing broad reach and deep market penetration.

We also now expect to be a company that will generate very high rates of growth in Adjusted EBITDA and Cash Flow in the coming years. We expect to triple our reported Adjusted EBITDA in just the next three years, from \$11.9 million in fiscal 2018 to \$36 million or more in fiscal 2021. We also expect to generate tens of millions of cash flow in the coming years, a portion of which we expect to invest back in the Company at high rates of return, and return the rest to shareholders in the form of stock repurchases.

Five powerful drivers are expected to accelerate our progress toward these targets:

- The first of these drivers is the high lifetime customer value being driven by All Access Pass' compelling unit economics shown in Figure 1.
- The second driver is the tailwind created by FranklinCovey's position of leadership in the most valuable and impactful strategic space within our industry, that of helping organizations achieve results that require a significant increase in engagement and focus, and a lasting change in human behavior.
- The third driver is our planned aggressive expansion of our sales force. The compelling economics of All Access Pass in the Enterprise Division and of Leader in Me in the Education Division create a strong foundation for accelerated hiring and ramp-up of new sales people.
- The fourth driver is the high flow-through of incremental revenue growth to increases in Adjusted EBITDA and Cash Flow made possible by high gross margins and largely variable incremental selling costs. This means that strong growth in revenue will translate into even more rapid growth in Adjusted EBITDA and cash flow.
- And the fifth driver is the value we can create by investing the significant amounts of excess cash flow we expect to generate back into the business at high rates of return, and returning the balance to shareholders.



While plenty of work remains, we are really energized to have successfully crossed the bridge on our business model transition, and to be aggressively headed “up the mountain.” We are confident that these key drivers will result in greatly accelerated increases in profitability and cash flow in fiscal 2019 and beyond.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Robert A. Whitman". The signature is fluid and cursive, with a prominent initial "R" and a long, sweeping underline.

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

Table 1 (in millions)

Financial Summary	Actual	PY	Change	%
Net Sales	\$159.1	\$135.9	23.2	17.2%
Cost of Sales	41.0	43.7	(2.7)	(6.3%)
Gross Profit	118.2	92.2	26.0	28.2%
Gross Margin %	74.3%	67.8%		643 bps
Operating SG&A	97.3	81.5	15.8	19.4%
Adjusted EBITDA	\$20.9	\$10.7	10.2	96%

Table 2 (in millions)

Financial Summary	Actual	PY	Change	%
Net Sales	\$45.3	\$44.1	1.2	2.6%
Cost of Sales	16.6	16.2	0.4	2.5%
Gross Profit	28.7	27.9	0.7	2.6%
Gross Margin %	63.3%	63.3%		0 bps
Operating SG&A	25.0	20.7	4.3	20.9%
Adjusted EBITDA	\$3.6	\$7.2	(3.6)	

Table 3 (in millions)

Financial Summary	Actual	PY	Change	%
Net Sales	\$209.8	\$185.3	24.5	13.2%
Cost of Sales	61.5	62.6	1.1	1.8%
Gross Profit	148.3	122.7	25.6	20.9%
Gross Margin %	70.7%	66.2%		448 bps
Operating SG&A	136.3	115.0	21.4	18.7%
Adjusted EBITDA	11.9	7.7	4.3	56%
Other SG&A	4.8	9.2	(4.3)	(47.1)
EBITDA	\$7.1	\$(1.5)	8.6	
Depreciation	5.2	3.9	1.3	33.0%
Amortization	5.4	3.5	1.8	51.7%
Operating Income	(3.4)	(8.9)	5.5	

Financial Highlights

August 31,
In thousands, except per share data

Income Statement Data:

	2018	2017	2016	2015	2014
Net sales	\$ 209,758	\$ 185,256	\$ 200,055	\$ 209,941	\$ 205,165
Gross profit	148,289	122,667	133,154	138,089	138,266
Income (loss) from operations	(3,366)	(8,880)	13,849	19,529	24,765
Income (loss) before income taxes	(5,520)	(10,909)	11,911	17,412	21,759
Income tax benefit (provision)	(367)	3,737	(4,895)	(6,296)	(3,692)
Net income (loss)	(5,887)	(7,172)	7,016	11,116	18,067
Net income (loss) per share:					
Basic	\$ (.43)	\$ (.52)	\$.47	\$.66	\$ 1.08
Diluted	(.43)	(.52)	.47	.66	1.07

Balance Sheet Data:

Total current assets	\$ 100,163	\$ 91,835	\$ 89,741	\$ 95,425	\$ 93,016
Other long-term assets	12,935	16,005	13,713	14,807	14,785
Total assets	213,875	210,731	190,871	200,645	205,186
Long-term obligations	50,936	53,158	48,511	36,978	36,885
Total liabilities	133,375	125,666	97,156	75,139	78,472
Shareholders' equity	80,500	85,065	93,715	125,506	126,714
Cash flows from operating activities	\$ 16,861	\$ 17,357	\$ 32,665	\$ 26,190	\$ 18,124

Common Stock Price Range:

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
Fiscal Year Ended August 31, 2018:				
High	\$ 20.95	\$ 31.20	\$ 29.90	\$ 29.60
Low	18.20	18.00	24.10	24.05
Fiscal Year Ended August 31, 2017:				
High	\$ 22.45	\$ 21.45	\$ 22.30	\$ 21.10
Low	15.44	16.95	15.20	17.35

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Proxy Statement



Notice Of Annual Meeting Of Shareholders

To Be Held January 25, 2019

Franklin Covey Co.

You are cordially invited to attend the Annual Meeting of Shareholders of Franklin Covey Co. (the Company), which will be held on Friday, January 25, 2019 at 8:30 a.m., in the Hyrum W. Smith Auditorium, 2200 West Parkway Boulevard, Salt Lake City, Utah 84119-2331 (the Annual Meeting), for the following purposes:

- (i) To elect eight directors to serve until the 2020 annual meeting of shareholders;
- (ii) To hold an advisory vote on executive compensation;
- (iii) To ratify the appointment of Deloitte & Touche, LLP as the Company's independent registered public accountants for fiscal 2019;
- (iv) To approve the Franklin Covey Co. 2019 Omnibus Incentive Plan; and
- (v) To transact such other business as may properly come before the Annual Meeting or at any adjournment or postponement thereof.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting to be Held on January 25, 2019. The proxy statement and annual report to shareholders are available at <http://www.viewproxy.com/FranklinCovey/2019>.

The Board of Directors has fixed the close of business on Friday, November 30, 2018 as the record date for the determination of shareholders entitled to receive notice of and to vote at the Annual Meeting and at any adjournment or postponement thereof.

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

By Order of the Board of Directors,

A handwritten signature in black ink, appearing to read "Robert A. Whitman".

Robert A. Whitman
Chairman of the Board of Directors
December 20, 2018

IMPORTANT

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

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

PROXY STATEMENT

Annual Meeting of Shareholders
January 25, 2019

SOLICITATION OF PROXIES

This Proxy Statement is being made available to the shareholders of Franklin Covey Co., a Utah corporation (us, our, we, FranklinCovey, or the Company), in connection with the solicitation by the board of directors (the Board or Board of Directors) of the Company of proxies from holders of outstanding shares of our Common Stock, \$0.05 par value per share (the Common Stock), for use at our Annual Meeting of Shareholders to be held on Friday, January 25, 2019, at 8:30 a.m., at the Hyrum W. Smith Auditorium, 2200 West Parkway Boulevard, Salt Lake City, Utah 84119-2331, and at any adjournment or postponement thereof. This Proxy Statement, the Notice of Annual Meeting of Shareholders, and the accompanying form of proxy are first being mailed to shareholders of the Company on or about December 21, 2018.

PURPOSE OF THE ANNUAL MEETING

Shareholders of the Company will consider and vote on the following proposals: (i) to elect eight directors to serve until the next annual meeting; (ii) to hold an advisory vote on executive compensation; (iii) to ratify the appointment of Deloitte & Touche, LLP (Deloitte) as our independent registered public accountants for the fiscal year ending August 31, 2019; (iv) to approve the Franklin Covey Co. 2019 Omnibus Incentive Plan (the 2019 Incentive Plan); and (v) to transact such other business as may properly come before the Annual Meeting or at any adjournment or postponement thereof.

COSTS OF SOLICITATION

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

INFORMATION ABOUT VOTING

Who can vote?

The only voting securities that we have outstanding are shares of our Common Stock. Our Board of Directors has fixed the close of business on Friday, November 30, 2018 as the record date for determination of shareholders entitled to notice of, and to vote at, the Annual Meeting (the Record Date). Only shareholders of record at the close of business on the Record Date are entitled to vote at the Annual Meeting. As of the Record Date, there were 13,918,540 shares of our Common Stock issued and outstanding. The holders of record of the shares of our Common Stock on the Record Date are entitled to cast one vote per share on each matter submitted to a vote at the Annual Meeting.

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

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

How can you vote?

You may submit your proxy by mail, telephone, or the Internet. If you are submitting your proxy by mail, you should complete, sign, and date your proxy card and return it in the envelope provided. Sign your name exactly as it appears on the proxy card. If you plan to vote by telephone or the Internet, voting instructions are printed on your proxy card. If you hold your shares through an account with a brokerage firm, bank, or other nominee, please follow the instructions you receive from them to vote your shares. If you provide specific voting instructions, your shares will be voted as you have instructed. Proxy cards submitted by mail must be received by our voting tabulator no later than January 24, 2019 to be voted at the Annual Meeting. You may also vote in person at the Annual Meeting.

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

Shares of Common Stock which are entitled to be voted at the Annual Meeting and which are represented by properly executed proxies will be voted in accordance with the instructions indicated on such proxies. If no instructions are indicated, such shares will be voted (i) **FOR** the election of each of the eight director nominees (Proposal No. 1); (ii) **FOR** the proposal regarding an advisory vote on executive compensation (Proposal No. 2); (iii) **FOR** the ratification of the appointment of Deloitte as our independent registered public accountants for the fiscal year ending August 31, 2019 (Proposal No. 3); (iv) **FOR** the approval of the Franklin Covey Co. 2019 Omnibus Incentive Plan (Proposal No. 4); and in the discretion of the proxy holders as to any other matters as may properly come before the Annual Meeting or at any adjournment or postponement thereof. It is not currently anticipated that any other matters will be presented at the Annual Meeting.

How do I vote at the Annual Meeting?

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

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

No. If you hold your shares in street name and do not give voting instructions to your broker, bank, or other nominee, then your broker, bank, or other nominee may only vote your shares with respect to “discretionary” matters, but may not vote your shares with respect to “non-discretionary” matters. Each of our proposals, except for Proposal No. 3, the ratification of the appointment of our independent registered public accounting firm, are considered “non-discretionary” matters. As a result, if you hold your shares in street name, your broker, bank, or other nominee will not have discretion to vote your shares at the Annual Meeting if you do not provide voting instructions. Accordingly, it is important that street name holders give instructions to their broker, bank, or other nominee by following the voting instructions received from their broker, banker, or other nominee.

May I revoke my vote prior to the Annual Meeting?

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

What is a Quorum?

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

What Vote is Required for a Proposal to be Approved?

Unless a nominee receives a greater number of votes “withheld” or “against” than votes “for” such nominee, the eight nominees receiving the highest number of affirmative votes of the shares entitled to be voted for them, up to the eight directors to be elected by those shares, will be elected as directors to serve until the next annual meeting of shareholders and until their successors are duly elected and qualified. Abstentions and broker non-votes will have no effect on the election of directors.

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

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

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

Approval of the Franklin Covey Co. 2019 Omnibus Incentive Plan, which is Proposal No. 4, requires the number of votes cast in favor of the plan to exceed the number of votes cast against this proposal. Abstentions with respect to this proposal will have the same effect as votes against the plan. Broker non-votes will not have any effect on the outcome of this proposal.

What are the Board’s voting recommendations?

The Board of Directors recommends that you vote “**FOR**” proposal nos. 1, 2, 3 and 4, as further described in this Proxy Statement.

What are broker non-votes?

When a broker, bank, or other nominee has discretion to vote on one or more proposals at a meeting but does not have discretion to vote on other matters at the meeting, the broker, bank, or other nominee will inform the inspector of election

that it does not have the authority to vote on the “non-discretionary” matters with respect to shares held for beneficial owners which did not provide voting instructions with respect to the “non-discretionary” matters. This situation is commonly referred to as a “broker non-vote.”

The Company’s Principal Office and Main Telephone Number

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

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE

Nominees for Election to the Board of Directors

Our Board currently consists of eight directors, six of whom are considered independent. Each of the directors standing for election will serve a one-year term expiring at the next annual meeting of shareholders. At the Annual Meeting, proxies cannot be voted for a greater number of individuals than the eight nominees named in this Proxy Statement.

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

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



Anne H. Chow, 52

Independent Director

Director Since: March 2016

Committees: Member of all standing committees

Other Directorships: None

Ms. Chow is currently President, National Business at AT&T Communications. As President – National Business, Anne leads a team of over 12,000 business professionals who support 95 percent of AT&T’s business customers nationwide. Across all AT&T business segments, Ms. Chow oversees customer experience, management of direct and indirect sales channels, call center support, and DIRECTV FOR BUSINESS. Anne is also responsible for the operating results of the small and medium-sized business market, which includes all of AT&T’s business services, including wireless, networking, and applications, covering over \$13 billion in annual revenues. Since 2000, Ms. Chow has held a variety of leadership positions at AT&T, including Senior Vice President – Global Solutions and Sales Operations and Senior Vice President – Premier Client Group. Throughout her multi-decade career, Ms. Chow has held a variety of leadership positions directing global organizations through major transformations, developing and executing innovative growth strategies while building role model relationships with diverse customers and constituents.

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

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

Director Qualifications: Ms. Chow was appointed to the Company's Board in March 2016. The Company believes that Ms. Chow's strong sales and relationship management background as well as her extensive distribution and global leadership experience provide valuable insight and skills to our Board of Directors. Ms. Chow's significant involvement with various other entities throughout her career provides her with wide-ranging perspective and experience in the areas of management, operations, and marketing.



Clayton M. Christensen, 66

Independent Director

Director Since: March 2004

Committees: None

Other Directorships: Amdocs (NASDAQ)

Dr. Christensen is the Kim B. Clark Professor of Business Administration at the Harvard Business School, where he has been a faculty member since 1992. Dr. Christensen was a Rhodes Scholar and received his Masters of Philosophy Degree from Oxford and his MBA and DBA from the Harvard Business School. He also served as President and Chairman of CPS Technologies from 1984 to 1989. From 1979 to 1984 he worked as a consultant and project manager for the Boston Consulting Group. Dr. Christensen is the founder of Rose Park Advisors, Innosight LLC, and the Christensen Institute for Disruptive Change.

Director Qualifications: Dr. Christensen's research and teaching interests center on building new growth businesses and sustaining the success of companies. His specific area of focus is in developing organizational capabilities. Dr. Christensen is widely recognized as a leader in these fields and his knowledge and valuable insights enable him to make significant contributions to our strategic direction and development of new training and consulting services. Additionally, Clayton's previous work with various companies provides him with a broad perspective in the areas of management and operations.



Michael Fung, 68

Independent Director

Director Since: July 2012

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

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

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

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



Dennis G. Heiner, 75

Lead Independent Director

Director Since: January 1997

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

Other Directorships: None

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

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



Donald J. McNamara, 65

Independent Director

Director Since: June 1999

Committees: None

Other Directorships: Crow Holdings and Enlivant

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

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



Joel C. Peterson, 71

Director

Director Since: May 1997

Committees: None

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

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

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

**E. Kay Stepp, 73**

Independent Director

Director Since: May 1997

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

Other Directorships: None

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

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

**Robert A. Whitman, 65**

Chairman of the Board and Chief Executive Officer

Director Since: May 1997

Committees: None

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

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

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

Corporate Governance

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

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

Board Oversight

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

Affirmative Determination Regarding Board Independence

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

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

Board Leadership Structure

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

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

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

The Board of Director's Role in Risk Management Oversight

The Audit Committee of our Board of Directors has responsibility for the oversight of risk management, while our management team is responsible for the day-to-day risk management process. With the oversight of the Board of Directors, management has developed an enterprise risk management strategy, whereby management identifies the top individual risks that we face with respect to our business, operations, strategy, and other factors that were recognized after discussions with key business and functional leaders and reviews of external information. In addition to evaluating various key risks, management identifies ways to manage and mitigate such risks. During fiscal 2018, management met regularly with the Audit Committee to discuss the identified risks and the efforts that are designed to mitigate and manage these risks. These risks are allocated to the various committees of the Board of Directors to allow the committees to examine a particular risk in detail and assess its potential impact to our operations. For example, the Audit Committee reviews compliance and risk management processes and practices related to accounting and financial reporting matters; the Nominating Committee reviews the risks related to succession planning and the independence of the Board of Directors; and the Organization and Compensation Committee (the Compensation Committee) reviews the risks related to our various compensation plans. In the event that a committee is allocated responsibility for examining and analyzing a specific risk, such committee reports on the relevant risk exposure during its regular reports to the entire Board of Directors.

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

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

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

BOARD OF DIRECTOR COMMITTEES AND MEETINGS

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

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

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

- ■ Committee Chairperson
- ■ Committee Member

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

The Audit Committee

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

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

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

The Nominating Committee

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

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

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

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

The Organization and Compensation Committee

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

The Compensation Committee is chaired by Ms. Stepp and regularly met without any employees present to discuss executive compensation matters, including Mr. Whitman’s compensation package, during fiscal 2018. The primary functions of the Compensation Committee are to:

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

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

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

Compensation Consultants

Within its charter, the Compensation Committee has the authority to engage the services of outside advisors, experts, and others to assist the committee. During fiscal 2018, the Compensation Committee engaged Mercer as compensation consultants. These compensation consultants provided information to the Compensation Committee regarding stock-based compensation plans, executive compensation, and director compensation that were used as components of the overall mix

of information used to evaluate our compensation plans. The Compensation Committee reviewed its relationship with Mercer and has determined that its work has not raised any conflicts of interest. Further information regarding the role of these compensation consultants can be found in the Compensation Discussion and Analysis.

Compensation Committee Interlocks and Insider Participation

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

Commitment of our Directors

Our Board and its standing committees met regularly during fiscal 2018 as shown below.

	Meetings
Board	4
Audit	8
Nominating	4
Compensation	5

In addition to the formal meetings shown above, our Board regularly participated in informal update calls with members of our executive management throughout fiscal 2018.

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

All of the members of our Board of Directors were able to attend at least 75 percent of the Board and committee meetings for which they were entitled to participate except for Ms. Chow who was unable to attend some committee meetings due to scheduling conflicts and her significant responsibilities, including client commitments, associated with her current employment. Although we encourage Board members to attend our Annual Meeting, we do not have a formal policy regarding director attendance at our annual shareholder meetings. Six members of our Board of Directors attended our most recent annual meeting of shareholders, which was held in January 2018.

Director Nomination Process

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

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

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

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

Shareholder Nominations

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

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

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

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

Contractual Rights of Knowledge Capital to Designate Nominees

Under the Amended and Restated Shareholders Agreement dated March 8, 2005, between Knowledge Capital and the Company, we are obligated to nominate one designee of Knowledge Capital for election to the Board of Directors. Donald J. McNamara, a current member of our Board of Directors, is the designee of Knowledge Capital pursuant to this agreement. Upon the mutual agreement of the Company and Knowledge Capital, Robert A. Whitman, the Chairman of the Board of Directors, does not currently serve as a designee of Knowledge Capital. To the extent requested by Knowledge Capital, we are obligated at each meeting of our shareholders at which directors are elected to cause the Knowledge Capital designee to be nominated for election and will solicit proxies in favor of such nominee and vote all management proxies in favor of such nominee except for proxies that specifically are voted to the contrary.

The Amended and Restated Shareholders Agreement also provides that we are obligated, if requested by Knowledge Capital, and to the extent permitted by law and applicable rules of the NYSE, to ensure that at least one designee of Knowledge Capital is a member of all committees of the Board other than any special committee of directors formed as a result of any conflict of interest arising from any Knowledge Capital designee's relationship with Knowledge Capital. Knowledge Capital has not requested that its designee serve on any committees of the Board and Donald J. McNamara does not currently serve on any Board committees.

Communications with Directors

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

Fiscal 2018 Director Compensation

Director compensation is set by the Organization and Compensation Committee and approved by the Board of Directors. The Company's management does not play a role in setting Board Compensation. We compensate members of the Board of Directors using a combination of cash and equity-based compensation. Robert A. Whitman, our Chairman of the Board of Directors and CEO, does not currently receive compensation for his service as a director. The compensation received by Mr. Whitman for his role as Chairman and CEO is shown in the Fiscal 2018 Summary Compensation Table, contained in the Executive Compensation section of this proxy statement.

In fiscal 2018, the other directors were paid the following amounts for services provided:

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

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

Fiscal 2018 Director Compensation Table

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

Amounts reported in column C represent the fair value of stock-based compensation granted to each non-employee member of the Board of Directors. All Board of Director restricted stock awards are made annually in January following the Annual Meeting and have one-year vesting terms. In January 2018, each non-employee member of the Board received a restricted share award of 3,334 shares that had a fair value of \$100,000. The fair value of the stock awards presented in column C was based on a share price of \$30.00 per share, which was the closing price of our common stock on the date that the award was granted. At August 31, 2018, the directors held a total of 23,338 shares of restricted stock. For further information on the calculation used to value the stock awards presented in Column C, refer to Note 11 to our Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended August 31, 2018 as filed with the SEC on November 14, 2018.

Fiscal 2019 Director Compensation

There are no anticipated changes to fiscal 2019 director compensation from amounts previously described.

PRINCIPAL HOLDERS OF VOTING SECURITIES

The following table sets forth information as of October 31, 2018, with respect to the beneficial ownership of shares of Common Stock by each person known by us to be the beneficial owner of more than five percent of our Common Stock, by each director, by the Named Executive Officers, and by all directors and officers as a group. Unless noted otherwise, each person named has sole voting and investment power with respect to the shares indicated. In computing the number of shares of Common Stock beneficially owned by a person or entity and the percentage ownership of that person or entity, we deemed outstanding shares of Common Stock subject to options held by that person or entity that are currently exercisable or exercisable within 60 days of October 31, 2018. We did not deem these shares outstanding, however, for the purpose of computing the percentage ownership of any other person or entity. The percentages set forth below have been computed without taking into account treasury shares held by us and are based on 13,918,219 shares of Common Stock outstanding as of October 31, 2018. At the date of this report, there were no shares of Series A or B Preferred Stock outstanding.

BENEFICIAL OWNERSHIP

	Number of Common Shares	Percentage of Class
As of October 31, 2018		
Donald J. McNamara ⁽¹⁾⁽²⁾⁽⁴⁾ c/o Franklin Covey Co. 2200 West Parkway Blvd. Salt Lake City, UT 84119-2331	3,221,745	23.2%
Knowledge Capital Investment Group ⁽¹⁾ 3899 Maple Ave., Suite 300 Dallas, TX 75219	2,812,805	20.2%
Dimensional Fund Advisors, Inc. ⁽³⁾ 1299 Ocean Avenue Santa Monica, CA 90401	924,979	6.7%
Blackrock, Inc. ⁽³⁾ 55 East 52 nd Street New York, NY 10055	819,056	5.9%
Pembroke Management, LTD ⁽³⁾ 1002 Sherbrooke Street West Suite 1700 Montreal, Canada A8 H3A 354	817,779	5.9%
Robert A. Whitman ⁽⁵⁾	691,915	4.8%
Stephen D. Young ⁽⁵⁾	291,994	2.0%
Joel C. Peterson ⁽⁴⁾	223,487	1.6%
M. Sean Covey	206,000	1.5%
Dennis G. Heiner ⁽⁴⁾	62,463	*0%
E. Kay Stepp ⁽⁴⁾	54,222	*0%
Clayton M. Christensen ⁽⁴⁾	25,254	*0%
Michael Fung ⁽⁴⁾	25,054	*0%
Colleen Dom	19,081	*0%
C. Todd Davis	17,699	*0%
Scott J. Miller	9,130	*0%
Paul S. Walker	8,883	*0%
Anne H. Chow ⁽⁴⁾	4,262	*0%
All directors and executive officers as a group (14 persons) ⁽⁴⁾⁽⁵⁾	4,861,189	33.6%

- (1) Mr. McNamara, who is a director of the Company, is a principal of The Hampstead Group, the private investment firm that sponsors Knowledge Capital, and therefore may be deemed the beneficial owner of the Common Stock held by Knowledge Capital. Mr. McNamara disclaims beneficial ownership of the Common Stock held by Knowledge Capital.
- (2) The share amounts include those held for Donald J. McNamara by the Donald J. and Joan P. McNamara Foundation with respect to 23,000 shares. Mr. McNamara is the trustee of his foundation, having sole voting and dispositive control of all shares held by the foundation, and may be deemed to have beneficial ownership of such shares.
- (3) Information for Dimensional Fund Advisors Inc., Blackrock Inc., and Pembroke Management LTD is provided as of September 30, 2018, the filing of their last 13F Reports.
- (4) The share amounts indicated exclude restricted stock awards currently held by the following persons in the following amounts: Anne H. Chow, 3,334 shares; Clayton M. Christensen, 3,334 shares; Michael Fung, 3,334 shares; Dennis G. Heiner, 3,334 shares; Donald J. McNamara, 3,334 shares; Joel C. Peterson, 3,334 shares; E. Kay Stepp, 3,334 shares; and all directors as a group, 23,338 shares. These restricted stock awards do not have voting power or dividend rights until the shares actually vest to members of the Board of Directors.

- (5) The share amounts indicated include shares subject to options currently exercisable held by the following persons in the following amounts: Robert A. Whitman 437,500 shares; Stephen D. Young 131,250 shares; and all executive officers and directors as a group, 568,750 shares.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our Board and executive officers, and persons who own more than 10 percent of our common stock, to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of the Common Stock and other securities which are derivative of the Common Stock. Executive officers, directors and holders of more than 10 percent of our Common Stock are required by SEC regulations to furnish us with copies of all such reports they file. Based upon a review of the copies of such forms received by us and information furnished by the persons named above, we believe that all reports were filed on a timely basis during fiscal 2018.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Review and Approval of Related Party Transactions

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

Related Party Transactions

We previously acquired CoveyLink Worldwide, LLC (CoveyLink). CoveyLink conducts seminars and training courses and provides consulting based upon the book *The Speed of Trust* by Stephen M.R. Covey, who is the brother of M. Sean Covey. Prior to the acquisition date, CoveyLink had granted us a non-exclusive license related to *The Speed of Trust* book and related training courses for which we paid CoveyLink specified royalties. As part of the CoveyLink acquisition, an amended and restated license of intellectual property was signed that granted us an exclusive, perpetual, worldwide, transferable, royalty-bearing license to use, reproduce, display, distribute, sell, prepare derivative works of, and perform the licensed material in any format or medium and through any market or distribution channel. The amount expensed for these royalties due to Stephen M.R. Covey under the amended and restated license agreement totaled \$1.8 million during the fiscal year ended August 31, 2018. In connection with the CoveyLink acquisition, we also signed a speaking services agreement that pays Stephen M.R. Covey a portion of the speaking revenues received for his presentations. During fiscal 2018 we expensed \$0.9 million for these presentations.

We pay M. Sean Covey, who is also an executive officer of the Company, a percentage of the royalty proceeds received from the sales of certain books authored by him in addition to his salary. During the fiscal year ended August 31, 2018, we expensed \$0.2 million for these royalty payments.

In fiscal 2018, we employed Joshua M.R. Covey, who is the brother of M. Sean Covey, and paid him compensation totaling \$207,959. We also employed Dr. John Covey, an uncle of M. Sean Covey, and paid him compensation totaling \$103,461 during fiscal 2018.

During fiscal 2018 we employed Doug Puzey, who is an uncle of Paul S. Walker, and paid him compensation totaling \$418,317. We employ John Harding, who is the brother-in-law of Stephen D. Young, and paid him compensation totaling \$292,918 in fiscal 2018.

We employ Curtis Bateman, who is Shawn D. Moon's brother-in-law, and paid him compensation totaling \$494,919 during fiscal 2018. Mr. Bateman also received a long-term incentive equity award with a fair value of \$25,000 during fiscal 2018, or 1,299 shares. None of these shares vested to Mr. Bateman during fiscal 2018. In fiscal 2017 we paid Curtis Garbett, who is also a brother-in-law to Shawn D. Moon, compensation totaling \$288,142. Mr. Moon left his full-time role with the Company in September 2017.

Robert A. Whitman, our Chairman of the Board of Directors and CEO, beneficially owns a partnership interest in Knowledge Capital. Donald J. McNamara, a member of our Board of Directors, also beneficially owns a partnership interest in Knowledge Capital. Knowledge Capital beneficially owns 2,812,805 shares of our Common Stock at October 31, 2018.

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

COMPENSATION DISCUSSION AND ANALYSIS

Our Compensation Committee, composed of four independent directors, determined the fiscal 2018 compensation for our named executive officers (NEOs):

- **Robert A. Whitman** — Chairman and Chief Executive Officer (CEO)
- **Stephen D. Young** — Chief Financial Officer (CFO)
- **M. Sean Covey** — Executive Vice President for Global Solutions and Partnerships
- **Paul S. Walker** — Executive Vice President for Global Sales and Delivery and
- **Scott J. Miller** — Executive Vice President for Global Business Development and Marketing

The material elements of our executive compensation programs and policies, including program objectives, reasons for paying each element and the specific amounts of our NEOs' compensation for fiscal 2018, are explained below. Following this description, you will find a series of tables containing more specific information about our NEOs' compensation. We begin with an executive summary to provide a framework for analysis of this information.

Executive Summary

Overview

The Company's multi-year transition from selling engagement-by-engagement training and performance solutions to selling training and performance solutions delivered through a subscription-based business model continued in fiscal 2018. Our new subscription-based business model:

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

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

Throughout the Compensation Discussion and Analysis, we refer to Adjusted EBITDA, a non-GAAP financial measure, which we believe is relevant to understanding our results of operations and compensation performance measures. See Appendix B attached to this proxy statement for a discussion of Adjusted EBITDA and a reconciliation of Adjusted EBITDA to GAAP Net Income (Loss) for fiscal years 2013 to 2018.

Fiscal 2018 Performance

The Company has reached an inflection point where the magnitude and significant growth rate of our subscription business is increasingly offsetting the historical channels. As a result, we expect both our reported and economic revenue growth to continue to accelerate in fiscal 2019 and beyond.

Subscription and subscription-related revenue accounts for more than half of the revenue in our English speaking direct offices, and is expected to substantially increase in the coming years. We expect to be launching our All Access Pass subscription offering (AAP) in China and Japan this coming year. In addition, the vast majority of our Education business is now subscription or subscription-related. The value proposition of our AAP offering is continuing to drive a higher initial sale, a higher rate of revenue renewal, and more add-on sales of services, resulting in a significantly higher lifetime value of our customers. This higher lifetime customer value is expected to drive accelerated growth for our subscription model.

Key Compensation Decisions and Actions for Fiscal 2018

The Compensation Committee made the following key executive compensation decisions and took the following key executive compensation actions for fiscal 2018:

- **Salaries** — Fiscal 2018 salaries for our CEO and Mr. Walker were increased based on our analysis of relevant market data, while salaries for all other NEOs remained at the same levels as in fiscal 2017.
- **Annual Incentive Payments** — Consistent with prior years, the Compensation Committee approved an annual incentive plan for fiscal 2018 that provided for potential cash incentives based on (1) the annual financial performance of the Company, based on Qualified Adjusted EBITDA, which is defined in the Analysis of Fiscal 2018 Compensation Decisions and Actions section of this document (70% of payout) and (2) executive team performance objectives (30% of payout). Based on actual performance, the NEOs received 100% payout for target achievement under the Qualified Adjusted EBITDA performance objectives under the fiscal 2018 annual incentive plan. In addition, the metric-based executive team performance objectives were achieved, resulting in 100% payout of the target executive team performance portion of the annual incentive plan for each NEO for fiscal 2018. Further details of our annual incentive plan for fiscal 2018 are explained in the section below entitled “Annual Performance-Based Variable Pay.”
- **Supplemental Incentive Payment** — The Company made payments to our NEOs during early fiscal 2018 to compensate for unbilled deferred revenue generated from multi-year contracts entered into with clients in fiscal 2017, for which the revenue was not reported in fiscal 2018 results. Further details of these supplemental payments are provided in the section below entitled “Supplemental Incentive Payments.”
- **Long-Term Incentive Awards** — Consistent with prior years, the Compensation Committee granted to each of the NEOs performance-based restricted stock units (RSUs). However, the Compensation Committee also added service-based RSU awards, and the fiscal 2018 long-term incentive plan (LTIP) awards of performance-based RSUs have a different vesting schedule and different performance criteria than the LTIP awards granted in previous years. There are three tranches in the fiscal 2018 LTIP awards, including: a time vested tranche that vests after three years; a tranche for Qualified Adjusted EBITDA performance and a tranche for “subscription sales” performance. The number of shares that vest in each of the Qualified Adjusted EBITDA and subscription sale tranches is based on fiscal 2020 financial results. As of August 31, 2018, all three tranches of the fiscal 2018 RSUs remain unvested. Further details of the performance-based RSUs granted in fiscal 2018 are explained in the section below entitled “Equity Compensation.”

Shareholder-Minded Compensation Practices

The Compensation Committee reviews and considers the views of institutional shareholders and proxy advisory firms on corporate pay practices. In this regard, we reach out to key shareholders to solicit their views on executive compensation and consider the results of our annual “say-on-pay” voting. In order to maintain best practices for compensation, the Compensation Committee has implemented and maintains the following policies:

- **Clawback Policy** — The Board has authority to require reimbursement of any annual or long-term incentive payment made to an executive officer where: (1) the payment was based on achieving financial results that were subsequently the subject of a substantial restatement of Company financial statements filed with the SEC; (2) the Board determines the executive engaged in misconduct that caused the need for the substantial restatement; and (3) a lower payment would have been made to the executive based on the restated financial results. In such instance, the Company expects that it will seek to recover from the individual executive the amount by which the individual executive's incentive payments for the relevant period exceeded the lower payment that would have been made based on the restated financial results.
- **Hedging Policy** — Our directors and executive officers are prohibited from trading in publicly traded options, puts, calls or other derivative instruments related to Company stock or debt. All other employees are discouraged from engaging in hedging transactions related to Company stock.
- **No Repricing Without Shareholder Approval** — Our equity plans expressly prohibit option repricing without shareholder approval.
- **No Excise Tax Gross-ups** — Excise tax gross-ups for our NEOs are prohibited.
- **Stock Ownership Guidelines** — Our stock ownership guidelines require an ownership threshold of five times base salary for our CEO, three times base salary for our CFO and two times base salary for our other NEOs, with each NEO targeted to reach the applicable threshold within five years of the policy becoming applicable to the NEO and from the date the NEO first has shares awarded as part of his or her annual compensation. Unvested share awards are included in calculating whether the required threshold has been achieved. NEOs are prohibited from selling any shares until after these guidelines are met. The Compensation Committee annually reviews executives' progress toward meeting these guidelines. Currently, the stock ownership of each of our CEO, our CFO and Mr. Covey meets or exceeds the applicable threshold. Mr. Walker and Mr. Miller are currently expected to meet their ownership thresholds within the allotted time. In addition, a Board policy requires that each director who is not an employee of the Company must maintain beneficial ownership of the Company's common stock and/or fully vested RSUs equal in value to at least four times the Board cash retainer at all times during his or her tenure on the Board. New directors have up to three years of service on the Board in which to meet this ownership requirement.
- **No Significant Perquisites** — No significant "corporate perquisites" such as country club memberships or automobile allowances are provided to our NEOs.
- **No Employment Agreements for NEOs and Limited Change-in-Control Benefits** — The Company does not enter into employment agreements with its NEOs, and has a change-in-control policy for its NEOs that provides for a potential change-in-control severance benefit of only one times total targeted annual cash compensation without any excise tax gross-ups. Our NEOs are subject to the same general (non-change-in-control) severance policies as all Company employees.
- **Pay for Performance** — The 2018 performance-based awards were designed to incentivize even greater achievement levels in the Company's results of operations, and payout only if these operating improvements are achieved.
- **Efficient Share Utilization** — The Compensation Committee believes that the Company's historical share utilization for compensation purposes has been relatively low; this utilization is expected to remain relatively low in the future.

Consideration of 2018 "Say-On-Pay" Voting Results

At our 2018 Annual Meeting, we held our annual advisory "say-on-pay" vote with respect to the compensation of our NEOs. Over 99% of the votes cast were in favor of the compensation of our NEOs. Our Board of Directors and the Compensation Committee considered and discussed this shareholder vote result during fiscal 2018 and determined not to make significant changes to the existing program for fiscal 2018 specifically as a result of the 2018 say-on-pay vote. The Compensation Committee will, from time to time, explore various executive pay and corporate governance changes to the extent appropriate in an effort to keep our executive compensation program aligned with best practices in our competitive market and the company's particular circumstances, and expects to consider shareholder views in so doing. The Compensation Committee intends to continue holding say-on-pay votes with shareholders on an annual basis, consistent with our shareholders' recommendation from our 2018 Annual Meeting, and the next such vote is scheduled for the 2019 Annual Meeting.

Guiding Philosophy, Principles and Objectives of Our Executive Compensation Program

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

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

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

- *Reflect Performance:* To align compensation with performance over both the short and long term, we establish multi-year objectives for the Company relating both to growth and to the achievement of key strategic objectives. Annual performance targets are established in the context of these multi-year objectives, and for fiscal 2018 consisted primarily of goals for growth in revenue, Adjusted EBITDA and Qualified Adjusted EBITDA. NEO performance pay levels for the year are generally determined by assessing the Company's level of achievement compared to these objectives. Since our NEOs have responsibility for our overall Company performance against these objectives, their compensation can vary (and has varied) significantly from year to year.
- *Encourage Long-Term Company-Wide Focus:* We believe that compensation should encourage and reward both the achievement of annual objectives and longer-term, Company-wide performance improvement. We utilize a service-based and performance-based RSU program to focus NEO efforts on long-term growth in shareholder value. We believe that paying a significant portion of variable compensation to our NEOs in the form of equity-based compensation that vests over a period of time, based on performance, also encourages a long-term, Company-wide focus. Value is realized through delivering results today, but in a way that builds the foundation for delivering even stronger results in the future. We believe that this practice will lead to our NEOs having a considerable investment in our shares over time. This investment in turn advances both a culture of teamwork and partnership, and encourages a stewardship mentality for the Company among our key leaders.
- *Attract and Retain Talent:* We believe that we understand the importance of hiring and retaining the best people. Retention of talented employees is critical to successfully executing our business strategy. We seek to be what we refer to internally as "the workplace of choice for achievers with heart." Successful execution of our business strategy requires that our management team be in place, engaged and focusing their best energy and talents on achieving our business goals and strategies. For us, compensation is not just an overhead expense; it is a key component of the investments we make and costs we incur to generate our revenues. For our delivery consultants, a portion of this compensation cost is reflected as cost of goods sold. In determining the compensation of our NEOs and in reviewing the effectiveness of our compensation program for attracting and retaining talent, the Compensation Committee generally considers the competitive market for talent. We believe that our compensation programs should enable us to attract and retain talented people, and incentivize them to contribute their finest talents to achieving our objectives. We are pleased that our executive officers have an average tenure of over 22 years with our Company (ranging from 17 to 33 years).

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

- Controls on the allocation and overall management of risk-taking;

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

Our compensation framework seeks to balance risk and reward. Our executive team is involved in identifying relevant risks and performance metrics for our business. We work to create a cadence of accountability within our organization through continuous evaluation and measurement of performance compared to what we refer to internally as our “Wildly Important Goals” of achieving profitable growth, meeting strategic objectives and building a winning culture. Based on the considerations discussed above, in connection with its compensation decisions for fiscal 2018, our Compensation Committee concluded that our Company’s compensation program and policies are structured such that they do not encourage imprudent risk-taking, and that there are no risks arising from such programs and policies that are reasonably likely to have a material adverse effect on the Company.

2018 Executive Compensation Program

Our fiscal 2018 executive compensation program incorporated five main elements:

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

Analysis of Fiscal 2018 Compensation Decisions and Actions

Fiscal 2018 Executive Compensation Determination Process

The Compensation Committee determined the form and amount of fixed compensation and established specific performance metrics for determining year-end variable compensation to be awarded to our NEOs for fiscal 2018 considering: (1) our financial performance over the prior year and past several years and expectations for fiscal 2018; (2) the individual and collective performance of our NEOs relative to the achievement of metric-based strategic objectives related to growth in our key practice areas; and (3) in connection with our goal of attracting and retaining the best talent, a general understanding of market compensation practices. In particular, the Compensation Committee reviewed at a general level the following financial metrics and related growth rates in connection with making its key compensation decisions:

- Revenue;
- Adjusted EBITDA and operating income;
- Multi-year changes in operating income, Adjusted EBITDA and specific revenue targets; and
- Achieving high rates of retention for subscription-based revenue.

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

Market Assessment: Our Compensation Committee evaluates our NEO compensation program at a high level against market practices. In 2018, the Committee asked Mercer, the Committee's compensation consultant, to assess our NEO compensation program, identify considerations that could inform compensation decisions and advise as to current market practices, trends and plan designs. Mercer reviewed data from its own research and databases and used this information primarily as supplemental data to assist the Compensation Committee in understanding current market practices related to executive compensation, and not for specific or mathematical benchmarking. In its assessment of our compensation program, Mercer confirmed that the compensation amounts are consistent with market compensation for similar-sized and comparable professional services and content companies, and that the program has been aligned with corporate performance. Further, Mercer advised that the compensation program contains features that reinforce significant alignment with shareholders and a long-term focus, and blends subjective assessment and policies in a way that addresses known and perceived risks.

The Compensation Committee has assessed Mercer's independence, as required under NYSE rules and considered and assessed all relevant factors, including those required by the SEC that could give rise to a potential conflict of interest during fiscal 2018. The Compensation Committee did not identify any conflicts of interest raised by the work performed by Mercer.

In making pay decisions for fiscal 2018, the Compensation Committee considered how executive compensation should drive desired performance toward our business objectives. The Compensation Committee also took into consideration the specific business opportunities and challenges facing the Company compared to those of our competitors and similar sized companies. However, the Compensation Committee did not specifically benchmark elements of compensation when making its fiscal 2018 executive compensation decisions. Finally, the Compensation Committee generally considered the past performance of our NEOs, including performance against previous individual and corporate objectives, expected contribution to future corporate objectives and whether the NEOs' performance was achieved consistent with our governing values. The Compensation Committee made final judgments regarding the appropriate compensation level for each NEO based on these additional inputs.

The following peer group was used for fiscal 2018. These companies were selected based on size, industry and types of professional services offered. Annual revenues for the peer group (which is one of several factors considered in selecting the peers) range from approximately \$163 million to \$767 million. The data for this peer group was discounted due to the overall revenue of the peer group, to be more comparable with our revenue. Since our fiscal 2018 revenues totaled \$209.8 million, we believe with the previously stated discounts, this peer group is appropriate for comparison purposes. This peer group is one of many tools used by the Compensation Committee for assessing executive compensation. The peer group companies for fiscal 2018 were:

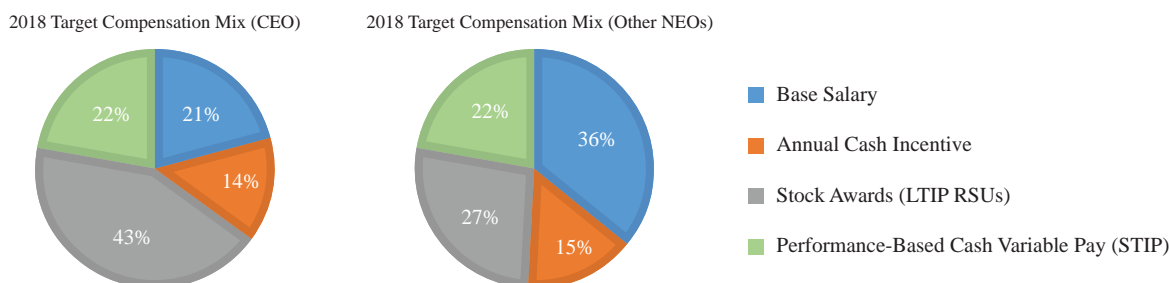
- Cambium Learning Group, Inc.
- CRA International Inc.
- Exponent Inc.
- Forrester Research Inc.
- GP Strategies Corporation
- The Hackett Group, Inc.
- Healthstream, Inc.
- Heidrick & Struggles International, Inc.
- Huron Consulting Group Inc.
- Information Services Group, Inc.
- RCM Technologies, Inc.
- Resources Connection Inc.

As compared to the peer group for fiscal 2017, this peer group added Heidrick & Struggles International, Inc. and Cambium Learning Group, Inc. and eliminated The Advisory Board Company and Callidus Software Inc. based on application of the criteria described above.

Decisions on Key Elements of Fiscal 2018 Executive Compensation

Total Compensation: In addition to the specific elements of compensation discussed below, we establish annual targets for the total compensation provided to our NEOs. Based on the key factors described above, the Compensation Committee established fiscal 2018 total compensation targets of approximately \$2.7 million for our CEO and approximately \$942,000, on average, for our other NEOs, assuming achievement of targeted results under our short and long-term performance-based variable pay plans. The calculation excludes book royalty payments made to Mr. Covey as noted in the Fiscal 2018 Summary Compensation Table.

Total Compensation Mix: The following charts identify the fiscal 2018 target compensation mix for our CEO and average mix for our other NEOs.



Base Salaries

The Company pays a base salary to each of our NEOs to provide a base level of fixed income for services rendered. The Compensation Committee annually reviews base salary market data and if appropriate, will increase base salaries to remain at competitive levels. Based primarily on the Compensation Committee's subjective consideration of the 2018 market data, salaries for our CEO and Mr. Walker were increased, with salaries of all other NEOs remaining at the same levels as in effect in fiscal 2017. The Committee continues to emphasize performance-based variable pay as the means by which NEOs may increase their total compensation.

Annual Performance-Based Variable Pay

Fiscal 2018 Performance-Based Cash Variable Pay Plan: The Company provides annual performance-based cash incentive opportunities to link our NEOs compensation interests to specific financial and strategic goals established by the Compensation Committee. In fiscal 2018, the Performance-Based Cash Variable Pay Plan (STIP) for our NEOs included two components for the payout calculation: (1) Company annual financial performance objectives (70% of payout) and (2) metric-based executive team performance objectives (30% of payout). The target STIP payout opportunities for our NEOs were determined by the Compensation Committee based on the considerations described above as follows: \$575,000 for Mr. Whitman; \$235,000 for Mr. Young and \$200,000 for each of Mr. Covey, Mr. Walker, and Mr. Miller. Mr. Whitman's target STIP payout opportunity increased by \$50,000 from fiscal 2017 to match his base salary increase for fiscal 2018; otherwise, the target STIP payout opportunities remained the same for our NEOs from fiscal 2017. The STIP reinforces our strong pay-for-performance philosophy and rewards the achievement of specific stretch business and financial goals achieved during the fiscal year.

Financial Performance Component: The financial performance threshold necessary for NEOs to earn 100% of the financial performance component of their target STIP payout opportunity in fiscal 2018 was \$12.0 million of Qualified Adjusted EBITDA, which is calculated as Adjusted EBITDA as reported and is adjusted for the impact of foreign exchange and STIP expense up to 100% of target.

In fiscal 2018, Qualified Adjusted EBITDA equaled 14.0 million. Accordingly, the Company achieved the \$12.0 million threshold of financial performance as defined (Qualified Adjusted EBITDA), and as a result 100% payout was made for the financial performance component of the fiscal 2018 annual incentive for each of the NEOs. As further described below, our NEOs also received a payout of 30% of targeted annual incentive pay for the metric-based executive team performance objectives, based on the degree of achievement of the specified strategic objectives as evaluated by the Compensation Committee.

The following table shows the potential payouts to our NEOs based on the degree of attainment of fiscal 2018 STIP Qualified Adjusted EBITDA objectives (and assuming metric-based executive team performance objectives are achieved).

	Pro-rata share of 70% financial performance metric for achieving Qualified Adjusted EBITDA as calculated if > \$7.7 million and < \$12.0million and meeting performance objectives	Targeted Qualified Adjusted EBITDA of \$12.0 million and meeting performance objectives	Pro-rata share of total target opportunity for achieving Qualified Adjusted EBITDA (including STIP expense) if > \$12.0 million and < \$15.0million in and meeting performance objectives	Qualified Adjusted EBITDA (including STIP expense) equal to or greater than \$15 million and meeting performance objectives
Qualified Adjusted EBITDA less than \$7.7 million and not meeting performance objectives	Pro-rata calculation	100%	Pro-rata calculation	200%

Performance Objectives Component: Payout of 100% of the executive team performance objectives component of STIP in fiscal 2018 was based on achievement of key strategic goals established by the Compensation Committee at the beginning of fiscal 2018. While these goals were strategic in nature, and disclosing all details could cause potential competitive harm, they were objectives with specific measures related to the transition to a subscription-based business model as well as recurring AAP revenue. Each key strategic goal was individually weighted based on difficulty and on the effort required to achieve the goal, with most goals weighted between 30% and 40% of this portion of the STIP award opportunity. We believe that the goals established for each NEO were “stretch” goals tied to over-achieving compared to our annual plan in support of the Company’s long-term strategy of building its subscription business. Each goal was typically linked to what we refer to internally as our “Wildly Important Goals” that are cascaded throughout the Company, and progress toward each of these goals was tracked regularly. For fiscal 2018, the metric-based executive team performance objectives component of the STIP were met. Accordingly, the NEOs received a target level of cash compensation for the executive team performance objectives, which cash payment reflected 30% of the total targeted STIP opportunity.

Supplemental Incentive Payments

As described both in our proxy statement for fiscal 2017 and above, the Company’s financial metrics for the STIP in effect during fiscal years 2016, 2017 and 2018 did not take into account unbilled deferred revenue generated from multi-year contracts entered into with clients during those years that is realized in later fiscal years. Because this revenue was deferred, the NEOs did not receive financial performance incentive payouts under the STIP for those years rewarding their performance in achieving this deferred revenue during fiscal 2016, 2017 or 2018. To create more transparency within the STIP structure for fiscal 2018 and going forward, the Company modified the applicable financial metric for the NEOs under the STIP (Qualified Adjusted EBITDA) to operate on a reported basis to include only actual billed revenue from fiscal 2018, and specifically exclude deferred revenue generated in fiscal 2018 that is realized in later fiscal years.

The Company made payments to our NEOs during early fiscal 2018 to reward them for unbilled deferred revenue generated during fiscal 2017 that did not otherwise contribute toward the NEOs’ annual incentive plan payouts for fiscal 2017 (in fact, there was no payout for the financial performance portion of the annual incentive plan for fiscal 2017). These payments recognize the NEOs’ efforts in achieving fiscal 2017 revenue that was deferred into fiscal 2018 or later years. The amounts of such payouts for our NEOs were as follows: \$367,500 for Mr. Whitman; \$164,500 for Mr. Young and \$140,000 for each of Mr. Covey, Mr. Walker and Mr. Miller.

Equity Compensation

We believe that the granting of long-term equity awards over the years has created strong alignment of interest between NEOs and shareholders, as reflected in our strong financial performance from fiscal 2010 through fiscal 2018. The same program and philosophy were reflected in our use of equity awards in fiscal 2018.

Fiscal 2018 Long-Term Incentive Plan (LTIP) — Service-Based and Performance-Based Equity Grants: A significant portion of our NEOs' total targeted compensation for fiscal 2018 was provided in the form of service-based RSUs and performance-based RSUs that vest solely upon the achievement of key financial objectives included in our long-term financial plan over a period of years. If the performance targets are not achieved within the allotted time frame, then the performance-based RSUs are forfeited.

During fiscal 2018, the Compensation Committee granted these service-based and performance-based RSU awards to our NEOs. Shares may be earned under the RSUs based on three components over a three-year vesting period, ending August 31, 2020, as identified below:

- (1) 25% of the total RSUs is time vested and in general will vest on August 31, 2020;
- (2) 70% of the remaining 75% of the total RSUs is based on fiscal 2020 Qualified Adjusted EBITDA performance, as previously defined; and
- (3) 30% of the remaining 75% of the total RSUs is based on fiscal 2020 subscription sales results.

In addition to payout levels for 50%, 100% and 200+% achievement of applicable performance goals, the number of shares paid in settlement of the RSU tranches with financial targets is a pro-rata calculation between a 50% target and a 100% target, and a different pro-rata calculation between 100% target and 200% target. As of August 31, 2018, all three tranches of RSUs granted in fiscal 2018 remain unvested. The targets for the RSUs granted in fiscal 2019 are identified below:

Fiscal 2020 Qualified Adjusted EBITDA

- \$18.0 million (50% target);
- \$25.0 million (100% target); and
- \$30.0 million (200% target).

Fiscal 2020 Subscription Sales

- \$135.0 million (50% target);
- \$150.0 million (100% target); and
- \$160.0 million (200% target).

We believe that our RSU program aligns a significant portion of our executive compensation with increasing value realized by our shareholders. For further information regarding our LTIP awards and other share-based compensation instruments (including applicable performance achievement), please refer to the notes to our financial statements found in our Annual Report on Form 10-K for the fiscal year ended August 31, 2018 and the footnotes to the Outstanding Equity Awards at Fiscal 2018 Year-End table that are provided further below. None of the outstanding RSUs as reported in the fiscal 2017 Compensation Discussion and Analysis were earned during fiscal 2018. Please see the outstanding equity awards section below for additional details relating to the outstanding awards.

Qualified Retirement Benefits: Each of our NEOs participates in the Franklin Covey Co. 401(k) Plan, which is our tax-qualified retirement plan available to all eligible U.S. employees. We match participant contributions dollar-for-dollar on the first 1% of salary contributed to the 401(k) plan and 50 cents on the dollar for the next 4% of salary contributed. Our match for executives is the same received by all associates who participate in the 401(k) plan. Contributions to the 401(k) plan from highly compensated employees are currently limited to a maximum of 7% of compensation, subject to statutory limits.

Other Benefits: The Compensation Committee evaluated the market competitiveness of the executive benefit package to determine the most critical and essential benefits necessary to retain executives. Based on information received from Mercer, the Compensation Committee determined to include executive life insurance for specific NEOs. In addition, the Company agreed to provide our CEO with supplemental disability insurance after he voluntarily terminated his employment agreement with the Company, and in consideration of previous years during which our CEO accepted no compensation.

For fiscal 2018, our Compensation Committee was provided with the estimated value of these items (which value is included in the Fiscal 2018 Summary Compensation Table below), and determined, as in prior years, that these amounts were not material in determining our NEOs' fiscal 2018 compensation.

- *Term Life Insurance:* Franklin Covey provides a portable 20-year term life policy for the CEO and CFO. The coverage amount is approximately 2.5 times each NEO's target annual cash compensation (base salary plus target performance-based cash variable pay).
- *Supplemental Disability Insurance:* We provide our CEO with long-term disability insurance which, combined with our current group policy, provides, in the aggregate, monthly long-term disability benefits equal to approximately 75% of his fiscal 2018 target cash compensation. Our other NEOs may purchase voluntary supplemental disability insurance at their own expense.

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

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

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

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

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

EXECUTIVE COMPENSATION

The Fiscal 2018 Summary Compensation Table below sets forth compensation information for our NEOs relating to fiscal 2018, fiscal 2017 and fiscal 2016, as applicable.

Fiscal 2018 Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	All Other Compensation (\$)	Total (\$)
Robert A. Whitman Chairman and CEO	2018	566,442	367,500	1,150,000	575,000	70,666	2,729,608
	2017	525,000	309,136	1,050,000	157,500	64,906	2,106,542
	2016	525,000	—	1,050,000	78,750	60,568	1,714,318
Stephen D. Young CFO	2018	351,347	164,500	350,000	235,000	16,407	1,117,254
	2017	350,000	126,598	350,000	70,500	15,652	912,750
	2016	350,000	—	350,000	35,250	12,947	748,197
M. Sean Covey EVP Global Solutions and Partnerships	2018	301,153	140,000	200,000	200,000	213,103	1,054,256
	2017	300,000	117,766	200,000	60,000	206,340	884,106
	2016	300,000	—	200,000	30,000	328,710	858,710
Paul S. Walker EVP Global Sales and Delivery	2018	379,546	140,000	300,000	200,000	13,160	1,032,706
	2017	309,500	117,766	200,000	60,000	10,493	697,759
	2016	309,500	—	200,000	30,000	6,071	545,571
Scott Miller EVP Global Business Development & Marketing	2018	301,154	140,000	150,000	200,000	2,889	794,043

Salary: The amounts reported in the “Salary” column for fiscal 2018 represent base salaries paid to each NEO for fiscal 2018. The targeted annual salary rate for Mr. Whitman increased during the year from \$525,000 to \$575,000 and the targeted annual salary rate for Mr. Walker increased from \$309,500 to \$400,000.

Bonus: The amounts reported in the “Bonus” column for fiscal 2018 represent the supplemental incentive payments provided to the NEOs in early fiscal 2018 with respect to recognition of deferred revenue created through the execution of multi-year contracts with our clients in fiscal 2017, which was not billed until fiscal 2018 or will not be billed until later fiscal years. These supplemental payments were calculated using the same formula as was used for prior year’s payouts. These payments are discussed above in the section entitled “Compensation Discussion and Analysis — Analysis of Fiscal 2018 Compensation Decisions and Actions.”

Stock Awards: The amounts reported in the “Stock Awards” column for fiscal 2018 represent the aggregate grant date fair value (computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, or ASC Topic 718), based on the probable outcome of any applicable performance conditions, excluding the effect of estimated forfeitures, for the RSUs granted to NEOs as LTIP awards during fiscal 2018. The probable outcome of the RSUs granted during fiscal 2018 with performance conditions were based on the Company meeting the 100% target for both tranches with financial performance conditions (in other words, fiscal 2020 Qualified Adjusted EBITDA and fiscal 2020 Subscription Sales). If it was probable that the 200% targets would be met, the reported value of the aggregate LTIP RSUs reported for each of the NEOs in this column would be as follows: Mr. Whitman, to \$2,012,500; Mr. Young, to \$612,500; Mr. Covey, to \$350,000; Mr. Walker, to \$525,000 and Mr. Miller, to \$262,500 (for further information regarding these stock awards and the assumptions made in their valuation, refer to Note 11, *Stock-Based Compensation Plans*, to our consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended August 31, 2018).

Non-Equity Incentive Plan Compensation: The amounts reported in the “Non-Equity Incentive Plan Compensation” column for fiscal 2018 represent the amounts paid to each NEO under the STIP for formulaic fiscal 2018 achievement, which is discussed above in the section entitled “Compensation Discussion and Analysis — Analysis of Fiscal 2018 Compensation

Decisions and Actions.” Payouts are based on achieving objectives established annually and meeting annual financial targets. Incentive amounts were approved by the Compensation Committee and were paid following the conclusion of the fiscal year.

All Other Compensation: The amounts reported for fiscal 2018 in the “All Other Compensation” column are set forth in the “Fiscal 2018 All Other Compensation Table” below.

Name	Year	Company Contributions to 401(k) Plan ^(a) (\$)	Executive Life Insurance Premiums ^(b) (\$)	Executive Disability Premiums ^(c) (\$)	Other (\$)	Total (\$)
Mr. Whitman	2018	7,962	8,084	50,778	3,842	70,666
Mr. Young	2018	8,504	4,409	—	3,494	16,407
Mr. Covey	2018	8,171	—	—	204,932 ^(d)	213,103
Mr. Walker	2018	9,868	—	—	3,292	13,160
Mr. Miller	2018	—	—	—	2,889	2,889

- (a) We match dollar-for-dollar the first 1% of salary contributed to the 401(k) plan and 50 cents on the dollar of the next 4% of salary contributed. Our match for executives is the same match received by all associates who participate in the 401(k) plan.
- (b) For the CEO and CFO, we maintain an executive life insurance policy with a face value of approximately 2.5 times their target annual cash compensation. These amounts show the annual premiums paid for each 20-year term executive life insurance policy.
- (c) We provide Mr. Whitman with long-term disability insurance which, combined with our current group policy, provides, in the aggregate, monthly long-term disability benefits equal to approximately 75% of his fiscal 2018 target cash compensation. The amount shows the premiums paid for Mr. Whitman’s supplemental long-term disability coverage.
- (d) For Mr. Covey, this amount includes approximately \$202,000 of royalties earned during fiscal 2018 from books he authored that are used in our training and education businesses.

Fiscal 2018 Grants of Plan-Based Awards

The following table sets forth the plan-based awards that were granted to our NEOs in fiscal 2018. We granted three types of awards in fiscal 2018: annual incentive-based cash awards identified in the table as STIP; long-term LTIP equity awards in the form of service-based RSUs and long-term LTIP equity awards in the form of performance-based RSUs.

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (#)	Grant Date Fair Value of Stock and Option Awards ^(c) (\$)
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)		
Mr. Whitman									
STIP ^(a)	—	—	575,000	1,150,000	—	—	—	—	—
LTIP RSUs ^(b)	11/14/2017	—	—	—	22,403	44,806	89,610	—	862,500
LTIP RSUs ^(c)	11/14/2017	—	—	—	—	—	—	14,935	287,500
Mr. Young									
STIP ^(a)	—	—	235,000	470,000	—	—	—	—	—
LTIP RSUs ^(b)	11/14/2017	—	—	—	6,818	13,636	27,273	—	262,500
LTIP RSUs ^(c)	11/14/2017	—	—	—	—	—	—	4,545	87,500
Mr. Covey									
STIP ^(a)	—	—	200,000	400,000	—	—	—	—	—
LTIP RSUs ^(b)	11/14/2017	—	—	—	3,896	7,793	15,584	—	150,000
LTIP RSUs ^(c)	11/14/2017	—	—	—	—	—	—	2,597	50,000
Mr. Walker									
STIP ^(a)	—	—	200,000	400,000	—	—	—	—	—
LTIP RSUs ^(b)	11/14/2017	—	—	—	4,773	9,546	19,091	—	183,750
LTIP RSUs ^(c)	11/14/2017	—	—	—	—	—	—	3,182	61,250
LTIP RSUs ^{(b)(d)}	01/25/2018	—	—	—	679	1,357	2,714	—	41,250
LTIP RSUs ^{(c)(d)}	01/25/2018	—	—	—	—	—	—	452	13,750
Mr. Miller									
STIP ^(a)	—	—	200,000	400,000	—	—	—	—	—
LTIP RSUs ^(b)	11/14/2017	—	—	—	2,922	5,844	11,688	—	112,500
LTIP RSUs ^(c)	11/14/2017	—	—	—	—	—	—	1,948	37,500

(a) These amounts relate to the STIP for the annual performance period ending August 31, 2018. For additional information regarding the STIP, see the section above entitled “Compensation Discussion and Analysis — Analysis of Fiscal 2018 Compensation Decisions and Actions.” The actual payouts made to the NEOs for this program are reflected in the “Non-Equity Incentive Plan Compensation” column of the Fiscal 2018 Summary Compensation Table above.

(b) These amounts relate to the LTIP awards granted to the NEOs in the form of performance-based RSUs, which vest in general based on fiscal 2020 Qualified Adjusted EBITDA and fiscal 2020 subscription sales achievement. Payout for these awards is expected, if at all, after August 31, 2020. For additional information about these equity awards, see the section entitled “Compensation Discussion and Analysis — Analysis of Fiscal 2018 Compensation Decisions and Actions” above.

(c) These amounts relate to the LTIP awards granted to the NEOs in the form of service-based RSUs, which vest in general on August 31, 2020. For additional information about these equity awards, see the section entitled “Compensation Discussion and Analysis — Analysis of Fiscal 2018 Compensation Decisions and Actions” above.

(d) Mr. Walker was granted an additional award with the same restrictions as the awards granted on 11/14/17. The additional award was approved as a result of a change in Mr. Walker’s overall targeted compensation.

- (e) The amounts reported in the “Grant Date Fair Value of Stock and Option Awards” column for fiscal 2018 represent the aggregate grant date fair values (computed in accordance with ASC Topic 718), based on the probable outcome of any applicable performance conditions, excluding the effect of estimated forfeitures, for the RSUs granted to NEOs as LTIP awards. For the performance-based RSUs, the fair value on the grant date was based on the probable outcome that only the target award would vest.

Employment and Change-in-Control Severance Agreements

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

Outstanding Equity Awards at Fiscal 2018 Year-End

The following equity awards granted to our NEOs were outstanding as of August 31, 2018.

Name	Grant Date	Option Awards			Stock Awards			Equity Incentive
		Number of Securities Underlying Unexercised Options (#) Exercisable ^(a)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$) ^(h)	Equity Incentive Plan Awards: Number of Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Un-earned Shares, Units or Other Rights That Have Not Vested (\$) ^(h)
Mr. Whitman	11/14/17	—	—	—	—	—	89,610 ^(b)	2,294,016
	11/14/17	—	—	—	14,935 ^(c)	382,336	—	—
	10/18/16	—	—	—	—	—	27,146 ^(d)	694,938
	11/12/15	—	—	—	—	—	33,980 ^(e)	869,888
	11/21/14	—	—	—	—	—	25,350 ^(f)	648,960
	11/21/13	—	—	—	—	—	22,116 ^(g)	566,170
	9/28/11	—	—	—	—	—	—	—
	1/28/11	62,500	9.00	1/28/2021	—	—	—	—
	1/28/11	62,500	10.00	1/28/2021	—	—	—	—
	1/28/11	62,500	12.00	1/28/2021	—	—	—	—
	1/28/11	62,500	14.00	1/28/2021	—	—	—	—
	1/28/10	62,500	10.00	1/28/2020	—	—	—	—
	1/28/10	62,500	12.00	1/28/2020	—	—	—	—
1/28/10	62,500	14.00	1/28/2020	—	—	—	—	
Mr. Young	11/14/17	—	—	—	—	—	27,273 ^(b)	698,189
	11/14/17	—	—	—	4,545 ^(c)	116,352	—	—
	10/18/16	—	—	—	—	—	9,048 ^(d)	231,629
	11/12/15	—	—	—	—	—	11,326 ^(e)	289,946
	11/21/14	—	—	—	—	—	8,450 ^(f)	216,320
	11/21/13	—	—	—	—	—	6,740 ^(g)	172,544
	9/28/11	—	—	—	—	—	—	—
	1/28/10	43,750	10.00	1/28/2020	—	—	—	—
	1/28/10	43,750	12.00	1/28/2020	—	—	—	—
1/28/10	43,750	14.00	1/28/2020	—	—	—	—	
Mr. Covey	11/14/17	—	—	—	—	—	15,584 ^(b)	398,950
	11/14/17	—	—	—	2,597 ^(c)	66,483	—	—
	10/18/16	—	—	—	—	—	5,170 ^(d)	132,352
	11/12/15	—	—	—	—	—	6,472 ^(e)	165,683
	11/21/14	—	—	—	—	—	4,828 ^(f)	123,597
	11/21/13	—	—	—	—	—	3,510 ^(g)	89,856
Mr. Walker	01/25/18	—	—	—	—	—	2,714 ^(b)	69,478
	01/25/18	—	—	—	452 ^(c)	11,571	—	—
	11/14/17	—	—	—	—	—	19,091 ^(b)	488,730
	11/14/17	—	—	—	3,182 ^(c)	81,459	—	—
	10/18/16	—	—	—	—	—	5,170 ^(d)	132,352
	11/12/15	—	—	—	—	—	6,472 ^(e)	165,683
Mr. Miller	11/14/17	—	—	—	—	—	11,688 ^(b)	299,213
	11/14/17	—	—	—	1,948 ^(c)	49,869	—	—
	10/18/16	—	—	—	—	—	3,878 ^(d)	99,277
	11/12/15	—	—	—	—	—	4,854 ^(e)	124,262
	11/21/14	—	—	—	—	—	2,414 ^(f)	61,798
	11/21/13	—	—	—	—	—	2,340 ^(g)	59,904

(a) These options had a market vesting condition related to the resolution of a management stock loan program when the share price reached the breakeven amount for participants. In 2013, the stock price exceeded the required threshold

and the management stock loan program was extinguished, resulting in these options vesting for both the CEO and CFO.

- (b) These awards are LTIP awards granted in the form of performance-based RSUs in fiscal 2018 (November 14, 2017 and, for Mr. Walker, January 25, 2018). For additional information regarding the fiscal 2018 LTIP award, including the vesting requirements, see the section above entitled “Compensation Discussion and Analysis — Equity Compensation.”
- (c) These awards are LTIP awards granted in the form of service-based RSUs in fiscal 2018 (November 14, 2017 and, for Mr. Walker, January 25, 2018) that generally vest on August 31, 2020. For additional information regarding the fiscal 2018 LTIP award, see the section above entitled “Compensation Discussion and Analysis — Equity Compensation.”
- (d) These awards are LTIP awards granted in fiscal 2017 (October 18, 2016). The number of shares that may be awarded under the RSUs to the participants is based on six individual vesting conditions that are divided into two performance measures: (1) trailing four-quarter LTIP Adjusted EBITDA, which equals Adjusted EBITDA plus the change in deferred revenue (less certain costs), and excludes the impact of foreign exchange and (2) increased All Access Pass sales. Multi-year LTIP Adjusted EBITDA targets for this award (excluding the impact of fluctuations in foreign currency exchange rates and STIP) are \$36.7 million, \$41.8 million and \$47.7 million (70% of the award shares), and the targets related to All Access Pass sales are \$30.1 million, \$35.4 million and 40.8 million (30% of the award shares). As of August 31, 2018, participants had vested in all three tranches of 18,338 shares related to All Access Pass sales and the first tranche of 42,789 shares related to LTIP Adjusted EBITDA. All other tranches of this award remain unvested.
- (e) These awards are LTIP awards granted in fiscal 2016 (November 12, 2015). The number of shares that may be awarded under the RSUs to the participants is based on six individual vesting conditions that are divided into two performance measures: (1) trailing four-quarter LTIP Adjusted EBITDA, which equals Adjusted EBITDA plus the change in deferred revenue (less certain costs), and excludes the impact of foreign exchange and (2) increased sales of the Organization Development Suite (OD Suite) of offerings. The OD Suite is defined as Leadership, Productivity and Trust offerings. Multi-year LTIP Adjusted EBITDA targets for this award (excluding the impact of fluctuations in foreign currency exchange rates and STIP) are \$36.0 million, \$40.0 million and \$44.0 million (70% of the award shares), and the targets related to increased sales of the OD Suite are \$107.0 million, \$116.0 million and \$125.0 million (30% of the award shares). As of August 31, 2018, participants had vested in all three tranches of 23,128 shares related to increased OD Suite sales and the first tranche of 53,964 shares related to LTIP Adjusted EBITDA. All other tranches of this award remain unvested.
- (f) These awards are LTIP awards granted in fiscal 2015 (November 21, 2014). The number of shares that may be awarded to the participants is based on six individual vesting conditions that are divided into two performance measures: (1) trailing four-quarter LTIP Adjusted EBITDA and (2) increased sales of the OD Suite of offerings. Multi-year LTIP Adjusted EBITDA targets for this award are \$39.6 million, \$45.5 million and \$52.3 million (70% of the award shares), and the targets related to increased sales of the OD Suite are \$107.0 million, \$118.0 million and \$130.0 million (30% of the award shares). As of August 31, 2018, participants had vested in all three tranches of 11,247 shares related to increased OD Suite sales and the first tranche of 26,241 shares related to LTIP Adjusted EBITDA. All other tranches of this award remain unvested and it is anticipated that at least one tranche will not vest prior to the expiration date.
- (g) These awards are LTIP awards granted in fiscal 2014 (November 21, 2013). The number of shares that may be awarded to the participants is based on six individual vesting conditions that are divided into two performance measures: (1) trailing four-quarter LTIP Adjusted EBITDA and (2) trailing four-quarter increased sales of courses related to The 7 Habits of Highly Effective People. Multi-year LTIP Adjusted EBITDA targets for this award are \$37.0 million, \$43.0 million and \$49.0 million (70% of the award shares), and the targets related to increased sales of The 7 Habits of Highly Effective People courses are \$5.0 million, \$10.0 million and \$12.5 million (30% of the award shares). As of August 31, 2018, participants had vested in the first tranche of 20,864 shares related to LTIP Adjusted EBITDA and all three tranches of 8,942 shares related to increased sales of The 7 Habits of Highly Effective People courses. All other tranches of this award remain unvested and it is anticipated that at least one tranche will not vest prior to the expiration date.
- (h) Values were determined by multiplying the target number of RSUs or other performance awards, or the number of service-based RSUs, by the closing price per share of the Company’s common stock on the NYSE on August 31, 2018 of \$25.60.

Fiscal 2018 Option Exercises and Stock Vested

There were no options exercised or stock awards that vested during fiscal 2018.

Fiscal 2018 Pension Benefits and Nonqualified Deferred Compensation

We do not offer any pension plans. The Company's non-qualified deferred compensation (NQDC) plan was frozen to new contributions as of January 1, 2005. Effective August 15, 2005, NQDC balances invested in our stock are distributable to participants only in the form of shares of our stock. None of the NEOs participates in the NQDC plan.

Potential Payments Upon Termination or Change-in-Control

Severance Benefits Upon Termination Without Cause

Our NEOs are subject to the same general (non-change-in-control) severance policies as for all Franklin Covey employees. Under our severance policy, Company employees, including each of the NEOs, who are terminated involuntarily by the Company without cause receive a lump sum payment equal to one week's salary for every \$10,000 of their annual total targeted cash compensation. Additionally, we pay COBRA medical and dental premiums for the term of the severance period. As a condition to receipt of severance benefits, the NEO must agree to abide by specific non-compete, non-solicitation and confidentiality requirements. The target total severance payment equals the target annual cash compensation plus target COBRA premiums for the severance period. The COBRA benefits are generally limited to 18 months for all NEOs. The amounts below assume that each NEO incurred a qualifying termination of employment on August 31, 2018 (the last business day of fiscal 2018).

Estimated Severance Amounts as of August 31, 2018

Name	Year	Target Total Severance Payment (\$)	Base Salary (\$)	Target Annual STIP (\$)	Target Annual Cash Compensation (\$)	Target Severance Compensation (Excluding COBRA) (\$)	Target COBRA Premiums (\$)
Mr. Whitman	2018	2,576,733	575,000	575,000	1,150,000	2,543,269	33,464
Mr. Young	2018	680,918	350,000	235,000	585,000	663,750	17,168
Mr. Covey	2018	502,045	300,000	200,000	500,000	480,769	21,276
Mr. Walker	2018	717,838	400,000	200,000	600,000	692,308	25,531
Mr. Miller	2018	502,045	300,000	200,000	500,000	480,769	21,276

Change-in-Control Severance Benefit

The Company has entered into a change-in-control severance agreement with each NEO. Under the terms of the agreements, upon the occurrence of a change-in-control and a qualifying termination, each NEO is entitled to a lump severance payment equal to one time his current annual total targeted cash compensation, plus reimbursement of premiums to secure medical benefit continuation coverage for a period of one year. The target total severance payment equals the target annual cash compensation plus target COBRA premiums for the severance period. There are no excise tax gross-ups provided under the agreements. The amounts below assume that each NEO incurred a qualifying termination of employment on August 31, 2018.

Estimated Change-in-Control Severance Amounts as of August 31, 2018

Name	Year	Target Total Severance Payment (\$)	Base Salary (\$)	Target Annual STIP (\$)	Target Annual Cash Compensation (\$)	Target COBRA Premiums for 12 Months (\$)
Mr. Whitman	2018	1,165,131	575,000	575,000	1,150,000	15,131
Mr. Young	2018	600,131	350,000	235,000	585,000	15,131
Mr. Covey	2018	522,127	300,000	200,000	500,000	22,127
Mr. Walker	2018	622,127	400,000	200,000	600,000	22,127
Mr. Miller	2018	522,127	300,000	200,000	500,000	22,127

Compensation Committee Report

Our Compensation Committee reviewed the Compensation Discussion and Analysis (CD&A), as prepared by management of Franklin Covey, and discussed the CD&A with management of Franklin Covey. Mercer, outside legal counsel and the Company's CFO and Chief People Officer also reviewed the CD&A. Based on the Committee's review and discussions, the Committee recommended to the Board that the CD&A be included in this Proxy Statement and in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2018.

COMPENSATION COMMITTEE:

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

CEO Pay Ratio Disclosure

- The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) requires the Company to disclose the ratio of the CEO's annual total compensation (under the Summary Compensation Table definition) to that of the Company's median employee (excluding the CEO) using the same methodology.
- Our CEO's compensation for fiscal 2018, as disclosed in the Summary Compensation Table, is \$2,729,608. The annual total compensation for our median employee is \$89,316.29. The ratio between the CEO's and median employee's annual total compensation as of August 31, 2018 is approximately 31:1.
- To determine the median employee, we prepared a list of our full employee population as of June 30, 2018. The population included all US and Non-US employees, whether employed on a full-time, part-time, temporary or seasonal basis.
- We established a consistently applied compensation measure inclusive of total cash paid from July 1, 2017, through June 30, 2018. We annualized compensation for employees hired during that time. Non-US compensation was converted to US dollars based on applicable exchange rates as of June 30, 2018.
- The ratio is a reasonable estimate calculated in a manner consistent with Item 402(u) of SEC Regulation S-K. Given the rule's flexibility, the method the Company used to determine the median employee may be different from its peers, so the ratios may not be comparable.

AUDIT COMMITTEE REPORT

The following is the report of the Audit Committee with respect to our audited financial statements for the fiscal year ended August 31, 2018. The information contained in this report shall not be deemed "soliciting material" or otherwise considered "filed" with the SEC, and such information shall not be incorporated by reference under the Exchange Act except to the extent that we specifically incorporate such information by reference in such filing.

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

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

In fulfilling its oversight responsibilities, the Audit Committee reviewed and discussed with management the audited financial statements to be included in the Annual Report on Form 10-K for the fiscal year ended August 31, 2018. This review included a discussion of the quality and the acceptability of the Company's financial reporting and system of internal controls, including the clarity of disclosures in the financial statements. The Audit Committee also reviewed and discussed with the Company's independent registered public accounting firm the audited financial statements of the Company for the fiscal year ended August 31, 2018, their judgments as to the quality and acceptability of the Company's financial reporting, and such other matters as are required to be discussed by Public Company Accounting Oversight Board standards.

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

Based upon the review and discussions referred to above, the Audit Committee recommended that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2018, for filing with the SEC.

Date: November 6, 2018

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

OVERVIEW OF PROPOSALS

This Proxy Statement includes four proposals requiring shareholder action. Proposal No. 1 requests the election of eight directors to the Board of Directors. Proposal No. 2 requests an advisory vote on executive compensation. Proposal No. 3 requests the ratification of Deloitte & Touche, LLP as our independent registered public accounting firm for fiscal 2019. Proposal No. 4 requests the approval of the Franklin Covey Co. 2019 Omnibus Incentive Plan. Each of these proposals is discussed in more detail in the pages that follow.

Proposal No. 1

ELECTION OF DIRECTORS

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

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

Vote Required

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

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

Recommendation of the Board

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

Proposal No. 2

ADVISORY VOTE ON EXECUTIVE COMPENSATION

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

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

The Compensation Discussion and Analysis, as presented within this Proxy Statement, describes the Company's executive compensation program and the decisions made by the Compensation Committee during fiscal 2018 in more detail. We believe that the compensation program for the Named Executive Officers is instrumental in helping the Company achieve financial goals. Please refer to the information contained in the Compensation Discussion and Analysis as you consider this proposal.

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

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

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

Vote Required

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

Recommendation of the Board

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

Proposal No. 3

RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has selected the independent registered public accounting firm Deloitte & Touche, LLP to audit our financial statements for fiscal 2019. Deloitte began serving as our independent registered public accounting firm in the third quarter of fiscal 2016. The Board of Directors anticipates that one or more representatives of Deloitte will be present at the Annual Meeting and will be available to respond to appropriate questions.

Principal Accountant Fees

The following table shows the fees accrued or paid to our independent registered public accounting firm for the fiscal years ended August 31, 2018 and 2017:

	Fiscal 2018	Fiscal 2017
Audit Fees ⁽¹⁾	\$708,979	\$716,574
Audit-Related Fees ⁽²⁾	—	—
Tax Fees ⁽³⁾	29,400	34,139
All Other Fees	—	—
	\$738,379	\$750,713

- (1) Audit fees represent fees and expenses for professional services provided in connection with the audit of our consolidated financial statements and the effectiveness of internal controls over financial reporting found in the Annual Report on Form 10-K and reviews of our financial statements contained in Quarterly Reports on Form 10-Q, procedures related to registration statements, accounting consultations on actual transactions, and audit services provided in connection with other statutory filings.
- (2) Audit-Related Fees primarily consist of accounting consultation on proposed transactions.
- (3) Tax Fees consisted primarily of fees and expenses for services related to tax compliance, tax planning, and tax consulting.

The Audit Committee pre-approves all services to be performed by our independent registered public accountants and subsequently reviews the actual fees and expenses paid to them. All of the audit-related and non-audit services provided by our independent registered public accounting firm during the fiscal years ended August 31, 2018 and 2017 were pre-approved by the Audit Committee. The Audit Committee has determined that the fees paid for non-audit services are compatible with maintaining independence as our independent registered public accountants.

Vote Required

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

Board Recommendation

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

Proposal No. 4

APPROVAL AND RATIFICATION OF THE FRANKLIN COVEY CO. 2019 OMNIBUS INCENTIVE PLAN

We are seeking shareholder approval to adopt the Franklin Covey Co. 2019 Omnibus Incentive Plan (the 2019 Omnibus Plan).

Background

On December 7, 2018, the Board adopted, subject to shareholder approval, the 2019 Omnibus Plan. The purpose of the 2019 Omnibus Plan is to promote our interests and the interests of our shareholders by aiding us in attracting and retaining employees, officers, consultants, advisors, independent contractors, and non-employee directors capable of assuring our future success, to offer such persons incentives to put forth maximum efforts for the success of our business and to compensate such persons through various stock and cash-based arrangements, and provide them with opportunities for stock ownership in the Company, thereby aligning the interests of such persons with our shareholders.

The use of equity incentive awards has historically been a key component of our compensation program. We previously awarded stock-based compensation instruments, including performance awards and restricted stock under the Franklin Covey Co. 2015 Omnibus Incentive Plan (the 2015 Omnibus Plan) and we have outstanding stock options that were granted under the Second Amended and Restated 1992 Stock Incentive Plan (the 1992 Plan). As of November 30, 2018, there were (i) 593,614 shares of performance and restricted stock awards outstanding from the 2015 Omnibus Incentive Plan, and (ii) 568,750 shares subject to outstanding stock options with a weighted average exercise price of \$11.67 per share and a weighted average remaining term of 1.7 years under the 1992 Plan. These numbers include all outstanding full value awards and stock options from both plans. The number of performance awards outstanding under the 2015 Omnibus Plan reflects the maximum potential (rather than target) shares that may be earned by participants for the fiscal 2018 and fiscal 2019 long-term incentive plan grants. Using the targeted (100 percent of the award) number of shares for the fiscal 2018 and 2019 long-term incentive awards, the number of outstanding awards against the 2015 Omnibus Plan is reduced to 463,607 shares. Assuming the maximum shares are earned by participants on outstanding awards, as of November 30, 2018, there were no shares available for future grants under the 2015 Omnibus Plan. Accordingly, the Board has determined that, in order to ensure that there are shares available for issuance under our equity incentive plans to meet our needs for future grants during the coming years, a new tranche of shareholder-approved shares is necessary to continue granting incentives and reward opportunities to eligible individuals while assisting us in retaining a competitive edge in today's competitive business environment. Further details about our awards currently outstanding can be found in the section "Compensation Discussion and Analysis" and in the notes to our consolidated financial statements for the fiscal year ended August 31, 2018 found in our Annual Report on Form 10-K as filed with the Securities and Exchange Commission.

We believe approval of the 2019 Omnibus Plan will give us flexibility to continue to make stock-based grants and other awards permitted under the 2019 Omnibus Plan over the next two to three years in amounts determined appropriate by the Compensation Committee, which will administer the 2019 Omnibus Plan (as discussed more fully below); however, this timeline is simply an estimate used by us to determine the number of new shares to ask our shareholders to approve and future circumstances may require us to change our expected equity grant practices. These circumstances include, but are not limited to, the future price of our common stock, award levels/amounts provided by our competitors, and hiring activity during the next few years.

The Compensation Committee and the Board believe that equity incentive grants are vital to our interests and our shareholders, as they play an important role in our ability to attract and retain key management, align a significant percentage of our executives' compensation to her or his performance, as well as ours, and generate in our executives a strategic long-term interest in our performance. As discussed below, the 2019 Omnibus Plan will allow for the continued use of stock-based compensation and cash compensation and will permit us significant flexibility in determining the types and specific terms of awards made to participants. This flexibility will allow us to make future awards based on the then-current objectives for aligning compensation with shareholder value. While we are aware of the potential dilutive effect of compensatory equity awards, we also recognize the significant motivational and performance benefits that may be achieved from making such awards.

If the 2019 Omnibus Plan is approved by our shareholders, no additional awards will be granted under the 2015 Omnibus Plan or the 1992 Plan (although all outstanding awards previously granted under these stock incentive plans will remain outstanding and subject to the terms of these plans); provided, however, that any shares subject to any outstanding awards under these prior plans that are not purchased or are forfeited or reacquired by the Company will become available for issuance under the 2019 Omnibus Plan.

Some of the key features of the 2019 Omnibus Plan include:

- *Limit on Shares Authorized.* Under the 2019 Omnibus Plan, the aggregate number of shares that may be issued is 700,000, plus in certain circumstances, shares that are forfeited under the Company's prior plans. No eligible person may receive an award for more than 250,000 shares in any year.
- *No Repricing or Discounting of Stock Options or Stock Appreciation Rights (SARs).* Stock options and SARs may not generally be repriced or granted at a discount under the 2019 Omnibus Plan.
- *Limited Share "Recycling."* The 2019 Omnibus Plan provides that any shares surrendered to pay the exercise price of an option, shares covered by a stock-settled stock appreciation right that are not issued in connection with settlement upon exercise, or shares withheld by the Company or tendered to satisfy tax withholding obligations with respect to any award will not be added back ("recycled") to the available shares under the 2019 Omnibus Plan.
- *No Payment of Dividends or Voting Rights on Unvested Awards.* The 2019 Omnibus Plan prohibits the payment of dividends or dividend equivalents on awards other than with respect to restricted stock and restricted stock unit awards for which the applicable restrictions have lapsed. Unvested awards may not be voted at Annual Meetings or at other shareholder meetings.
- *Awards Subject to Clawback Policy.* All awards under the 2019 Omnibus Plan will be subject to forfeiture or other penalties pursuant to any clawback policy we may adopt or amend from time to time, as determined by the Compensation Committee.
- *Awards Are Typically Not Transferable.* Awards under the 2019 Omnibus Plan are typically not transferable, except pursuant to limited exceptions. If a transfer is permitted, the transfer shall be for no value.
- *Minimum Vesting Period.* Stock-based compensation awards granted under the 2019 Omnibus Plan will have a minimum vesting period of one year from the date of grant (or, in the case of performance-based objectives, one year from the commencement of the period over which performance is evaluated), except for five percent of the shares approved, which may be granted with fully vested terms, and subject to the acceleration of vesting as described in the 2019 Omnibus Plan.

Request for Additional Shares and Dilution

We manage our long-term shareholder dilution, in part, by controlling the number of equity incentive awards granted annually. The Compensation Committee carefully monitors our annual net burn rate, total dilution, and equity expense in order to maximize shareholder value by granting what it believes are an appropriate number of equity incentive awards to attract, reward, and retain employees. Burn rate is a measure of the speed at which companies use shares available for grant under their equity compensation plans and is an important factor for investors concerned about shareholder dilution. The burn rate is defined as, in a given fiscal year, the number of equity shares granted subject to time-based awards plus performance-based equity awards that were earned and vested, divided by the weighted average number of shares outstanding. In recommending to our shareholders the number of shares to be authorized under the 2019 Omnibus Incentive Plan, the Compensation Committee considered our burn rate for the past three fiscal years as shown below:

	Fiscal 2018	Fiscal 2017	Fiscal 2016
Time-based equity awards granted	66,221 ⁽¹⁾	29,834	25,032
Performance-based awards earned and vested ⁽²⁾	247,619	144,548	7,350
Weighted average common shares outstanding	13,849,000	13,819,000	14,944,000
Burn rate	2.26%	1.26%	0.22%
Three-year average burn rate	1.25%		
Performance-based awards granted	128,650 ⁽³⁾	183,381	231,276

- (1) Amount consists of our annual unvested stock award to non-employee members of the Board plus the time-based component of the fiscal 2018 long-term incentive plan award.
- (2) Amount excludes shares purchased by and issued to participants in our Employee Stock Purchase Plan.
- (3) The fiscal 2018 long-term incentive award allows a range of shares to be vested based upon the achievement of performance objectives. Participants may earn a range of shares from 50 percent of the target award to 200 percent of the target award. The number of shares shown in the table reflects the target number of shares granted to participants. The maximum number of shares that may vest to participants under the 2018 long-term incentive plan is 257,300 shares. If minimum specified targets are not achieved, no shares will be earned by participants. For further information on our stock-based compensation plans, refer to Note 11 in our consolidated financial statements for the fiscal year ended August 31, 2018 as filed on Form 10-K with the SEC on November 14, 2018.

A copy of the 2019 Omnibus Plan is attached as Appendix A to this proxy statement. The following summary of the material terms of the 2019 Omnibus Plan is qualified in its entirety by reference to the full text of the 2019 Omnibus Plan.

Administration

The Compensation Committee administers the 2019 Omnibus Plan and has full power and authority to determine when and to whom awards will be granted, and the type, amount and other terms and conditions of each award, consistent with the provisions of the 2019 Omnibus Plan. Subject to the provisions of the 2019 Omnibus Plan, the Compensation Committee may amend the terms of, or accelerate the exercisability of, an outstanding award. The Compensation Committee has authority to interpret the 2019 Omnibus Plan and establish, amend, suspend, or waive rules and regulations for the administration of the 2019 Omnibus Plan.

The Compensation Committee may delegate its powers under the 2019 Omnibus Plan to one or more officers or directors to the extent permitted by applicable exchange rules or applicable corporate law, except that such delegated officers or directors will not be permitted to grant awards (i) to officers who are subject to Section 16 of the Exchange Act or (ii) in such a manner as would cause the 2019 Omnibus Plan to not comply with applicable exchange rules or applicable corporate law.

Under the 2019 Omnibus Plan, the Board may, at any time and from time to time, without any further action of the Committee, exercise the powers and duties of the Committee under the Plan.

Shares Available for Awards

The aggregate number of shares that may be issued under all stock-based awards made under the 2019 Omnibus Plan will be equal to (i) 700,000 shares, plus (ii) any shares subject to any outstanding award under the 2015 Omnibus Plan or the 1992 Plan that, after November 30, 2018 are not purchased or are forfeited or reacquired by the Company, or otherwise not delivered to the participant due to the termination or cancellation of such award, less (iii) any shares subject to any award issued under the 2015 Omnibus Plan or the 1992 Plan after November 30, 2018. If awards under the 2019 Omnibus Plan expire or otherwise terminate without being exercised, the shares of common stock not acquired pursuant to such awards again become available for issuance under the 2019 Omnibus Plan. However, under the following circumstances, shares will not again be available for issuance under the 2019 Omnibus Plan: (i) shares unissued due to a “net exercise” of a stock option or exercise of a SAR, (ii) any shares withheld or shares tendered to satisfy tax withholding obligations, (iii) shares covered by a stock-settled SAR issued under the 2019 Omnibus Plan that are not issued in connection with settlement in shares upon exercise, and (iv) shares repurchased using stock option exercise proceeds. In addition, awards that do not entitle the recipient to receive or purchase shares shall not be counted against the number of shares available for issuance under the 2019 Omnibus Plan.

Certain awards under the 2019 Omnibus Plan are subject to limitations. Under the 2019 Omnibus Plan, no person may be granted options and SARs for more than 250,000 shares of our common stock in the aggregate in any fiscal year, and no

person may be granted performance awards denominated in shares for more than 250,000 shares of our common stock in the aggregate in any fiscal year. Non-employee directors may not be granted awards in any calendar year that exceed in the aggregate \$125,000.

In the event that any dividend (other than a regular cash dividend) or other distribution (whether in the form of cash, shares, other securities or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase or exchange of shares or other securities of the Company, issuance of warrants or other rights to purchase shares or other securities of the Company or other similar corporate transaction or event affects the shares such that an adjustment is necessary in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the 2019 Omnibus Plan, then the Compensation Committee shall, in such manner as it may deem equitable adjust any or all of (i) the number and type of shares (or other securities or other property) available under the 2019 Omnibus Plan, (ii) the number and type of shares (or other securities or other property) subject to outstanding awards, (iii) the purchase price or exercise price with respect to any award, and (iv) the share limitations described above.

Eligibility

Any employee, officer, non-employee director, consultant, independent contractor or advisor providing services to Franklin Covey Co. or an affiliate, or any person to whom an offer of employment has been made, and who is selected by the Compensation Committee to participate, is eligible to receive an award under the 2019 Omnibus Plan. As of November 30, 2018, approximately 85 persons were eligible as a class to be selected by the Compensation Committee to receive awards under the 2019 Omnibus Plan.

Dilution Discussion

In setting the number of shares authorized under the 2019 Omnibus Plan for which shareholder approval is being sought, the Compensation Committee and the Board considered, among other factors, the historical amounts of equity awards granted by the Company, and the potential future grants over the next several years. The Committee and the Board also considered recommendations by the CEO for the other named executive officers. Neither the Committee nor the Board has authorized specific grants of awards to be made under the 2019 Omnibus Plan, subject to shareholder approval. However, the Compensation Committee and the Board believe that the shares being requested should be sufficient for awards under the 2019 Omnibus Plan for approximately the next two to three years.

To reduce the dilutive impact of our equity award grants on our shareholders' interests, we actively administer our equity grant program to make use of our resources as effectively as possible. Equity awards are generally limited to (i) those positions deemed critical to our future success, (ii) individuals whose personal performance makes them highly valuable to us, and (iii) essential new hires.

Types of Awards and Terms and Conditions

The 2019 Omnibus Plan provides that the Compensation Committee may grant awards to eligible participants in any of the following forms, subject to such terms, conditions, and provisions as the Compensation Committee may determine to be necessary or desirable:

- stock options, including both incentive stock options (ISOs) and non-qualified stock options (together with ISOs, options);
- stock appreciation rights;
- restricted stock;
- restricted stock units; and
- other stock-based awards

Options and SARs

The holder of an option is entitled to purchase a number of shares of our common stock at a specified exercise price during a specified time period, all as determined by the Compensation Committee. The holder of a SAR is entitled to receive the excess of the fair market value (calculated as of the exercise date) of a specified number of shares of our common stock over the grant price of the SAR.

Exercise Price. The Compensation Committee has the discretion to determine the exercise price and other terms of options and SARs, except that the exercise price will in no event be less than 100% of the fair market value per share of our common stock underlying the award on the date of grant, unless such option or SAR is granted in substitution for an option or SAR previously granted by a merged or acquired entity. Without the approval of shareholders, we will not amend, replace, or cash out previously granted options or SARs in a transaction that constitutes a “re-pricing” as discussed in the 2019 Omnibus Plan.

Vesting. The Compensation Committee has the discretion to determine when and under what circumstances an option or SAR will vest.

Exercise. The Compensation Committee has the discretion to determine the time or times, and method or methods by which an option or SAR may be exercised, provided that a participant may elect to exercise using a net exercise. The Compensation Committee and the Board are not authorized under the 2019 Omnibus Plan to accept a promissory note as consideration.

Expiration. Options and SARs will expire at such time as the Compensation Committee determines; provided, however, that no option or SAR may be exercised more than ten years from the date of grant, except that, in the case of an ISO held by a 10% shareholder, the option may not be exercised more than five years from the date of grant. Notwithstanding the foregoing, the Compensation Committee may provide in the terms of an option (either at grant or by subsequent modification) that, to the extent consistent with Section 409A of the Internal Revenue Code, in the event that on the last business day of the term of an Option, (other than an ISO) (i) the exercise of the Option is prohibited by applicable law or (ii) shares may not be purchased or sold by certain employees or directors of the Company due to the “black-out period” of a Company policy or a “lock-up” agreement undertaken in connection with an issuance of securities by the Company, the term of the Option shall be extended for a period of not more than thirty (30) days following the end of the legal prohibition, black-out period, or lock-up agreement.

Special Limitations on ISOs. The aggregate number of shares that may be issued under all ISOs under the Plan shall be 700,000 shares. In the case of a grant of an option intended to qualify as an ISO, no such option may be granted to a participant who owns, at the time of the grant, stock representing more than 10% of the total combined voting power of all classes of our stock or our subsidiaries unless the exercise price per share of our common stock subject to such ISO is at least 110% of the fair market value per share of our common stock on the date of grant, and such ISO award is not exercisable more than five years after its date of grant. In addition, options designated as ISOs shall not be eligible for treatment under the Internal Revenue Code as ISOs to the extent that the aggregate fair market value of shares of common stock (determined as of the time of grant) with respect to which such ISOs are exercisable for the first time by the participant during any calendar year exceeds \$100,000.

Restricted Stock and Restricted Stock Units

The holder of restricted stock will own shares of our common stock subject to restrictions imposed by the Compensation Committee for a specified time period determined by the Compensation Committee. The holder of restricted stock units will have the right, subject to restrictions imposed by the Compensation Committee, to receive shares of our common stock at some future date determined by the Compensation Committee. The grant, issuance, retention, vesting and/or settlement of restricted stock and restricted stock units will occur at such times and in such installments as determined by the Compensation Committee. The Compensation Committee will have the right to make the timing of the grant and/or the issuance, ability to retain, vesting and/or settlement of restricted stock and restricted stock units subject to continued employment, passage of time and/or such performance conditions as are deemed appropriate by the Compensation Committee.

The Compensation Committee has the authority to issue restricted stock units that may be settled in stock, cash, or both. The holders of restricted stock units shall have no voting rights and shall have no dividend rights.

Other Stock-Based Awards

The Compensation Committee is authorized to grant to any employee, officer, non-employee director, consultant, independent contractor or advisor providing services to the Company or any affiliate other awards that are denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, shares (including, without limitation, securities convertible into shares), as are deemed by the Compensation Committee to be consistent with the purpose of the 2019 Omnibus Plan. The Compensation Committee determines the terms and conditions of such awards, subject to the terms of the 2019 Omnibus Plan and any applicable award agreement. Awards granted under this category may not contain a purchase right or an option-like exercise feature.

Duration, Termination, and Amendment

The 2019 Omnibus Plan has a term of ten years expiring on December 7, 2028, unless terminated earlier by the Board. The Board may at any time and from time to time and in any respect amend, suspend, or terminate the 2019 Omnibus Plan. The Board shall require the approval of any amendment of the 2019 Omnibus Plan that would: (i) be required under the listing requirements of the SEC, the NYSE or another exchange or securities market on which our shares are then listed for trading, (ii) increase the number of shares authorized under the 2019 Omnibus Plan, (iii) increase the annual participant share limits or annual cash award limits, (iv) permit a repricing of options or SARs, (v) permit the award of options or SARs with an exercise price less than 100% of the fair market value of a share on the date of grant, or (vi) increase the maximum term of options or SARs. No amendment of the 2019 Omnibus Plan may be made that would adversely affect any outstanding award without the consent of the participant or the current holder of the award.

Effect of Corporate Transaction

Awards under the 2019 Omnibus Plan are generally subject to special provisions upon the occurrence of any reorganization, merger, consolidation, split-up, spin-off, combination, plan of arrangement, take-over bid or tender offer, Change in Control (as defined in the 2019 Omnibus Plan), repurchase or exchange of shares, or any other similar corporate transaction with respect to us. In the event of such a corporate transaction, the Compensation Committee or the Board may provide for one or more of the following to occur upon the occurrence of the event (or immediately prior to such event, provided the event is consummated):

- termination of any award, whether or not vested, in exchange for an amount of cash and/or other property, if any, equal to the amount that would have been attained upon exercise of the award or the realization of the participant's rights under the award. Awards may be terminated without payment if the Compensation Committee or the Board determines that no amount is realizable under the award as of the time of the transaction;
- replacement of any award with other rights or property selected by the Compensation Committee or the Board;
- the assumption of any award by the successor entity (or its parent or subsidiary) or the arrangement for the substitution for similar awards covering the stock of such successor entity, with appropriate adjustments as to the number and kind of shares and prices; or
- require that the award cannot vest, be exercised or become payable until after a future date, which may be the effective date of the corporate transaction.

Time-based awards may only be accelerated for events occurring in connection with a corporate transaction that are materially adverse to the participant, subject to the exceptions described in the 2019 Omnibus Plan.

Clawback or Recoupment

All awards under the 2019 Omnibus Plan will be subject to forfeiture or other penalties pursuant to any clawback policy we may adopt or amend from time to time, as determined by the Compensation Committee.

Income Tax Withholding

In order to comply with all applicable income tax laws and regulations, we may take appropriate action to ensure that all applicable taxes, which are the sole and absolute responsibility of the participant, are withheld or collected from the participant. A participant may satisfy any tax obligation by (a) electing to have a portion of the shares withheld that otherwise would be delivered upon exercise, receipt or the lapse of restrictions with respect to the award (but only to the extent necessary to satisfy withholding requirements as required by ASC Topic 718 to avoid adverse accounting treatment), or (b) electing to deliver to us shares of Franklin Covey Co. other than shares received pursuant to the award with a fair market value equal to the amount of the tax obligation. Any election, if allowed, must be made on or before the date that the amount of tax to be withheld is determined. We may not withhold shares for income taxes in such a manner as would result in adverse accounting treatment under FASC Topic 718 regarding the accounting treatment of shares withheld for income taxes.

Limited Transferability of Awards

Except as provided below, no award (other than fully vested and unrestricted shares issued pursuant to any award) and no right under any such award shall be transferable by a participant other than by will or by the laws of descent and distribution, and no award (other than fully vested and unrestricted shares issued pursuant to any award) or right under any such award may be pledged, alienated, attached, or otherwise encumbered, and any purported pledge, alienation, attachment or encumbrance thereof shall be void and unenforceable against the Company or any affiliate. Notwithstanding the foregoing, the Compensation Committee may permit the transfer of an award other than a fully vested and unrestricted share to family members, provided such permitted transfer shall be for no value and in accordance with the rules of Form S-8. The Compensation Committee may also establish procedures as it deems appropriate for a participant to designate a person or persons, as beneficiary or beneficiaries, to exercise the rights of the participant and receive any property distributable with respect to any award in the event of the participant's death.

Federal Income Tax Consequences

Grant of Options and SARs

The grant of a stock option or SAR is not expected to result in any taxable income to the recipient.

Exercise of Options and SARs

Upon exercising a non-qualified stock option, the optionee must recognize ordinary income equal to the excess of the fair market value of the shares of our common stock acquired on the date of exercise over the exercise price, and we generally will be entitled at that time to an income tax deduction for the same amount. The holder of an ISO generally will have no taxable income upon exercising the option (except that an alternative minimum tax liability may arise), and we will not be entitled to an income tax deduction. Upon exercising a SAR, the amount of any cash received and the fair market value on the exercise date of any shares of our common stock received are taxable to the recipient as ordinary income and generally are deductible by us.

Disposition of Shares Acquired Upon Exercise of Options and SARs

The tax consequence upon a disposition of shares acquired through the exercise of an option or SAR will depend on how long the shares have been held and whether the shares were acquired by exercising an ISO or by exercising a non-qualified stock option or SAR. Following exercise of a non-qualified stock option or SAR, any additional gain or loss recognized upon any later disposition of the shares will be capital gain or loss. If an optionee exercises an ISO and later sells or otherwise disposes of the shares both (i) more than two years after the grant date and (ii) more than one year after the exercise date, the difference between the sale price and the exercise price will be taxed as capital gain or loss. If an optionee exercise an ISO, but later sells or disposes the shares before the end of the applicable ISO holding periods described above, the optionee will have ordinary income at the time of the sale equal to the fair market value of the shares on the exercise date (or the sale price, if less) minus the exercise price of the option. Generally, there will be no tax consequence to us in connection with

the disposition of shares acquired under an option or SAR, except that we may be entitled to an income tax deduction in the case of the disposition of shares acquired under an ISO before the end of the applicable ISO holding periods described above.

Awards Other than Options and SARs

If an award is payable in shares of our common stock that are subject to substantial risk of forfeiture, unless a special election is made by the holder of the award under the Internal Revenue Code, the holder must recognize ordinary income equal to the excess of: (i) the fair market value of the shares received (determined as of the first time the shares become transferable or not subject to substantial risk of forfeiture, whichever occurs earlier) over (ii) the amount (if any) paid for the shares by the holder of the award. We will generally be entitled at that time to an income tax deduction for the same amount. As to awards other than options and SARs granted under the 2019 Omnibus Plan that are payable either in cash or shares of our common stock not subject to substantial risk of forfeiture, the holder of the award must recognize ordinary income equal to: (a) the amount of cash received or, as applicable, (b) the excess of (i) the fair market value of the shares received (determined as of the date such shares are received) over (ii) the amount (if any) paid for the shares by the holder of the award.

Income Tax Deduction

Subject to the tax rules requiring that compensation be reasonable in order to be deductible, our obligation to withhold or otherwise collect certain income and payroll taxes, we generally will be entitled to a corresponding income tax deduction at the time a participant recognizes ordinary income from awards made under the 2019 Omnibus Plan. However, Section 162(m) of the Code prohibits publicly held corporations from deducting more than \$1 million per year in compensation paid to certain named executive officers. The Tax Cuts and Jobs Act (the Act), which was signed into law at the end of 2017, makes significant changes to the deduction limit under Section 162(m), which will be effective for taxable years beginning on and after January 1, 2018. The Act eliminated the exception to the deduction limit for qualified performance-based compensation and broadens the application of the deduction limit to certain current and former executive officers who previously were exempt from such limit. However, the Act also includes a transition provision, which exempts from the above changes compensation under a written binding agreement that was in effect on November 2, 2017 and was not subsequently materially amended. Therefore, compensation paid to a covered executive in excess of \$1 million will not be deductible for taxable years beginning on and after January 1, 2018 unless it qualifies for transition or other regulatory relief.

Special Rules for Executive Officers Subject to Section 16 of the Exchange Act

Special rules may apply to individuals subject to Section 16 of the Exchange Act. In particular, unless a special election is made pursuant to the Internal Revenue Code, shares received through the exercise or settlement of an award may be treated as restricted as to transferability and subject to a substantial risk of forfeiture for a period of up to six months after the date of exercise. Accordingly, the amount of any ordinary income recognized and the amount of our income tax deduction will be determined as of the end of that period.

Section 409A of the Internal Revenue Code

The Compensation Committee and the Board intend to administer and interpret the 2019 Omnibus Plan and all award agreements in a manner consistent to satisfy the requirements of Section 409A of the Internal Revenue Code to avoid any adverse tax results thereunder to a holder of an award.

Equity Compensation Plan Information

The following table gives information, as of August 31, 2018, about shares of our common stock that may be issued upon the exercise of options and other equity awards under all compensation plans for which equity securities are reserved for issuance.

Plan Category	[a] Number of securities to be issued upon exercise of outstanding options, warrants, and rights (in thousands)	[b] Weighted-average exercise price of outstanding options, warrants, and rights \$11.67	[c] Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column [a]) (in thousands) 1,200 ⁽³⁾⁽⁴⁾
Equity compensation plans approved by security holders ⁽⁴⁾	1,129 ⁽¹⁾⁽²⁾		

(1) Excludes 23,338 shares of unvested (restricted) stock awards and stock units that are subject to forfeiture.

(2) Amount includes 790,143 performance share awards that may be awarded under the terms of various long-term incentive plans. The number of shares eventually awarded to participants through our long-term incentive plans is variable and based upon the achievement of specified financial goals. For performance-based compensation awards where the number of shares may fluctuate within a range based on the achievement of the specified goal, this amount includes the maximum number of shares that may be awarded to participants. The actual number of shares issued to participants therefore, may be less than the amount disclosed. The weighted average exercise price of outstanding options, warrants, and rights does not include the impact of performance awards. For further information on our stock-based compensation plans, refer to the notes to our financial statements as presented in our Annual Report on Form 10-K for the fiscal year ended August 31, 2018.

(3) Amount is comprised of the remaining shares authorized in our 2015 Omnibus Incentive Plan and 2017 Employee Stock Purchase Plan. The number of performance-based plan shares expected to be awarded at August 31, 2018 may change in future periods based upon the achievement of specified goals and revisions to estimates.

(4) At August 31, 2018, we had approximately 946,000 shares authorized for purchase by participants in our Employee Stock Purchase Plan.

New Plan Benefits

No awards have yet been granted under the 2019 Omnibus Plan, as it will only take effect upon shareholder approval at the 2019 Annual Meeting. The number and types of awards that will be granted under the 2019 Omnibus Plan in the future are not determinable, as the Compensation Committee will make these determinations in their sole discretion.

Market Value

The closing price of our common stock on the New York Stock Exchange on November 30, 2018 was \$23.69 per share.

Vote Required

The proposal to approve the 2019 Omnibus Incentive Plan will be approved if the number of votes cast in favor of the proposal exceeds the number of votes cast in opposition of the proposal. Abstentions with respect to this proposal will have the same effect as votes against the proposal. Broker non-votes will not have any effect on the outcome of this proposal.

The Board recommends that shareholders vote FOR the approval of the 2019 Omnibus Incentive Plan.

OTHER MATTERS

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

PROPOSALS OF SHAREHOLDERS

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

Shareholders may present proposals for inclusion in our proxy statement and form of proxy for the annual meeting of shareholders to be held in calendar year 2020, provided that such proposals must be received by us, at our executive offices (2200 West Parkway Boulevard, Salt Lake City, Utah 84119-2331) no later than August 23, 2019, provided that this date may be changed in the event that the date of the annual meeting of shareholders to be held in calendar year 2020 is changed by more than 30 days from the date of the annual meeting of shareholders to be held in calendar year 2019. Such proposals must also comply with the requirements as to form and substance established by the SEC if such proposals are to be included in our proxy statement and form of proxy.

Requirements for Shareholder Proposals to be Brought Before the Annual Meeting

Our bylaws provide that, except in the case of proposals made in accordance with Rule 14a-8, for shareholder nominations to the Board of Directors or other proposals to be considered at an annual meeting of shareholders, the shareholder must have given timely notice thereof in writing to the Secretary of Franklin Covey not less than 60 nor more than 90 calendar days prior to the anniversary of the date of the immediately preceding annual meeting. To be timely for the annual meeting of shareholders to be held in calendar year 2019, a shareholder's notice must be delivered or mailed to, and received by, our Secretary at our executive offices (2200 West Parkway Boulevard, Salt Lake City, Utah 84119-2331) between October 28, 2018 and November 27, 2018. However, in the event that the annual meeting is called for a date that is not within 30 calendar days of the anniversary of the date on which the immediately preceding annual meeting of shareholders was called, to be timely, notice by the shareholder must be so received not earlier than the close of business on the 90th day prior to such annual meeting and not later than the close of business on the later of either (i) the 60th day prior to such annual meeting, or (ii) the close of business on the tenth day following the day on which notice of the date of the meeting was mailed or public disclosure of the date of the meeting was made by the Company, whichever occurs first. In no event will the public announcement of an adjournment of an annual meeting of shareholders commence a new time period for the giving of a shareholder's notice as provided above. A shareholder's notice to our Secretary must set forth the information required by our bylaws with respect to each matter the shareholder proposes to bring before the annual meeting.

Pursuant to rules adopted by the SEC, if a shareholder intends to propose any matter for a vote at our annual meeting to be held in calendar year 2019 but fails to notify us of that intention prior to November 7, 2018, then a proxy solicited by the Board of Directors may be voted on that matter in the discretion of the proxy holder, provided that this date may be changed in the event that the date of the annual meeting of shareholders to be held in calendar year 2019 is changed by more than 30 days from the date of the annual meeting of shareholders held in calendar year 2018.

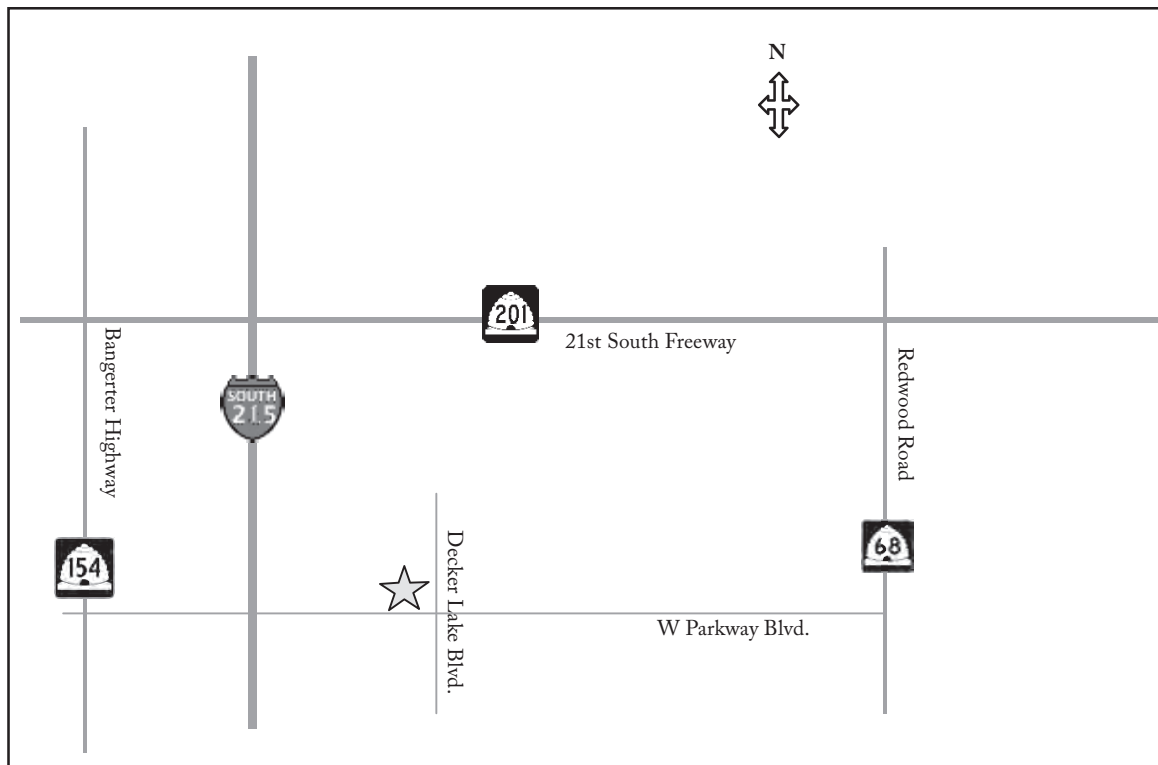
WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly, and current reports, proxy statements and other information with the SEC. You may read and copy any document we file at the SEC's public reference room, 100 F Street NE, Washington, D.C. 20549. These SEC filings are also available to the public from the SEC's web site at <http://www.sec.gov>.

We will provide without charge to any person from whom a Proxy is solicited by the Board of Directors, upon the written request of such person, a copy of our 2018 Annual Report on Form 10-K, including the financial statements and schedules thereto (as well as exhibits thereto, if specifically requested), required to be filed with the Securities and Exchange Commission. Written requests for such information should be directed to Franklin Covey Co., Investor Relations Department, 2200 West Parkway Boulevard, Salt Lake City, Utah 84119-2331, Attn: Mr. Stephen D. Young.

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

DIRECTIONS TO THE ANNUAL MEETING



Directions to FranklinCovey from Provo/South

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

Directions to Franklin Covey from Downtown/North

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

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

APPENDIX A**FRANKLIN COVEY CO.
2019 OMNIBUS INCENTIVE PLAN****Section 1. Purpose**

The purpose of the Plan is to promote the interests of the Company and its shareholders by aiding the Company in attracting and retaining employees, officers, consultants, advisors and non-employee Directors capable of assuring the future success of the Company, to offer such persons incentives to put forth maximum efforts for the success of the Company's business and to compensate such persons through various stock-based arrangements and provide them with opportunities for stock ownership in the Company, thereby aligning the interests of such persons with the Company's shareholders.

Section 2. Definitions

As used in the Plan, the following terms shall have the meanings set forth below:

- (a) "*Affiliate*" shall mean any entity that, directly or indirectly through one or more intermediaries, is controlled by the Company.
- (b) "*Award*" shall mean any Option, Stock Appreciation Right, Restricted Stock, Restricted Stock Unit or Other Stock-Based Award granted under the Plan.
- (c) "*Award Agreement*" shall mean any written agreement, contract or other instrument or document evidencing an Award granted under the Plan (including a document in an electronic medium) executed in accordance with the requirements of Section 9(b).
- (d) "*Board*" shall mean the Board of Directors of the Company.
- (e) "*Change in Control*" shall mean the occurrence of any of the following events:
 - (i) a change in control required to be reported pursuant to Item 6(e) of Schedule 14A of Regulation 14A under the Exchange Act;
 - (ii) a change in the composition of the Board, as a result of which fewer than fifty percent of the incumbent Directors are Directors who either (i) had been directors of the Company 24 months prior to such change or (ii) were elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the Directors who had been Directors of the Company 24 months prior to such change and who were still in office at the time of the election or nomination;
 - (iii) any "person" (as such term is used in Section 13(d) of the Exchange Act) is or becomes the beneficial owner, directly or indirectly, of securities of the Company representing 30 percent or more of the combined voting power of the Company's then outstanding securities ordinarily (and apart from rights accruing under special circumstances) having the right to vote at elections of Directors (the "*Base Capital Stock*"); provided, however, that any change in the relative beneficial ownership of securities of any person resulting solely from a reduction in the aggregate number of outstanding shares of Base Capital Stock, and any decrease thereafter in such person's ownership of securities, shall be disregarded until such person increases in any manner, directly or indirectly, such person's beneficial ownership of any securities of the Company; or
 - (iv) The consummation of a merger or consolidation of the Company with or into another person or the sale, transfer, or other disposition of all or substantially all of the Company's assets to one or more other persons in a single transaction or series of related transactions that requires the approval of the Company's shareholders, whether for such transaction or the issuance of securities in such transaction (a "*Business Combination*"), unless in connection with such Business Combination securities possessing more than 50% of the total combined voting power of the survivor's or acquirer's outstanding securities (or the securities of any parent

thereof) are held by a person or persons who held securities possessing more than 50% of the total combined voting power of the Company's outstanding securities ("*Company Voting Securities*") immediately prior to such Business Combination and such voting power among the holders thereof is in substantially the same proportion as the voting power of such Company Voting Securities among the holders thereof immediately prior to such Business Combination.

- (f) "*Code*" shall mean the Internal Revenue Code of 1986, as amended from time to time, and any regulations promulgated thereunder.
- (g) "*Committee*" shall mean The Organization and Compensation Committee of the Board or such other committee designated by the Board to administer the Plan. The Committee shall be comprised of not less than such number of Directors as shall be required to permit Awards granted under the Plan to qualify under Rule 16b-3, and at least two members of the Committee shall be a "non-employee director" within the meaning of Rule 16b-3.
- (h) "*Company*" shall mean Franklin Covey Co. and any successor corporation.
- (i) "*Director*" shall mean a member of the Board.
- (j) "*Eligible Person*" shall mean any employee, officer, non-employee Director, consultant, independent contractor or advisor providing services to the Company or any Affiliate, or any such person to whom an offer of employment or engagement with the Company or any Affiliate is extended.
- (k) "*Exchange Act*" shall mean the Securities Exchange Act of 1934, as amended.
- (l) "*Fair Market Value*" with respect to one Share as of any date shall mean (a) if the Share is listed on any established stock exchange, the price of one Share at the close of the regular trading session of such market or exchange on such date, as reported by The New York Stock Exchange or a comparable reporting service, or, if no sale of Shares shall have occurred on such date, on the next preceding date on which there was a sale of Shares; (b) if the Shares are not so listed on any established stock exchange, the average of the closing "bid" and "asked" prices quoted by the OTC Bulletin Board, the National Quotation Bureau, or any comparable reporting service on such date or, if there are no quoted "bid" and "asked" prices on such date, on the next preceding date for which there are such quotes for a Share; or (c) if the Shares are not publicly traded as of such date, the per share value of a Share, as determined by the Board, or any duly authorized Committee of the Board, in its sole discretion, by applying principles of valuation with respect thereto.
- (m) "*Incentive Stock Option*" shall mean an option granted under Section 6(a) of the Plan that is intended to meet the requirements of Section 422 of the Code or any successor provision.
- (n) "*Non-Qualified Stock Option*" shall mean an option granted under Section 6(a) of the Plan that is not intended to be an Incentive Stock Option.
- (o) "*Option*" shall mean an Incentive Stock Option or a Non-Qualified Stock Option to purchase shares of the Company.
- (p) "*Other Stock-Based Award*" shall mean any right granted under Section 6(d) of the Plan.
- (q) "*Participant*" shall mean an Eligible Person designated to be granted an Award under the Plan.
- (r) "*Person*" shall mean any individual or entity, including a corporation, partnership, limited liability company, association, joint venture or trust.
- (s) "*Plan*" shall mean the Franklin Covey Co. 2019 Omnibus Incentive Plan, as amended from time to time.
- (t) "*Prior Stock Plans*" shall mean the Franklin Covey Co. 2015 Omnibus Incentive Plan and the Franklin Covey Co. Second Amended and Restated 1992 Stock Incentive Plan, as amended from time to time.
- (u) "*Restricted Stock*" shall mean any Share granted under Section 6(c) of the Plan.

- (v) “*Restricted Stock Unit*” shall mean any unit granted under Section 6(c) of the Plan evidencing the right to receive a Share (or a cash payment equal to the Fair Market Value of a Share) at some future date.
- (w) “*Rule 16b-3*” shall mean Rule 16b-3 promulgated by the Securities and Exchange Commission under the Exchange Act or any successor rule or regulation.
- (x) “*Section 409A*” shall mean Section 409A of the Code, or any successor provision, and applicable Treasury Regulations and other applicable guidance thereunder.
- (y) “*Securities Act*” shall mean the Securities Act of 1933, as amended.
- (z) “*Share*” or “*Shares*” shall mean common shares in the capital of the Company (or such other securities or property as may become subject to Awards pursuant to an adjustment made under Section 4(c) of the Plan).
- (aa) “*Specified Employee*” shall mean a specified employee as defined in Section 409A(a)(2)(B) of the Code or applicable proposed or final regulations under Section 409A, determined in accordance with procedures established by the Company and applied uniformly with respect to all plans maintained by the Company that are subject to Section 409A.
- (bb) “*Stock Appreciation Right*” shall mean any right granted under Section 6(b) of the Plan.

Section 3. Administration

- (a) Power and Authority of the Committee. The Plan shall be administered by the Committee. Subject to the express provisions of the Plan and to applicable law, the Committee shall have full power and authority to: (i) designate Participants; (ii) determine the type or types of Awards to be granted to each Participant under the Plan; (iii) determine the number of Shares to be covered by (or the method by which payments or other rights are to be calculated in connection with) each Award; (iv) determine the terms and conditions of any Award or Award Agreement, including any terms relating to the forfeiture of any Award and the forfeiture, recapture or disgorgement of any cash, Shares or other amounts payable with respect to any Award; (v) amend the terms and conditions of any Award or Award Agreement, subject to the limitations under Section 7; (vi) accelerate the exercisability of any Award or the lapse of any restrictions relating to any Award, subject to the limitations in Sections 6(e)(vi) and 6(e)(viii) and Section 7, (vii) determine whether, to what extent and under what circumstances Awards may be exercised in cash, Shares, other securities, other Awards or other property (excluding promissory notes), or canceled, forfeited or suspended, subject to the limitations in Section 7; (viii) determine whether, to what extent and under what circumstances amounts payable with respect to an Award under the Plan shall be deferred either automatically or at the election of the holder thereof or the Committee, subject to the requirements of Section 409A; (ix) interpret and administer the Plan and any instrument or agreement, including an Award Agreement, relating to the Plan; (x) establish, amend, suspend or waive such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; (xi) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan; and (xii) adopt such modifications, rules, procedures and subplans as may be necessary or desirable to comply with provisions of the laws of non-U.S. jurisdictions in which the Company or an Affiliate may operate, including, without limitation, establishing any special rules for Affiliates, Eligible Persons or Participants located in any particular country, in order to meet the objectives of the Plan and to ensure the viability of the intended benefits of Awards granted to Participants located in such non-United States jurisdictions. Unless otherwise expressly provided in the Plan, all designations, determinations, interpretations and other decisions under or with respect to the Plan or any Award or Award Agreement shall be within the sole discretion of the Committee, may be made at any time and shall be final, conclusive and binding upon any Participant, any holder or beneficiary of any Award or Award Agreement, and any employee of the Company or any Affiliate.

- (b) Delegation. The Committee may delegate to one or more officers or Directors of the Company, subject to such terms, conditions and limitations as the Committee may establish in its sole discretion, the authority to grant Awards; *provided, however*, that the Committee shall not delegate such authority (i) with regard to grants of Awards to be made to officers of the Company or any Affiliate who are subject to Section 16 of the Exchange Act or (ii) in such a manner as would cause the Plan not to comply with the requirements of applicable exchange rules or applicable corporate law.
- (c) Power and Authority of the Board. Notwithstanding anything to the contrary contained herein, (i) the Board may, at any time and from time to time, without any further action of the Committee, exercise the powers and duties of the Committee under the Plan, unless the exercise of such powers and duties by the Board would cause the Plan not to comply with the requirements of Rule 16b-3; and (ii) only the Committee (or another committee of the Board comprised of directors who qualify as independent directors within the meaning of the independence rules of any applicable securities exchange where the Shares are then listed) may grant Awards to Directors who are not also employees of the Company or an Affiliate.
- (d) Indemnification. To the full extent permitted by law, (i) no member of the Board, the Committee or any person to whom the Committee delegates authority under the Plan shall be liable for any action or determination taken or made in good faith with respect to the Plan or any Award made under the Plan, and (ii) the members of the Board, the Committee and each person to whom the Committee delegates authority under the Plan shall be entitled to indemnification by the Company with regard to such actions and determinations. The provisions of this paragraph shall be in addition to such other rights of indemnification as a member of the Board, the Committee or any other person may have by virtue of such person's position with the Company.

Section 4. Shares Available for Awards

- (a) Shares Available. Subject to adjustment as provided in Section 4(c) of the Plan, the aggregate number of Shares that may be issued under all Awards under the Plan shall equal:
 - (i) 700,000 Shares, plus
 - (ii) any Shares subject to any outstanding award under the Prior Stock Plans that, after November 30, 2018, are not purchased or are forfeited or reacquired by the Company, or otherwise not delivered to the Participant due to termination or cancellation of such award, subject to the share counting provisions of Section 4(b) below, less
 - (iii) any Shares subject to any award issued under the Prior Stock Plans after November 30, 2018. On and after shareholder approval of this Plan, no awards shall be granted under the Prior Stock Plans, but all outstanding awards previously granted under the Prior Stock Plans shall remain outstanding and subject to the terms of the Prior Stock Plans.

The aggregate number of Shares that may be issued under all Awards under the Plan shall be reduced by Shares subject to Awards issued under the Plan in accordance with the Share counting rules described in Section 4(b) below. When determining the Shares added to and subtracted from the aggregate reserve under paragraphs (ii) and (iii) above, the number of Shares added or subtracted shall be also determined in accordance with the Share counting rules described in Section 4(b) below (including, for avoidance of doubt the Share recycling rules).

- (b) Counting Shares. For purposes of this Section 4, except as set forth in this Section 4(b) below, if an Award entitles the holder thereof to receive or purchase Shares, the number of Shares covered by such Award or to which such Award relates shall be counted on the date of grant of such Award against the aggregate number of Shares available for granting Awards under the Plan.
 - (i) Shares Added Back to Reserve. Subject to the limitations in (ii) below, if any Shares covered by an Award or to which an Award relates are not purchased or are forfeited or are reacquired by the Company, then the number of Shares counted against the aggregate number of Shares available under the Plan with respect to such Award, to the extent of any such forfeiture, reacquisition by the Company, termination or cancellation, shall again be available for granting Awards under the Plan.

- (ii) Shares Not Added Back to Reserve. Notwithstanding anything to the contrary in (i) above, the following Shares will not again become available for issuance under the Plan: (A) any Shares which would have been issued upon any exercise of an Option but for the fact that the exercise price was paid by a “net exercise” pursuant to Section 6(a)(iii)(B) or any Shares tendered in payment of the exercise price of an Option; (B) any Shares withheld by the Company or Shares tendered to satisfy any tax withholding obligation; (C) Shares covered by a stock-settled Stock Appreciation Right issued under the Plan that are not issued in connection with settlement in Shares upon exercise; or (D) Shares that are repurchased by the Company using Option exercise proceeds.
 - (iii) Cash-Only Awards. Awards that do not entitle the holder thereof to receive or purchase Shares shall not be counted against the aggregate number of Shares available for Awards under the Plan.
 - (iv) Substitute Awards Relating to Acquired Entities. Shares issued under Awards granted in substitution for awards previously granted by an entity that is acquired by or merged with the Company or an Affiliate shall not be counted against the aggregate number of Shares available for Awards under the Plan.
- (c) Adjustments. In the event that any dividend (other than a regular cash dividend) or other distribution (whether in the form of cash, Shares, other securities or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase or exchange of Shares or other securities of the Company, issuance of warrants or other rights to purchase Shares or other securities of the Company or other similar corporate transaction or event affects the Shares such that an adjustment is necessary in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of (i) the number and type of Shares (or other securities or other property) that thereafter may be made the subject of Awards, (ii) the number and type of Shares (or other securities or other property) subject to outstanding Awards, (iii) the purchase price or exercise price with respect to any Award and (iv) the limitations contained in Sections 4(d)(i) and (ii) below; *provided, however*, that the number of Shares covered by any Award or to which such Award relates shall always be a whole number. Such adjustment shall be made by the Committee or the Board, whose determination in that respect shall be final, binding and conclusive.
- (d) Award Limitations Under the Plan. The limitation contained in this Section 4(d) shall apply only with respect to any Award or Awards granted under this Plan, and limitations on awards granted under any other shareholder-approved incentive plan maintained by the Company will be governed solely by the terms of such other plan.
- (i) Limitation for Employees and Officers. No Eligible Person who is an employee or officer may be granted any Award or Awards denominated in Shares for more than 250,000 Shares (subject to adjustment as provided for in Section 4(c) of the Plan), in the aggregate in any fiscal year.
 - (ii) Limitation for Consultants, Independent Contractors and Advisors. No Eligible Person who is a consultant, independent contractor or advisor may be granted any Award or Awards denominated in Shares for more than 250,000 Shares (subject to adjustment as provided for in Section 4(c) of the Plan), in the aggregate in any fiscal year.
 - (iii) Limitation of Awards Granted to Non-Employee Directors. No Director who is not also an employee of the Company or an Affiliate may be granted any Award or Awards denominated in Shares that exceed in the aggregate \$125,000 (such value computed as of the date of grant in accordance with applicable financial accounting rules) in any fiscal year. The foregoing limit shall not apply to any Award made pursuant to any election by the Director to receive an Award in lieu of all or a portion of annual and committee retainers and annual meeting fees.

Section 5. Eligibility

Any Eligible Person shall be eligible to be designated as a Participant. In determining which Eligible Persons shall receive an Award and the terms of any Award, the Committee may take into account the nature of the services rendered by the respective Eligible Persons, their present and potential contributions to the success of the Company or such other factors as the Committee, in its discretion, shall deem relevant. Notwithstanding the foregoing, an Incentive Stock Option may only be granted to employees (which term as used herein includes, without limitation, officers and Directors who are also employees), and an Incentive Stock Option shall not be granted to an employee of an Affiliate unless such Affiliate is also a “subsidiary corporation” of the Company within the meaning of Section 424(f) of the Code or any successor provision.

Section 6. Awards

- (a) Options. The Committee is hereby authorized to grant Options to Eligible Persons with the following terms and conditions and with such additional terms and conditions not inconsistent with the provisions of the Plan as the Committee shall determine:
- (i) Exercise Price. The purchase price per Share purchasable under an Option shall be determined by the Committee and shall not be less than 100% of the Fair Market Value of a Share on the date of grant of such Option; *provided, however*, that the Committee may designate a purchase price below Fair Market Value on the date of grant if the Option is granted in substitution for a stock option previously granted by an entity that is acquired by or merged with the Company or an Affiliate.
 - (ii) Option Term. The term of each Option shall be fixed by the Committee at the time but shall not be longer than 10 years from the date of grant. Notwithstanding the foregoing, the Committee may provide in the terms of an Option (either at grant or by subsequent modification) that, to the extent consistent with Section 409A, in the event that on the last business day of the term of an Option (other than an Incentive Stock Option) (i) the exercise of the Option is prohibited by applicable law or (ii) Shares may not be purchased or sold by certain employees or directors of the Company due to the “black-out period” of a Company policy or a “lock-up” agreement undertaken in connection with an issuance of securities by the Company, the term of the Option shall be extended for a period of not more than thirty (30) days following the end of the legal prohibition, black-out period or lock-up agreement.
 - (iii) Time and Method of Exercise. Subject to Section 6(a)(iii)(B), the Committee shall determine the time or times at which an Option may be exercised in whole or in part and the method or methods by which, and the form or forms, including, but not limited to, cash, Shares (actually or by attestation), other securities, other Awards or other property, or any combination thereof, having a Fair Market Value on the exercise date equal to the applicable exercise price, in which, payment of the exercise price with respect thereto may be made or deemed to have been made.
 - (A) Promissory Notes. Notwithstanding the foregoing, the Committee may not accept a promissory note as consideration.
 - (B) Net Exercises. Notwithstanding anything to the contrary herein, the Participant may, in his or her discretion, exercise an Option by requesting that the Company deliver to the Participant a number of Shares having an aggregate Fair Market Value (determined as of the date of exercise) equal to the excess, if positive, of the Fair Market Value of the Shares underlying the Option being exercised on the date of exercise, over the exercise price of the Option for such Shares.

- (iv) Incentive Stock Options. Notwithstanding anything in the Plan to the contrary, the following additional provisions shall apply to the grant of stock options which are intended to qualify as Incentive Stock Options:
- (A) The aggregate number of Shares that may be issued under all Incentive Stock Options under the Plan shall be 700,000 Shares.
 - (B) The Committee will not grant Incentive Stock Options in which the aggregate Fair Market Value (determined as of the time the Option is granted) of the Shares with respect to which Incentive Stock Options are exercisable for the first time by any Participant during any calendar year (under this Plan and all other plans of the Company and its Affiliates) shall exceed \$100,000.
 - (C) All Incentive Stock Options must be granted within ten years from the earlier of the date on which this Plan was adopted by the Board or the date this Plan was approved by the shareholders of the Company.
 - (D) Unless sooner exercised, all Incentive Stock Options shall expire and no longer be exercisable no later than 10 years after the date of grant; *provided, however*, that in the case of a grant of an Incentive Stock Option to a Participant who, at the time such Option is granted, owns (within the meaning of Section 422 of the Code) stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or of its Affiliates, such Incentive Stock Option shall expire and no longer be exercisable no later than five years from the date of grant.
 - (E) The purchase price per Share for an Incentive Stock Option shall be not less than 100% of the Fair Market Value of a Share on the date of grant of the Incentive Stock Option; *provided, however*, that, in the case of the grant of an Incentive Stock Option to a Participant who, at the time such Option is granted, owns (within the meaning of Section 422 of the Code) stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or of its Affiliates, the purchase price per Share purchasable under an Incentive Stock Option shall be not less than 110% of the Fair Market Value of a Share on the date of grant of the Incentive Stock Option.
 - (F) Any Incentive Stock Option authorized under the Plan shall contain such other provisions as the Committee shall deem advisable, but shall in all events be consistent with and contain all provisions required in order to qualify the Option as an Incentive Stock Option.
- (b) Stock Appreciation Rights. The Committee is hereby authorized to grant Stock Appreciation Rights to Eligible Persons subject to the terms of the Plan and any applicable Award Agreement. A Stock Appreciation Right granted under the Plan shall confer on the holder thereof a right to receive upon exercise thereof the excess of (i) the Fair Market Value of one Share on the date of exercise over (ii) the grant price of the Stock Appreciation Right as specified by the Committee, which price shall not be less than 100% of the Fair Market Value of one Share on the date of grant of the Stock Appreciation Right; *provided, however*, that the Committee may designate a grant price below Fair Market Value on the date of grant if the Stock Appreciation Right is granted in substitution for a stock appreciation right previously granted by an entity that is acquired by or merged with the Company or an Affiliate. Subject to the terms of the Plan and any applicable Award Agreement, the grant price, term, methods of exercise, dates of exercise, methods of settlement and any other terms and conditions of any Stock Appreciation Right shall be as determined by the Committee (except that the term of each Stock Appreciation Right shall be subject to the same limitations in Section 6(a)(ii) applicable to Options). The Committee may impose such conditions or restrictions on the exercise of any Stock Appreciation Right as it may deem appropriate.

- (c) Restricted Stock and Restricted Stock Units. The Committee is hereby authorized to grant an Award of Restricted Stock and Restricted Stock Units to Eligible Persons with the following terms and conditions and with such additional terms and conditions not inconsistent with the provisions of the Plan as the Committee shall determine:
- (i) Restrictions. Shares of Restricted Stock and Restricted Stock Units shall be subject to such restrictions as the Committee may impose (including, without limitation, any limitation on the right to receive any property with respect thereto), which restrictions may lapse separately or in combination at such time or times, in such installments or otherwise as the Committee may deem appropriate. For purposes of clarity and without limiting the Committee's general authority under Section 3(a), vesting of such Awards may, at the Committee's discretion, be conditioned upon the Participant's completion of a minimum period of service with the Company or an Affiliate, or upon the achievement of one or more performance goals established by the Committee, or upon any combination of service-based and performance-based conditions. As provided in Section 6(e)(ix) below, the holders of Restricted Stock will not have any voting, dividend, or other rights until the Restricted Stock restrictions lapse or are waived. The holders of Restricted Stock Units shall have no voting rights and shall have no dividend rights until the applicable restrictions lapse or are waived.
 - (ii) Issuance and Delivery of Shares. Any Restricted Stock granted under the Plan shall be issued at the time such Awards are granted and may be evidenced in such manner as the Committee may deem appropriate, including book-entry registration or issuance of a stock certificate or certificates, which certificate or certificates shall be held by the Company or held in nominee name by the stock transfer agent or brokerage service selected by the Company to provide such services for the Plan. Such certificate or certificates shall be registered in the name of the Participant and shall bear an appropriate legend referring to the restrictions applicable to such Restricted Stock. Shares representing Restricted Stock that are no longer subject to restrictions shall be delivered (including by updating the book-entry registration) to the Participant promptly after the applicable restrictions lapse or are waived. In the case of Restricted Stock Units, no Shares shall be issued at the time such Awards are granted. Upon the lapse or waiver of restrictions and the restricted period relating to Restricted Stock Units evidencing the right to receive Shares, such Shares shall be issued and delivered to the holder of the Restricted Stock Units.
- (d) Other Stock-Based Awards. The Committee is hereby authorized to grant to Eligible Persons such other Awards that are denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, Shares (including, without limitation, securities convertible into Shares), as are deemed by the Committee to be consistent with the purpose of the Plan. The Committee shall determine the terms and conditions of such Awards, subject to the terms of the Plan and any applicable Award Agreement. No Award issued under this Section 6(d) shall contain a purchase right or an option-like exercise feature.
- (e) General Consideration for Awards. Awards may be granted for no cash consideration or for any cash or other consideration as may be determined by the Committee or required by applicable law.
- (i) Awards May Be Granted Separately or Together. Awards may, in the discretion of the Committee, be granted either alone or in addition to, in tandem with or in substitution for any other Award or any award granted under any other plan of the Company or any Affiliate. Awards granted in addition to or in tandem with other Awards or in addition to or in tandem with awards granted under any other plan of the Company or any Affiliate may be granted either at the same time as or at a different time from the grant of such other Awards or awards.

- (ii) Forms of Payment under Awards. Subject to the terms of the Plan and of any applicable Award Agreement, payments or transfers to be made by the Company or an Affiliate upon the grant, exercise or payment of an Award may be made in such form or forms as the Committee shall determine (including, without limitation, cash, Shares, other securities (but excluding promissory notes), other Awards or other property or any combination thereof), and may be made in a single payment or transfer, in installments or on a deferred basis, in each case in accordance with rules and procedures established by the Committee. Such rules and procedures may include, without limitation, provisions for the payment or crediting of reasonable interest on installment or deferred payments.
- (iii) Limits on Transfer of Awards. No Award (other than fully vested and unrestricted Shares issued pursuant to any Award) and no right under any such Award shall be transferable by a Participant other than by will or by the laws of descent and distribution, and no Award (other than fully vested and unrestricted Shares issued pursuant to any Award) or right under any such Award may be pledged, alienated, attached or otherwise encumbered, and any purported pledge, alienation, attachment or encumbrance thereof shall be void and unenforceable against the Company or any Affiliate. Notwithstanding the foregoing, the Committee may permit the transfer of an Award other than a fully vested and unrestricted Share to family members, provided that such permitted transfer shall be for no value and in accordance with the rules of Form S-8. The Committee may also establish procedures as it deems appropriate for a Participant to designate a person or persons, as beneficiary or beneficiaries, to exercise the rights of the Participant and receive any property distributable with respect to any Award in the event of the Participant's death.
- (iv) Restrictions; Securities Exchange Listing. All Shares or other securities delivered under the Plan pursuant to any Award or the exercise thereof shall be subject to such restrictions as the Committee may deem advisable under the Plan, applicable federal or state securities laws and regulatory requirements, and the Committee may cause appropriate entries to be made with respect to, or legends to be placed on the certificates for, such Shares or other securities to reflect such restrictions. The Company shall not be required to deliver any Shares or other securities covered by an Award unless and until the requirements of any federal or state securities or other laws, rules or regulations (including the rules of any securities exchange) as may be determined by the Company to be applicable are satisfied.
- (v) Prohibition on Option and Stock Appreciation Right Repricing. Except as provided in Section 4(c) hereof, the Committee may not, without prior approval of the Company's shareholders, seek to effect any re-pricing of any previously granted, "underwater" Option or Stock Appreciation Right by: (i) amending or modifying the terms of the Option or Stock Appreciation Right to lower the exercise price; (ii) canceling the underwater Option or Stock Appreciation Right and granting either (A) replacement Options or Stock Appreciation Rights having a lower exercise price; or (B) Restricted Stock, Restricted Stock Units, or Other Stock-Based Award in exchange; or (iii) cancelling or repurchasing the underwater Option or Stock Appreciation Right for cash or other securities. An Option or Stock Appreciation Right will be deemed to be "underwater" at any time when the Fair Market Value of the Shares covered by such Award is less than the exercise price of the Award.
- (vi) Minimum Vesting. Except as provided in (A) below, no Option, Stock Appreciation Right, Restricted Stock, Restricted Stock Unit, or Other-Stock Based Award shall be granted with terms providing for a lapse of any vesting obligations earlier than a date that is at least one-year following the date of grant (or, in the case of vesting based upon performance-based objectives, vesting restrictions cannot lapse earlier than the one-year anniversary measured from the commencement of the period over which performance is evaluated).
 - (A) Notwithstanding the foregoing, a maximum of five percent (5%) of the aggregate number of Shares available for issuance under this Plan may be issued as Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units or other Stock-Based Awards that do not comply with the applicable one-year minimum vesting requirements set forth above.

- (B) For purposes of counting Shares against the five percent (5%) limitation, the Share counting rules under Sections 4(a) and 4(b) of the Plan apply.
- (C) Nothing in this Section 6 shall limit the authority of the Committee to provide for the acceleration of the exercisability of any Award or the lapse of any restrictions relating to any Award except where expressly limited in Section 6(e)(viii).
- (vii) Section 409A Provisions. Notwithstanding anything in the Plan or any Award Agreement to the contrary, to the extent that any amount or benefit that constitutes “deferred compensation” to a Participant under Section 409A and applicable guidance thereunder is otherwise payable or distributable to a Participant under the Plan or any Award Agreement solely by reason of the occurrence of a change in control event or due to the Participant’s disability or “separation from service” (as such term is defined under Section 409A), such amount or benefit will not be payable or distributable to the Participant by reason of such circumstance unless the Committee determines in good faith that (i) the circumstances giving rise to such change in control event, disability or separation from service meet the definition of a change in control event, disability, or separation from service, as the case may be, in Section 409A(a)(2)(A) of the Code and applicable proposed or final regulations, or (ii) the payment or distribution of such amount or benefit would be exempt from the application of Section 409A by reason of the short-term deferral exemption or otherwise. Any payment or distribution that otherwise would be made to a Participant who is a Specified Employee (as determined by the Committee in good faith) on account of separation from service may not be made before the date which is six months after the date of the Specified Employee’s separation from service (or if earlier, upon the Specified Employee’s death) unless the payment or distribution is exempt from the application of Section 409A by reason of the short-term deferral exemption or otherwise.
- (viii) Acceleration of Vesting or Exercisability. No Award Agreement shall accelerate time-based vesting of any Award solely in connection with any corporate transaction as described in Section 7(b); *provided, that* an Award Agreement may accelerate time-based vesting for events occurring in connection with a corporate transaction that are materially adverse to the Participant (*e.g.*, termination without cause, resignation for good reason, death or disability, as such terms are determined by the Committee). The Committee may, pursuant to its general authority under Section 3(a), waive the foregoing limitation and accelerate time-based vesting under an Award, but only upon the consummation of (or effective immediately prior to the consummation of, provided that the consummation subsequently occurs) a corporate transaction that qualifies as a Change in Control where the definitive agreement among the parties to the Change in Control contemplates that the Award will be cancelled in exchange for an immediate right to cash in accordance with Section 7(b)(i). The foregoing limitation shall not be construed to limit the Committee’s ability to modify performance vesting conditions (as opposed to time-based vesting provisions) in connection with a corporate transaction.
- (ix) Dividend Rights. Except as provided in Section 4(c) (with respect to equitable adjustments), the holders of Awards shall have no voting rights and shall have no dividend or equivalent rights (including no right to accrue dividends or dividend equivalent amounts that become payable upon vesting, lapse of restrictions, or settlement of an Award). In the event of any non-regular dividend or similar equitable adjustment to an Award under Section 4(c), such dividend or other adjustment amount shall be subject to the same vesting and other restrictions as apply to the underlying Award Shares. The foregoing limitations shall not apply to fully vested, unrestricted Shares issued under any Award.

Section 7. Amendment and Termination; Corrections

- (a) Amendments to the Plan and Awards. The Board may from time to time amend, suspend or terminate this Plan, and the Committee may amend the terms of any previously granted Award, provided that no amendment to the terms of any previously granted Award may, (except as expressly provided in the Plan) materially and adversely alter or impair the terms or conditions of the Award previously granted to a Participant under this Plan without the written consent of the Participant or holder thereof. Any amendment to this Plan, or to the terms of any Award previously granted, is subject to compliance with all applicable laws, rules, regulations and policies of any applicable governmental entity or securities exchange, including receipt of any required approval from the governmental entity or stock exchange. For greater certainty and without limiting the foregoing, the Board may amend, suspend, terminate or discontinue the Plan, and the Committee may amend or alter any previously granted Award, as applicable, without obtaining the approval of shareholders of the Company in order to:
- (i) unless the New York Stock Exchange or any other securities exchange that is applicable to the Company requires otherwise, amend the eligibility for, and limitations or conditions imposed upon, participation in the Plan;
 - (ii) amend any terms relating to the granting or exercise of Awards, including but not limited to terms relating to the amount and payment of the exercise price, or the vesting, expiration, assignment or adjustment of Awards, or otherwise waive any conditions of or rights of the Company under any outstanding Award, prospectively or retroactively;
 - (iii) make changes that are necessary or desirable to comply with applicable laws, rules, regulations and policies of any applicable governmental entity or stock exchange (including amendments to Awards necessary or desirable to maximize any available tax deduction or to avoid any adverse tax results, and no action taken to comply with such tax provision shall be deemed to impair or otherwise adversely alter or impair the rights of any holder of an Award or beneficiary thereof); or
 - (iv) amend any terms relating to the administration of the Plan, including the terms of any administrative guidelines or other rules related to the Plan.

For greater certainty, prior approval of the shareholders of the Company shall be required for any amendment to the Plan or an Award that would:

- (i) require shareholder approval under the rules or regulations of the Securities and Exchange Commission, the New York Stock Exchange or any other securities exchange that is applicable to the Company;
 - (ii) increase the number of shares authorized under the Plan as specified in Section 4(a) of the Plan;
 - (iii) increase the number of shares or value subject to the limitations contained in Section 4(d) of the Plan;
 - (iv) permit repricing of Options or Stock Appreciation Rights, which is currently prohibited by Section 6(e)(v) of the Plan;
 - (v) permit the award of Options or Stock Appreciation Rights at a price less than 100% of the Fair Market Value of a Share on the date of grant of such Option or Stock Appreciation Right, contrary to the provisions of Section 6(a)(i) and Section 6(b) of the Plan; or
 - (vi) increase the maximum term permitted for Options and Stock Appreciation Rights as specified in Section 6(a)(ii) and Section 6(b).
- (b) Corporate Transactions. In the event of any reorganization, merger, consolidation, split-up, spin-off, combination, plan of arrangement, take-over bid or tender offer, Change in Control, repurchase or exchange of Shares or other securities of the Company or any other similar corporate transaction or event involving the Company (or the Company shall enter into a written agreement to undergo such a transaction or event), the Committee or the Board may, in its sole discretion but subject to the limitation in Section 6(e)(viii), provide for any of the following

to be effective upon the consummation of the event (or effective immediately prior to the consummation of the event, provided that the consummation of the event subsequently occurs), and no action taken under this Section 7(b) shall be deemed to impair or otherwise adversely alter the rights of any holder of an Award or beneficiary thereof:

- (i) either (A) termination of the Award, whether or not vested, in exchange for an amount of cash and/or other property, if any, equal to the amount that would have been attained upon the exercise of the Award or realization of the Participant's rights (and, for the avoidance of doubt, if, as of the date of the occurrence of the transaction or event described in this Section 7(b)(i)(A), the Committee or the Board determines in good faith that no amount would have been attained upon the exercise of the Award or realization of the Participant's rights, then the Award may be terminated by the Company without any payment) or (B) the replacement of the Award with other rights or property selected by the Committee or the Board, in its sole discretion;
 - (ii) that the Award be assumed by the successor or survivor corporation, or a parent or subsidiary thereof, or shall be substituted for by similar options, rights or awards covering the stock of the successor or survivor corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of shares and prices;
 - (iii) that, subject to the limitation in Section 6(e)(viii), the Award shall be exercisable or payable or fully vested with respect to all Shares covered thereby, notwithstanding anything to the contrary in the applicable Award Agreement; or
 - (iv) that the Award cannot vest, be exercised or become payable after a date certain in the future, which may be the effective date of the event.
- (c) Correction of Defects, Omissions and Inconsistencies. The Committee may, without prior approval of the shareholders of the Company, correct any defect, supply any omission or reconcile any inconsistency in the Plan or in any Award or Award Agreement in the manner and to the extent it shall deem desirable to implement or maintain the effectiveness of the Plan.

Section 8. Income Tax Withholding

In order to comply with all applicable federal, state, local or foreign income tax laws or regulations, the Company may take such action as it deems appropriate to ensure that all applicable federal, state, local or foreign payroll, withholding, income or other taxes, which are the sole and absolute responsibility of a Participant, are withheld or collected from such Participant. In order to assist a Participant in paying all or a portion of the applicable taxes to be withheld or collected upon exercise or receipt of (or the lapse of restrictions relating to) an Award, a Participant may, in his or her discretion, satisfy such tax obligation by (a) electing to have the Company withhold a portion of the Shares otherwise to be delivered upon exercise or receipt of (or the lapse of restrictions relating to) such Award with a Fair Market Value equal to the amount of such taxes (consistent with the guidance provided by ASC Topic 718 to avoid adverse accounting treatment) or (b) delivering to the Company Shares other than Shares issuable upon exercise or receipt of (or the lapse of restrictions relating to) such Award with a Fair Market Value equal to the amount of such taxes. The election, if any, must be made on or before the date that the amount of tax to be withheld is determined.

Section 9. General Provisions

- (a) No Rights to Awards. No Eligible Person, Participant or other Person shall have any claim to be granted any Award under the Plan, and there is no obligation for uniformity of treatment of Eligible Persons, Participants or holders or beneficiaries of Awards under the Plan. The terms and conditions of Awards need not be the same with respect to any Participant or with respect to different Participants.
- (b) Award Agreements. No Participant shall have rights under an Award granted to such Participant unless and until an Award Agreement shall have been signed by the Participant (if requested by the Company), or until such

Award Agreement is delivered and accepted through an electronic medium in accordance with procedures established by the Company. An Award Agreement need not be signed by a representative of the Company unless required by the Committee. Each Award Agreement shall be subject to the applicable terms and conditions of the Plan and any other terms and conditions (not inconsistent with the Plan) determined by the Committee.

- (c) Plan Provisions Control. In the event that any provision of an Award Agreement conflicts with or is inconsistent in any respect with the terms of the Plan as set forth herein or subsequently amended, the terms of the Plan shall control.
- (d) No Rights of Shareholders. Except with respect to Shares issued under Awards (and subject to such conditions as the Committee may impose on such Awards pursuant to Section 6(c)(i)), neither a Participant nor the Participant's legal representative shall be, or have any of the rights and privileges of, a shareholder of the Company with respect to any Shares issuable upon the exercise or payment of any Award, in whole or in part, unless and until such Shares have been issued.
- (e) No Limit on Other Compensation Arrangements. Nothing contained in the Plan shall prevent the Company or any Affiliate from adopting or continuing in effect other or additional compensation plans or arrangements, and such plans or arrangements may be either generally applicable or applicable only in specific cases.
- (f) No Right to Employment. The grant of an Award shall not be construed as giving a Participant the right to be retained as an employee of the Company or any Affiliate, nor will it affect in any way the right of the Company or an Affiliate to terminate a Participant's employment at any time, with or without cause, in accordance with applicable law. In addition, the Company or an Affiliate may at any time dismiss a Participant from employment free from any liability or any claim under the Plan or any Award, unless otherwise expressly provided in the Plan or in any Award Agreement. Nothing in this Plan shall confer on any person any legal or equitable right against the Company or any Affiliate, directly or indirectly, or give rise to any cause of action at law or in equity against the Company or an Affiliate. Under no circumstances shall any person ceasing to be an employee of the Company or any Affiliate be entitled to any compensation for any loss of any right or benefit under the Plan which such employee might otherwise have enjoyed but for termination of employment, whether such compensation is claimed by way of damages for wrongful or unfair dismissal, breach of contract or otherwise. By participating in the Plan, each Participant shall be deemed to have accepted all the conditions of the Plan and the terms and conditions of any rules and regulations adopted by the Committee and shall be fully bound thereby.
- (g) Governing Law. The internal law, and not the law of conflicts, of the State of Utah shall govern all questions concerning the validity, construction and effect of the Plan or any Award, and any rules and regulations relating to the Plan or any Award.
- (h) Severability. If any provision of the Plan or any Award is or becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be so construed or deemed amended without, in the determination of the Committee, materially altering the purpose or intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction or Award, and the remainder of the Plan or any such Award shall remain in full force and effect.
- (i) No Trust or Fund Created. Neither the Plan nor any Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company or any Affiliate and a Participant or any other Person. To the extent that any Person acquires a right to receive payments from the Company or any Affiliate pursuant to an Award, such right shall be no greater than the right of any unsecured general creditor of the Company or any Affiliate.
- (j) Other Benefits. No compensation or benefit awarded to or realized by any Participant under the Plan shall be included for the purpose of computing such Participant's compensation or benefits under any pension, retirement, savings, profit sharing, group insurance, disability, severance, termination pay, welfare or other benefit plan of the Company, unless required by law or otherwise provided by such other plan.

- (k) No Fractional Shares. No fractional Shares shall be issued or delivered pursuant to the Plan or any Award, and the Committee shall determine whether cash shall be paid in lieu of any fractional Share or whether such fractional Share or any rights thereto shall be canceled, terminated or otherwise eliminated.
- (l) Headings. Headings are given to the sections and subsections of the Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.

Section 10. Clawback or Recoupment

All Awards under this Plan shall be subject to forfeiture or other penalties pursuant to (i) any Company clawback policy, as may be adopted or amended from time to time, (ii) any applicable law, rule or regulation or applicable stock exchange rule, including, without limitation, Section 304 of the Sarbanes-Oxley Act of 2002, Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, Section 10D of the Securities Exchange Act of 1934 and any applicable stock exchange listing rule adopted pursuant thereto, and (iii) such forfeiture and/or penalty conditions or provisions as determined by the Committee. By accepting an Award hereunder, the Participant agrees to such recovery or other penalties.

Section 11. Effective Date of the Plan

The Plan was adopted by the Board on December 7, 2018. The Plan shall be subject to approval by the shareholders of the Company at the annual meeting of shareholders of the Company to be held on January 25, 2019, and the Plan shall be effective as of the date of such shareholder approval. On and after shareholder approval of the Plan, no awards shall be granted under the Prior Stock Plan, but all outstanding awards previously granted under the Prior Stock Plan shall remain outstanding and subject to the terms of the Prior Stock Plan.

Section 12. Term of the Plan

No Award shall be granted under the Plan, and the Plan shall terminate, on December 7, 2028 or any earlier date of discontinuation or termination established pursuant to Section 7(a) of the Plan. Unless otherwise expressly provided in the Plan or in an applicable Award Agreement, any Award theretofore granted may extend beyond such dates, and the authority of the Committee provided for hereunder with respect to the Plan and any Awards, and the authority of the Board to amend the Plan, shall extend beyond the termination of the Plan.

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

For fiscal 2013 to fiscal 2018, Adjusted EBITDA means net income or loss from operations excluding the impact of interest expense, income tax expense, amortization, depreciation, share-based compensation expense and non-recurring items. The Company references this non-GAAP financial measure in its disclosure and decision making because it provides supplemental information that facilitates consistent internal comparisons to the historical operating performance of prior periods and the Company believes it provides investors with greater transparency to evaluate operational activities and financial results.

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

	Fiscal Year Ended August 31,					
	2018	2017	2016	2015	2014	2013
Reconciliation of net income (loss) to Adjusted EBITDA:						
Net income (loss)	\$ (5,887)	\$ (7,172)	\$ 7,016	\$ 11,116	\$ 18,067	\$ 14,319
Adjustments:						
Other income, net	—	—	—	—	—	(21)
Interest expense, net	2,154	2,029	1,938	1,754	1,810	1,718
Discount on related party receivable	—	—	—	363	1,196	519
Income tax provision (benefit)	367	(3,737)	4,895	6,296	3,692	5,079
Amortization	5,368	3,538	3,263	3,727	3,954	3,191
Depreciation	5,161	3,879	3,677	4,142	3,383	3,008
Share-based compensation	2,846	3,658	3,121	2,536	3,534	3,589
Reduction of contingent earn-out liability	1,014	(1,936)	1,538	35	(1,579)	—
Impairment of related party receivable	—	—	—	—	363	—
Impairment of assets	—	—	—	1,302	—	—
Costs to exit Japan publishing business	—	2,107	—	—	—	—
Restructuring costs	—	1,482	776	587	—	—
ERP system implementation costs	855	1,404	448	—	—	—
Business acquisition costs	—	442	—	—	—	—
Contract termination costs	—	1,500	—	—	—	—
China start-up costs	—	505	222	—	—	—
	\$11,878	\$ 7,699	\$26,894	\$31,858	\$34,420	\$31,402



Form 10-K

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED AUGUST 31, 2018
- OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM ___ TO ___



FRANKLIN COVEY CO.
(Exact name of registrant as specified in its charter)

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

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

Registrant's telephone number, including area code: (801) 817-1776
Securities registered pursuant to Section 12(b) of the Act:

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

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

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

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

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

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

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

As of February 28, 2018, 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 \$25.90 per share as reported by the New York Stock Exchange.

As of October 31, 2018, the Registrant had 13,918,219 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 25, 2019, are incorporated by reference in Part III of this Form 10-K.

PART I

Disclosure Regarding Forward-Looking Statements

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

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

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

ITEM 1. BUSINESS

GENERAL INFORMATION

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

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

The Company was incorporated in 1983 under the laws of the state of Utah, and we merged with the Covey Leadership Center in 1997 to form Franklin Covey Co. Our consolidated net sales for the fiscal year ended August 31, 2018 totaled \$209.8 million and our shares of common stock are traded on the New York Stock Exchange (NYSE) under the ticker symbol “FC.”

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

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

BUSINESS DEVELOPMENT

During fiscal 2018, we made significant investments in people and content to sell and support the All Access Pass (AAP), sought to innovate and improve the client experience and technology associated with the AAP and *Leader in Me* online, and worked to integrate the capabilities and content obtained in fiscal 2017 business acquisitions into our mix of available services and products. During fiscal 2016, we introduced the All Access Pass, which we believe is a ground-breaking service that allows our clients unlimited access to our content through an electronic portal. We believe the All Access Pass is a revolutionary and innovative way to deliver our content to clients of various sizes, including large, multinational organizations in a flexible and cost-effective manner. Clients may utilize complete offerings such as *The 7 Habits of Highly Effective People* and *The 5 Choices to Extraordinary Productivity*, or use individual concepts from any of our well-known offerings

to create a custom solution to fit their organizational or individual training needs. During fiscal 2018, we invested in additional implementation specialists to provide our clients with the direction necessary to create meaningful impact journeys using our tools and content. An impact journey is a customized plan to utilize the content and offerings on the AAP to achieve a client's specific goals and to provide them with the keys to obtain maximum value from the pass. We also completed the translation of AAP materials into 15 additional languages, which allows the AAP to be used effectively by multinational entities and provides for greater international sales opportunities.

We also used additional capital during fiscal 2018 to complete significant upgrades of the AAP portal. Since the AAP platform is relatively new, we are constantly seeking to improve our clients' experience with the portal through new and innovative technology, content, and impact journeys. We believe that continued investments in personnel, content, and technological innovation are key to subscription service renewals and the overall growth of our offerings, especially through the All Access Pass.

In addition to opening three new sales offices in China in fiscal 2017, during the third and fourth quarter of fiscal 2017, we acquired the following businesses:

- **Robert Gregory Partners** – In May 2017, we acquired the assets of Robert Gregory Partners, LLC (RGP), a corporate coaching firm with expertise in executive coaching, transition acceleration coaching, leadership development coaching, implementation coaching, and consulting.
- **Jhana Education** – In July 2017, we acquired the stock of Jhana Education (Jhana), a company that specializes in the creation and dissemination of relevant, bite-sized content and learning tools for leaders and managers.

During fiscal 2018 we integrated the coaching expertise of RGP into our broad variety of available services and integrated the bite-sized content and tools from Jhana into our All Access Pass and other offerings. We anticipate that these business acquisitions will continue to provide additional sales opportunities and benefits to our clients.

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

SERVICES OVERVIEW

We operate globally with one common brand and a business model designed to enable us to provide clients around the world with the same high level of service. To achieve this high level of service we have sales and support associates in various locations around the United States and Canada, and operate wholly owned subsidiaries in Australia, China, Japan, and the United Kingdom. In foreign locations where we do not have a directly owned office, we may contract with independent licensee partners who deliver our content and provide services in over 150 other countries and territories around the world.

Our mission is to “enable greatness in people and organizations everywhere,” and we believe that we are experts at solving certain pervasive, intractable problems, each of which requires a change in human behavior. We seek to consistently deliver world-class content with the broadest and deepest distribution capabilities through the most flexible content delivery modalities. We believe these characteristics distinguish us from our competitors as follows:

1. **World Class Content** – Rather than rely on “flavor of the month” training fads, our content is principle-centered and based on natural laws of human behavior and effectiveness. Our content is designed to build new skillsets, establish new mindsets, and provide enabling toolsets. When our content is applied consistently in an organization, we believe the culture of that organization will change to enable the organization to achieve its own great purposes. Our content is well researched, subjected to numerous field beta tests, and improved through a proven development process.
2. **Breadth and Scalability of Delivery Options** – We have a wide range of content delivery options, including: The All Access Pass and *Leader in Me* online, other intellectual property licensing arrangements, on-site training, training led through certified facilitators, on-line learning, blended learning, and organization-wide transformational processes, including consulting and coaching services.
3. **Global Capability** – We not only operate domestically with sales personnel in the United States and Canada, but we also deliver content through our directly owned international offices and independently owned international licensees who deliver our content in over 150 other countries and territories around the world. This capability allows us to deliver content to a wide range of customers, from large, multinational corporations to smaller, local entities.

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

Our content and offerings are designed to help our clients achieve their own great purposes through a variety of resources, including best-selling books and audio, innovative and widely recognized thought leadership, and multiple delivery and teaching methods. These elements allow us to offer our clients training and consulting solutions that are designed to improve individual and organizational behaviors, deliver content that adapts to an organization's unique needs, and provide meaningful improvements in our clients' business performance. Further information about our content and services can be found on our website at www.franklincovey.com. However, the information contained in, or that can be accessed through, our website does not constitute any part of this Annual Report.

SEGMENT INFORMATION

Our sales are primarily comprised of training and content sales and related products. During fiscal 2018, we reorganized our internal structure into two divisions. The Enterprise Division consists of our Direct Office and International Licensee segments. The former Strategic Markets segment was absorbed by the Direct Office segment since its target customers and sales methodologies were essentially identical. The Education Division is comprised of our Education practice, which is designed to provide services and products to educational institutions both domestically and internationally. Our internal structure is now comprised of three segments and a corporate services group. The following is a brief description of our reportable segments:

- **Direct Offices** – Our Direct Office segment has a depth of expertise in helping organizations solve problems that require changes in human behavior, including leadership, productivity, execution, trust, and sales performance. We have a variety of principle-based offerings that help build winning and profitable cultures. This segment includes our sales personnel that serve the United States and Canada; our international sales offices located in Japan, China, the United Kingdom, and Australia; our governmental sales channel; and our public program operations.
- **Education Practice** – Centered around the principles found in *The Leader in Me*, the Education practice is dedicated to helping educational institutions build a culture that will produce great results. We believe these results are manifested by increases in student performance, improved school culture, decreased

disciplinary issues, and increased teacher engagement and parental involvement. This segment includes our domestic and international Education practice operations, which are focused on sales to educational institutions such as elementary schools, high schools, and colleges and universities.

- **International Licensees** – Our independently owned international licensees provide our offerings and services in countries where we do not have a directly owned office. These licensee partners allow us to expand the reach of our services to large multinational organizations as well as smaller organizations in their countries. This segment's results are primarily comprised of royalty revenues received from these licensees.

For financial and other information regarding our segments, refer to the notes to our consolidated financial statements (Note 16). For risks inherent in our operations, refer to the risk factors identified in Item 1A and elsewhere in this Annual Report.

INDUSTRY INFORMATION

According to the *Training* magazine 2018 Training Industry Survey, the total size of the U.S. training industry is estimated to be \$87.6 billion. The training industry is highly fragmented and includes a wide variety of training and service providers. We believe our competitive advantages in this industry stem from our fully integrated principle-centered training offerings, our wide variety of delivery options, and various implementation tools to help organizations and individuals measurably improve their effectiveness. These advantages allow us to deliver not only training to corporations, educational institutions, and individuals, but also to implement the training through powerful behavior-changing tools with the capability to then measure the impact of the delivered content and solutions.

CLIENTS

We have a relatively broad base of clients, which includes thousands of organizational, governmental, educational, and individual clients in both the United States and in other countries that are served through our directly owned operations. We have thousands of additional organizational clients throughout the world which are served through our global licensee partner network, and we believe that our content, in all its forms, delivers results that encourage strong client loyalty. Our clients are in a broad array of industries and we are not dependent on a single client or

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

Over our history, we have provided content, services, and products to 97 of the Fortune 100 companies and more than 75 percent of the Fortune 500 companies. We also provide content and services to a number of U.S. and foreign governmental agencies, as well as numerous educational institutions. Due to the nature of our business, we do not have a significant backlog of orders. Nearly all of our deferred revenue is attributable to subscription services for which we recognize revenue over the lives of the corresponding agreements.

COMPETITION

We operate in a highly competitive and rapidly changing global marketplace and compete with a variety of organizations that offer services comparable with those that we offer. The nature of the competition in the performance improvement industry, however, is highly fragmented with few large competitors. Based upon our fiscal 2018 consolidated sales of \$209.8 million, we believe that we are a significant competitor in the performance skills and education market. Other significant comparative companies in the performance improvement market are Development Dimensions International, CRA International, Inc., Learning Tree International Inc., GP Strategies Corp., FTI Consulting, Inc., American Management Association, Wilson Learning, Forum Corporation, The Hackett Group, and the Center for Creative Leadership.

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

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

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

SEASONALITY

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

MANUFACTURING AND DISTRIBUTION

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

TRADEMARKS, COPYRIGHTS, AND INTELLECTUAL PROPERTY

Our success has resulted in part from our proprietary content, methodologies, and other intellectual property rights. We seek to protect our intellectual property through a combination of trademarks, copyrights, and confidentiality agreements. We claim rights for nearly 600 trademarks in the United States and foreign countries, and we have obtained registration in the United States and numerous foreign countries for many of our trademarks including *FranklinCovey*, *The 7 Habits of Highly Effective People*, *The 4 Disciplines of Execution*, and *The 7 Habits*. We consider our trademarks and other proprietary rights to be important and material to our business.

We claim over 220 registered copyrights, and own sole or joint copyrights on our books, manuals, text and other printed information provided in our training programs, and other electronic media products, including audio and video media. We may license, rather than sell, facilitator workbooks and other seminar and training materials in order to protect our intellectual property rights therein. We place trademark and copyright notices on our instructional, marketing, and advertising materials. In order to maintain the proprietary nature of our product information, we enter into written confidentiality agreements with certain executives, product developers, sales professionals, training consultants, other employees, and licensees.

EMPLOYEES

One of our most important assets is our people. The diverse and global makeup of our workforce allows us to serve a variety of clients on a worldwide basis. We are committed to attracting, developing, and retaining quality personnel and actively strive to reinforce our employees' commitment to our clients, and to our mission, vision, culture, and values through the creation of a motivational and rewarding work environment. We currently have approximately 890 associates and 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.

Our benefit programs are designed to be both comprehensive and tailored to the needs of our employee population, such as a paid time off policy that allows for flexibility to meet our associates' needs. Our wellness benefits are aimed at encouraging employees to be aware of their current state of health and provides various tools and resources to

assist them in maintaining their health given the demanding nature of the work. Through our offered benefits, including health plans, retirement benefits, stock purchase plan, and other benefit programs, we seek to provide a core sense of security to our employees.

EXECUTIVE OFFICERS

The executive officers of Franklin Covey Co. at August 31, 2018, were as follows:

M. Sean Covey, 54, currently serves as President of Franklin Covey Education, and has led the growth of this Division from its infancy to its status today. The Education Division works with thousands of education entities throughout the world in Higher Education and the K-12 market. Mr. Covey was previously the Executive Vice President of Global Solutions and Partnerships and Education Practice Leader and has been an Executive Officer since September 2008. Sean also served as the Senior Vice President of Innovations and Product Development from April 2006 to September 2009, where he led the development of nearly all of the Company's current organizational offerings, including: *The 7 Habits* curriculum; *The 4 Disciplines of Execution*; *The Leader in Me*; and *Leadership Greatness*. Prior to 2006, Sean ran the Franklin Covey retail chain of stores, growing it to \$152 million in sales. Before joining Franklin Covey, Sean worked for the Walt Disney Company, Trammel Crow Ventures, and Deloitte & Touche Consulting. Mr. Covey is also a *New York Times* best-selling author and has written several books, including *The 4 Disciplines of Execution*, *The 6 Most Important Decisions You'll Ever Make*, *The Leader in Me*, and the international bestseller *The 7 Habits of Highly Effective Teens*. Sean graduated with honors from Brigham Young University with a Bachelor's degree in English and later earned his MBA from the Harvard Business School. Sean is the son of the late Dr. Stephen Covey.

Colleen Dom, 56, was appointed to be the Executive Vice-President of Operations in September 2013. Ms. Dom began her career with the Company in 1985 and served as the first "Client Service Coordinator," providing service and seminar support for some of the Company's very first clients. Prior to her appointment as an Executive Vice President, Ms. Dom served as Vice President of Domestic Operations since 1997 where she had responsibility for the Company's North American operations, including client support, supply chain, and feedback operations. During her time at Franklin Covey Co., Colleen has been instrumental in creating and implementing systems and processes that have supported the Company's strategic

objectives and has more than 30 years of experience in client services, sales support, operations, management, and supply chain. Due to her valuable understanding of the Company's global operations, Ms. Dom has been responsible for numerous key assignments that have enhanced client support, optimized operations, and built capabilities for future growth. Prior to joining the Company, Colleen worked in retail management and in the financial investment industry.

C. Todd Davis, 61, is an Executive Vice President and Chief People Officer, and has been an Executive Officer since September 2008. Todd has over 30 years of experience in training, training development, sales and marketing, human resources, coaching, and executive recruiting. He has been with Franklin Covey for more than the past 20 years. Previously, Mr. Davis was a Director of our Innovations Group where he led the development of core offerings including *The 7 Habits of Highly Effective People – Signature Program*. Todd also worked for several years as our Director of Recruitment and was responsible for attracting, hiring, and retaining top talent for the organization. Prior to joining Franklin Covey, Mr. Davis worked in the medical industry for 9 years where he recruited physicians and medical executives along with marketing physician services to hospitals and clinics throughout the country. Todd is the author of *Get Better: 15 Proven Practices to Build Effective Relationships at Work*.

Scott J. Miller, 50, is the Executive Vice-President of Thought Leadership at Franklin Covey. Mr. Miller, who has been with the Company for 22 years, was previously the Executive Vice-President of Business Development and Marketing and has served as an executive of the Company since March 2012. Scott's role as Executive Vice-President caps 12 years on our front line, working with thousands of client facilitators across many markets and countries. Prior to his appointment as Vice-President of Business Development and Marketing, Mr. Miller served as the general manager of our central regional sales office for six years. Scott originally joined the Covey Leadership Center in 1996 as a client partner with the Education Division. Mr. Miller started his professional career with the Disney Development Company, the real estate development division of the Walt Disney Company, in 1992. During his time with the Disney Development Company, Scott identified trends and industry best practices in community development, education, healthcare, architectural design, and technology. Mr. Miller received a Bachelor of Arts in Organizational Communication from Rollins College in 1996.

Paul S. Walker, 43, is an 18-year veteran of Franklin Covey Co. Mr. Walker currently serves as the President of the Enterprise Division, which includes the operations of the Direct Office and International Licensee segments. Mr. Walker was previously the Executive Vice-President of Global Sales and Delivery and began his service as an executive officer on September 1, 2015. Paul began his career with Franklin Covey in 2000 in the role of business developer, was promoted to a Client Partner, and then to an Area Director. In 2007, Mr. Walker became General Manager of the Company's central sales region, an 11-state area that also included Ontario, Canada. Prior to working for Franklin Covey, Mr. Walker was a senior sales partner for Alexander's Digital Printing and a middle-market pilot coordinator with New York Life. Mr. Walker graduated from Brigham Young University with a Bachelor of Arts in Communications.

Robert A. Whitman, 65, has served as Chairman of the Board of Directors since June 1999 and as President and Chief Executive Officer of the Company since January 2000. Mr. Whitman previously served as a director of the Covey Leadership Center from 1994 to 1997. Prior to joining us, Mr. Whitman served as President and Co-Chief Executive Officer of The Hampstead Group from 1992 to 2000 and is a founding partner at Whitman Peterson. Mr. Whitman received his Bachelor of Arts degree in Finance from the University of Utah and his MBA from the Harvard Business School.

Stephen D. Young, 65, joined Franklin Covey as Executive Vice President of Finance, was appointed Chief Accounting Officer and Controller in January 2001, Chief Financial Officer in November 2002, and Corporate Secretary in March 2005. Prior to joining us, he served as Senior Vice-President of Finance, Chief Financial Officer, and director of international operations for Weider Nutrition for seven years; as Vice-President of Finance at First Health for ten years; and as an auditor at Fox and Company, a public accounting firm, for four years. Mr. Young has more than 35 years of accounting and management experience and is a Certified Public Accountant. Mr. Young was awarded a Bachelor of Science in Accounting from Brigham Young University.

AVAILABLE INFORMATION

We regularly file reports with the SEC. These reports include, but are not limited to, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and security transaction reports on Forms 3, 4, or 5. The SEC also maintains electronic

versions of the Company's reports, proxy and information statements, and other information that the Company files with the SEC on its website at www.sec.gov.

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.

ITEM 1A. RISK FACTORS

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

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

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

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

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

In fiscal 2016, we introduced the All Access Pass, which is an internet-based platform that allows our clients to purchase unlimited access to our intellectual property for a

specified period. 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 expected, the change to a subscription services-focused business model has been disruptive as we transition our legacy business to this new delivery model, but we believe the benefits of the AAP and *Leader in Me* online service to our clients and to our business will ultimately prove beneficial as we continue to emphasize and grow sales of subscription services.

The change to a subscription-focused business model has required a transition both operationally, as our sales force adapts its structure and strategy to sell these services, and from an accounting and reporting point of view. Operationally, we have reorganized our Direct Office sales force to focus on and support AAP sales and renewals. During the first quarter of fiscal 2017, we decided to allow new AAP intellectual property agreements to receive updated content throughout the contract period. Applicable accounting standards required us to defer substantially all AAP revenues at the inception of the contracts and then recognize the revenue over the life of the corresponding arrangement. This determination had a significant impact on both our fiscal 2018 and fiscal 2017 financial results.

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

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

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

The access by unauthorized persons to, or the improper disclosure by us of, confidential information regarding our customers or our own proprietary information, software,

methodologies, and business secrets could result in significant legal and financial exposure, damage to our reputation, or a loss of confidence in the security of our systems, products, and services, which could have a material adverse effect on our business, financial condition, or results of operations. To the extent we are involved in any future cyber-attacks or other breaches, our brand and reputation could be affected, and these conditions could also have a material adverse effect on our business, financial condition, or results of operations.

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

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

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

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

confidential client or employee data, whether through systems failure, employee negligence, fraud, or misappropriation could damage our reputation and cause us to lose clients.

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

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

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

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

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

Our business success also depends in part upon continued growth in the use of training and consulting services and the renewal of existing contracts by our clients. In

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

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

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

Our financial success is partially dependent on our ability to protect our proprietary offerings and other intellectual property. The existing laws of some countries in which we provide services might offer only limited protection of our intellectual property rights. To protect our intellectual property, we rely upon a combination of confidentiality policies, nondisclosure and other contractual arrangements, as well as copyright and trademark laws. The steps we take in this regard may not be adequate to prevent or deter infringement or other misappropriation of our intellectual property, and we might not be able to detect unauthorized use of, or take appropriate and timely steps to enforce, our intellectual property rights, especially in foreign jurisdictions.

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

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

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

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

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

Our 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, including tax laws
- The absence in some jurisdictions of effective laws to protect our intellectual property rights
- Political instability
- Currency exchange rate fluctuations
- Longer payment cycles
- Price controls or restrictions on exchange of foreign currencies

For instance, on June 23, 2016, the United Kingdom held a referendum in which a majority of voters chose to exit the European Union, commonly referred to as

“Brexit.” The outcome of this referendum produced significant currency exchange rate fluctuations and volatility in global stock markets 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 data, goods, services and people between the United Kingdom and the European Union or other countries as well as create legal and global economic uncertainty. These and other potential implications of Brexit could adversely affect our business and financial results.

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

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

We may experience foreign currency gains and losses.

Our sales outside of the United States totaled \$58.7 million, or approximately 28 percent of consolidated sales, for the fiscal year ended August 31, 2018. If our international operations continue to grow and become a larger component of our overall financial results, the impacts of foreign exchange rate fluctuations may become magnified and our revenues and operating results may be adversely affected when the dollar strengthens relative to other currencies. In order to manage a portion of our foreign currency risk, we may from time-to-time make limited use of foreign currency derivative contracts to hedge certain transactions

and translation exposure. However, there can be no guarantee that our foreign currency risk management strategy will be effective in reducing the risks associated with foreign currency transactions and translation.

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

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

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

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

Our common stock is publicly traded on the NYSE, and at any given time various securities analysts follow our financial results and issue reports on us. These periodic reports include information about our historical financial results as well as the analysts' estimates of our future performance. The analysts' estimates are based on their own opinions and are often different from our estimates or expectations. If our operating results are below the estimates

or expectations of public market analysts and investors, our stock price could decline. If our stock price is volatile, we may become involved in securities litigation following a decline in price. Any litigation could result in substantial costs and a diversion of management's attention and resources that are needed to successfully run our business.

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

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

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

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

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

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

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

Knowledge Capital Investment Group (Knowledge Capital), a related party primarily controlled by a member of our Board of Directors, holds 2.8 million shares, or

approximately 20 percent, of our outstanding common shares. On January 26, 2015, the SEC declared effective a registration statement on Form S-3 to register shares held by Knowledge Capital. The sale or prospect of the sale of a substantial number of the shares held by Knowledge Capital may have an adverse effect on the market price of our common stock.

Our 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

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

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

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

- Governmental entities typically fund projects through appropriated monies. While these projects are often planned and executed as multi-year projects, the

governmental entities usually reserve the right to change the scope of, or terminate, these projects for lack of approved funding and other discretionary reasons. Changes in governmental priorities or other political developments, including disruptions in governmental operations, could result in changes in the scope of, or in termination of, our existing contracts.

- Governmental entities often reserve the right to audit our contract costs, including allocated indirect costs, and conduct inquiries and investigations of our business practices with respect to our government contracts. If the governmental entity finds that the costs are not reimbursable, then we will not be allowed to bill for those costs or the cost must be refunded to the client if it has already been paid to us. Findings from an audit also may result in our being required to prospectively adjust previously agreed upon rates for our work, which may affect our future margins.
- If a governmental client discovers improper activities in the course of audits or investigations, we may become subject to various civil and criminal penalties and administrative sanctions, which may include termination of contracts, forfeiture of profits, suspension of payments, fines and suspensions or debarment from doing business with other agencies of that government. The inherent limitations of internal controls may not prevent or detect all improper or illegal activities, regardless of their adequacy.
- Political and economic factors such as pending elections, the outcome of elections, revisions to governmental tax policies, sequestration, debt ceiling negotiations, and reduced tax revenues can affect the number and terms of new governmental contracts signed.

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

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

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

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act (2017 Tax Reform), a tax reform bill which contains significant changes to corporate taxation, including a reduction in the current corporate federal income tax rate from 35 percent to 21 percent, additional limitations on the deductibility of interest expense, substantial changes to the taxation of foreign earnings, and modification or repeal of many business deductions and credits. The changes included in the 2017 Tax Reform are broad and complex. The final transition impact of the 2017 Tax Reform may differ from the amounts we have recorded due to, among other things, additional regulatory and interpretive guidance, as well as any statutory technical corrections that are subsequently enacted.

The 2017 Tax Reform, or any related, similar, or amended legislation or other changes in the U.S. federal income tax laws, could adversely affect the U.S. federal taxation of our ongoing operations. Any such changes and related consequences could have a material adverse impact on our financial results.

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

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

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

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

We also receive reimbursement from FCOP for certain operating costs, such as rent. At August 31, 2018, we had \$1.5 million of receivables from FCOP, net of related discount, which are recorded as assets on our consolidated balance sheet. 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.

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

Our most critical accounting estimates are described in Management's Discussion and Analysis found in Item 7 of this report under the section entitled "Use of Estimates and Critical Accounting Policies." In addition, as discussed in various footnotes to our financial statements as found in Item 8, we make certain estimates for loss contingencies, including decisions related to legal proceedings and reserves. Because, by definition, these estimates and assumptions involve the use of judgment, our actual financial results may differ from these estimates.

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

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

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

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

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

Going forward, we will continue to incur costs necessary for the day-to-day operation and potential growth of the business and may use our available revolving line of credit facility and other financing alternatives, if necessary, for these expenditures. Our existing credit arrangement expires on March 31, 2021 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 have significant intangible assets, goodwill, and long-term asset balances that may be impaired if cash flows from related activities decline.

At August 31, 2018 we had \$51.9 million of intangible assets and \$24.2 million of goodwill. Our intangible assets are evaluated for impairment based on qualitative factors

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

Ineffective internal controls could impact our business and operating results.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of August 31, 2018, our principal executive offices in Salt Lake City, Utah occupy approximately 88,000 square feet of leased office space that is accounted for as a financing arrangement, which expires in 2025. This facility accommodates our executive team and corporate departments, as well as other professionals. The master lease agreement on our principal executive offices contains six five-year renewal options that may be exercised at our discretion. Additionally, we occupy leased sales and administrative offices both in the United States and various countries around the world as shown below. These leased facilities are accounted for as operating leases.

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

U.S./Canada Sales Offices

Columbus, Ohio

International Sales Offices

London, England
Tokyo, Japan
China: Beijing, Shanghai, Guangzhou, and
Shenzhen

In fiscal 2017, we restructured the operations of our domestic sales regions to focus on sales and support of the All Access Pass. As part of this restructuring, we closed our three remaining sales offices in Atlanta, Georgia; Chicago, Illinois; and Irvine, California. Our remaining sales office in the United States is used by Robert Gregory Partners, which is one of the businesses that we acquired during fiscal 2017. During fiscal 2016, we restructured the operations of our Australian direct office. As part of the restructuring we closed our sales offices located in Brisbane, Sydney, and Melbourne. Sales personnel in Australia work from their home offices, similar to many of our sales personnel located in the U.S. and Canada. There were

no other significant changes to the properties used for our operations during the periods presented in this report.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we are the subject of certain legal actions, which we consider routine to our business activities. As of August 31, 2018, we are not party to any litigation or legal proceeding that, in the current opinion of management, could have a material adverse effect on our financial position, liquidity, or results of operations. However, due to the risks and uncertainties inherent in legal proceedings, actual results could differ from current expectations.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Our common stock is listed and traded on the New York Stock Exchange (NYSE) under the symbol "FC." The following table sets forth the high and low sale prices per share of our common stock for the fiscal years ended August 31, 2018 and 2017.

	High	Low
Fiscal Year Ended August 31, 2018:		
Fourth Quarter	\$29.60	\$24.05
Third Quarter	29.90	24.10
Second Quarter	31.20	18.00
First Quarter	20.95	18.20
Fiscal Year Ended August 31, 2017:		
Fourth Quarter	\$21.10	\$17.35
Third Quarter	22.30	15.20
Second Quarter	21.45	16.95
First Quarter	22.45	15.44

We did not pay or declare dividends on our common stock during the fiscal years ended August 31, 2018 or 2017. Any determination to pay cash dividends will be at the discretion of our board of directors and will be dependent upon our results of operations, financial condition, terms of our financing arrangements, and such other factors as the board deems relevant. We currently anticipate that we will retain all available funds to repay our liabilities, finance future growth and business opportunities, and to repurchase outstanding shares of our common stock.

As of October 31, 2018, we had 13,918,219 shares of common stock outstanding, which were held by 544 shareholders of record. A number of our shareholders hold their shares in street name; therefore, we believe that there are substantially more beneficial owners of our common stock.

Purchases of Common Stock by the Issuer

The following table summarizes the purchases of our common stock by monthly fiscal periods during our fourth quarter of fiscal 2018:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs ⁽¹⁾ (in thousands)
June 1, 2018 to June 30, 2018	—	\$—	—	\$13,174
July 1, 2018 to July 31, 2018	—	—	—	13,174
August 1, 2018 to August 31, 2018	—	—	—	13,174
Total Common Shares	—	\$—	—	

- (1) On January 23, 2015, our Board of Directors approved a new plan to repurchase up to \$10.0 million of the Company's outstanding common stock. All previously existing common stock repurchase plans were canceled and the new common share repurchase plan does not have an expiration date. On March 27, 2015, our Board of Directors increased the aggregate value of shares of Company common stock that may be purchased under the January 2015 plan to \$40.0 million so long as we have either \$10.0 million in cash and cash equivalents or have access to debt financing of at least \$10.0 million. Under the terms of this expanded common stock repurchase plan, we have purchased 1,539,828 shares of our common stock for \$26.8 million through August 31, 2018.

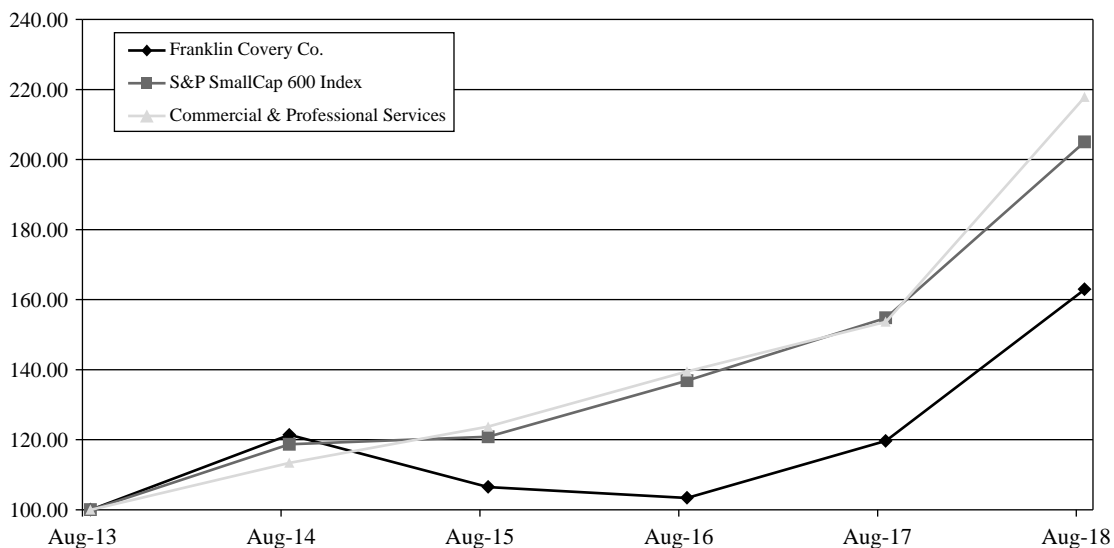
The actual timing, number, and value of common shares repurchased under this plan will be determined at our discretion and will depend on a number of factors, including, among others, general market and business conditions, the trading price of common shares, and applicable legal requirements. The Company 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, 2013 in each of our common stock, the stocks comprising the S&P SmallCap 600 Index, and the stocks comprising the S&P 600 Commercial & Professional Services Index. Each of the indices assumes that all dividends were reinvested.

Indexed Returns



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

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

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

ITEM 6. SELECTED FINANCIAL DATA

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

August 31,	2018	2017 ⁽¹⁾	2016	2015 ⁽²⁾	2014 ⁽²⁾
<i>In thousands, except per-share data</i>					
Income Statement Data:					
Net sales	\$209,758	\$185,256	\$200,055	\$209,941	\$205,165
Gross profit	148,289	122,667	133,154	138,089	138,266
Income (loss) from operations	(3,366)	(8,880)	13,849	19,529	24,765
Income (loss) before income taxes	(5,520)	(10,909)	11,911	17,412	21,759
Income tax benefit (provision)	(367)	3,737	(4,895)	(6,296)	(3,692)
Net income (loss)	(5,887)	(7,172)	7,016	11,116	18,067
Earnings (loss) per share:					
Basic	\$ (.43)	\$ (.52)	\$.47	\$.66	\$ 1.08
Diluted	(.43)	(.52)	.47	.66	1.07
Balance Sheet Data:					
Total current assets	\$100,163	\$ 91,835	\$ 89,741	\$ 95,425	\$ 93,016
Other long-term assets	12,935	16,005	13,713	14,807	14,785
Total assets	213,875	210,731	190,871	200,645	205,186
Long-term obligations	50,936	53,158	48,511	36,978	36,885
Total liabilities	133,375	125,666	97,156	75,139	78,472
Shareholders' equity	80,500	85,065	93,715	125,506	126,714
Cash flows from operating activities	\$ 16,861	\$ 17,357	\$ 32,665	\$ 26,190	\$ 18,124

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

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

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

EXECUTIVE SUMMARY

General Overview

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

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

1. **World Class Content** – Our content is principle-centered and based on natural laws of human behavior and effectiveness. When our content is applied consistently in an organization, we believe the culture of that organization will change to enable the organization to achieve their own great purposes. Our offerings are designed to build new skillsets, establish new mindsets, and provide enabling toolsets.
2. **Transformational Impact and Reach** – We hold ourselves responsible for and measure ourselves by our clients' achievement of transformational results. Our commitment to achieving lasting impact extends to all of our clients – from CEOs to elementary school students, and from senior management to front-line workers in corporations, governmental, and educational environments.
3. **Breadth and Scalability of Delivery Options** – We have a wide range of content delivery options, including: the All Access Pass and other intellectual property licenses, on-site training, training led through certified facilitators, on-line learning, blended learning, and organization-wide transformational processes, including consulting and coaching.
4. **Global Capability** – We have sales professionals in the United States and Canada who serve clients in the private sector, in government, and in educational organizations; wholly owned subsidiaries in Australia, China, Japan, and the United Kingdom; and we contract with independent licensee partners who deliver our content and provide services in over 150 other countries and territories around the world.

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

Our fiscal year ends on August 31, and unless otherwise indicated, fiscal 2018, fiscal 2017, and fiscal 2016 refer to the twelve-month periods ended August 31, 2018, 2017, 2016, and so forth.

Fiscal 2018 Business Development

Development of the Subscription-Based Business

At its core, Franklin Covey Co. is a content and solutions company. During our history, we have created and developed world-class offerings designed to help our clients solve challenges which require significant and lasting changes in human behavior. Several years ago, we began moving from simply selling training courses to providing fully-integrated solutions and practices which were focused on helping organizational clients successfully execute on their strategic priorities, develop their leaders, and build winning cultures. Three years ago, we determined that we could better serve our clients and substantially expand the breadth and depth of our client impact if we moved from selling content on a course-by-course basis, to a subscription basis, such as through the All Access Pass in our Enterprise Division, which includes our direct office and international licensee segments, and *The Leader in Me* online service offered through our Education Division.

We believe the All Access Pass provides our clients with a compelling value proposition under which they receive: (1) unlimited access to our current and continually-expanding assemblage of world-class content and solutions; (2) the ability to assemble, integrate and deliver these solutions through an almost limitless combination of delivery options, in 16 languages worldwide; (3) the services of an implementation specialist to help curate and organize the content and solutions into “impact journeys” that exactly meet their needs; (4) at a cost per population trained which is less than or equal to that offered by other providers for just a single course through a single delivery modality; and with (5) an array of affordable add-on implementation services to help them accomplish their key “jobs-to-be-done.” The *Leader In Me* online service provides our education clients with a portal to access content and tools as well as a coach to help schools successfully develop, implement, and effectively utilize the *Leader In Me* program. During fiscal 2018, we invested significant capital to expand our subscription-based business, including additional implementation specialists, new innovations in the AAP and *Leader In Me* membership, including the translation of AAP content into 15 new languages, and to enhance the client experience with our subscription-based business.

Business Acquisition Integration

During May 2017, we acquired the assets of Robert Gregory Partners, LLC (RGP), a corporate coaching firm with expertise in executive coaching, transition acceleration coaching, leadership development coaching, implementation coaching, and consulting. In July 2017, we acquired the stock of Jhana Education (Jhana), a company that specializes in the creation and dissemination of relevant, bite-sized content and learning tools for leaders and managers. During fiscal 2018 we sought to integrate the operations of RGP and Jhana into our various services and offerings. We believe these services and offerings provide significant benefits to our clients.

China Direct Offices

During fiscal 2017, we opened four new sales offices in China. These offices are located in Beijing, Shanghai, Guangzhou, and Shenzhen. We continue to see growth from our investment in China, and during fiscal 2018 we recognized \$12.3 million in sales from these new offices. Prior to fiscal 2017, our sales operations in China were managed by an independent licensee partner.

We believe that our significant fiscal 2018 investments and innovations to our AAP and *Leader in Me* portals, combined with the integration of recent business acquisitions and new China sales offices will provide continued growth opportunities in future periods.

The following is a description of the impact that these developments had on our financial results for the fiscal year ended August 31, 2018.

Financial Overview

During fiscal 2018, we continued to grow and develop our subscription-based business, which is focused on the

expansion of All Access Pass and the *Leader in Me* online service sales. As expected, the transition from our legacy business to a subscription-based model has been disruptive, especially in fiscal 2017 as we deferred a substantial amount of revenue, which was recognized over the lives of the underlying contracts. The recognition of previously deferred revenues combined with new contracts produced increased sales during fiscal 2018. We believe that the ongoing transition to a subscription model is working very well, as our net sales in fiscal 2018 grew \$24.5 million, or 13 percent, to \$209.8 million compared with \$185.3 million in fiscal 2017. Our fiscal 2018 fourth-quarter sales remained strong and totaled \$64.8 million, compared with \$59.5 million in the fourth quarter of fiscal 2017. These improvements were primarily driven by strong performance from our Enterprise Division during fiscal 2018. Our gross profit and gross margins also improved in fiscal 2018 when compared with the prior year. However, these improvements were partially offset by increased operating expenses as we are transitioning to this new business model and investing in new personnel, technology, and content to improve the client experience and drive future growth opportunities.

For fiscal 2018, our subscription and subscription-related revenue grew 36 percent compared with fiscal 2017. At August 31, 2018, we had \$52.9 million of deferred revenue, compared with \$41.5 million at August 31, 2017. At August 31, 2018, we had \$24.5 million of unbilled deferred revenue compared with \$17.5 million of unbilled deferred revenue at the end of fiscal 2017. Unbilled deferred revenue represents business that is contracted, but unbilled and therefore excluded from our balance sheet.

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

YEAR ENDED AUGUST 31,	2018	Percent change	2017	Percent change	2016
<i>Sales by Category:</i>					
Training and consulting services	\$202,638	14	\$177,816	(6)	\$189,661
Products	3,577	(8)	3,881	(35)	6,009
Leasing	3,543	—	3,559	(19)	4,385
	\$209,758	13	\$185,256	(7)	\$200,055
<i>Sales by Segment:</i>					
Direct offices	\$145,890	19	\$122,309	(10)	\$135,954
Education practice	45,272	3	44,122	8	40,844
International licensees	13,226	(3)	13,571	(21)	17,113
Corporate and other	5,370	2	5,254	(14)	6,144
	\$209,758	13	\$185,256	(7)	\$200,055

Consolidated cost of sales in fiscal 2018 totaled \$61.5 million compared with \$62.6 million in the prior year. Our gross profit for the fiscal year ended August 31, 2018 increased to \$148.3 million, compared with \$122.7 million in the prior year. The increase in gross profit was primarily due to sales activity as described above, including the recognition of previously deferred subscription service revenues. Our gross margin, which is gross profit as a percent of sales, increased to 70.7 percent compared with 66.2 percent in fiscal 2017. The improvement in gross margin was primarily due to a change in the mix of revenues as higher margin subscription revenues, such as the All Access Pass, continue to grow as a percentage of our total revenues.

For the fiscal year ended August 31, 2018, our operating expenses increased \$20.1 million compared with fiscal 2017. The increase was primarily due to a \$20.0 million increase in selling, general, and administrative (SG&A) expenses; \$1.8 million of increased amortization expense from fiscal 2017 business acquisitions; and a \$1.3 million increase in depreciation expense primarily related to capital spending on our new AAP portal and ERP system. The increase in SG&A expenses was primarily related to investments in new personnel, including additional AAP implementation specialists, higher commissions on increased sales, new personnel from businesses acquired in the third and fourth quarters of fiscal 2017, and increased computer costs primarily related to our new AAP portal and ERP system. These increases were partially offset by a \$1.5 million decrease in contract termination costs and a \$1.5 million decrease in restructuring expenses in fiscal 2018.

Our loss from operations in fiscal 2018 was \$(3.4) million, compared with a loss of \$(8.9) million in fiscal 2017. Pre-tax loss for fiscal 2018 decreased to \$(5.5) million compared with a \$(10.9) million loss in the prior year.

For fiscal 2018, we recognized net tax expense on our pre-tax loss compared with a net benefit in fiscal 2017. Our consolidated income tax provision was unfavorably affected by a \$3.0 million valuation allowance against our fiscal 2011 foreign tax credit carryforward. Sales of the All Access Pass and other subscription services have generated, and will likely to continue to generate, substantial amounts of deferred revenue for both book and tax purposes. This situation has produced taxable losses for the past two fiscal years and a more-likely-than-not presumption that insufficient taxable income will be available to realize the fiscal 2011 foreign tax carryforward, which expires at the end of fiscal 2021.

Net loss for the year ended August 31, 2018 was \$(5.9) million, or \$(.43) per share, compared with a loss of \$(7.2) million, or \$(.52) per share, in the prior year.

Further details regarding these items can be found in the comparative analysis of fiscal 2018 with fiscal 2017 as discussed within this management's discussion and analysis.

During fiscal 2018, we invested our available cash and proceeds from our secured credit facility to make substantial and significant investments in our business that we believe will drive results and provide benefits in future periods. We invested \$6.5 million of cash to purchase property and equipment, which was primarily comprised of software for a significant upgrade to our AAP portal and the completion of our new ERP system, which successfully launched in fiscal 2018. We also invested \$3.0 million during fiscal 2018 for curriculum development and additional new offerings.

Our liquidity position remained healthy during fiscal 2018 and we had \$10.2 million of cash at August 31, 2018, with \$18.7 million of available credit on our revolving credit facility, compared with \$8.9 million of cash at August 31, 2017. At August 31, 2018, we had \$12.8 million of term loans payable to the lender on our secured credit facility. For further information regarding our liquidity and cash flows refer to the Liquidity and Capital Resources discussion found later in this management's discussion and analysis.

Key Growth Objectives

We believe that our best-in-class offerings, combined with flexible delivery modalities and worldwide sales and distribution capabilities are the foundation for future growth at Franklin Covey. Building on this foundation, we have identified the following key drivers of growth in fiscal 2019 and beyond:

- ***New Subscription Service Sales and the Renewal of Existing Client Contracts*** – We are focused on sales of subscription service contracts, such as the All Access Pass, and have restructured our domestic sales force and sales support functions to more effectively sell and support these services. We believe we are well positioned to expand our subscription service revenues in the United States and Canada and reach new clients. We have translated AAP content into 15 new languages and expect this new feature will attract additional clients in future years both from large multinational entities and smaller clients that are served by our international direct offices and international licensee partners.

- **Education Segment** – Our Education segment has consistently grown over the past several years. We intend to continue to invest in new content and additional sales personnel to reach out to new educational institutions while retaining existing *The Leader in Me* schools. We believe there are significant growth opportunities, both domestically and internationally, for our Education segment and its well-known *The Leader in Me* offering.
- **Growth of our Direct Office and International Licensee Segments** – We are actively focused on growing the size and productivity of our Direct Office segment through expansion of our sales force to reach potential clients. In addition, we believe the acquisition of Robert Gregory Partners, LLC in fiscal 2017 will open new opportunities as we seek to expand our coaching business. We are also actively seeking to expand the size and productivity of our international licensee partners through the development of additional content, such as the translated AAP offerings, and additional licensee support activities.

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

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

RESULTS OF OPERATIONS

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

YEAR ENDED AUGUST 31,	2018	2017	2016
Sales:			
Training and consulting services	96.6%	96.0%	94.8%
Products	1.7	2.1	3.0
Leasing	1.7	1.9	2.2
Total sales	100.0	100.0	100.0
Cost of sales:			
Training and consulting services	27.7	30.5	29.6
Products	0.6	2.2	1.6
Leasing	1.0	1.1	1.2
Total cost of sales	29.3	33.8	32.4
Gross profit	70.7	66.2	67.6
Selling, general, and administrative	67.3	65.4	56.8
Contract termination costs	—	0.8	—
Restructuring costs	—	0.8	0.4
Depreciation	2.4	2.1	1.9
Amortization	2.6	1.9	1.6
Total operating expenses	72.3	71.0	60.7
Income (loss) from operations	(1.6)	(4.8)	6.9
Interest income	0.0	0.1	0.1
Interest expense	(1.2)	(1.3)	(1.1)
Accretion of discount on related party receivables	0.2	0.1	0.1
Income (loss) before income taxes	(2.6)%	(5.9)%	6.0%

FISCAL 2018 COMPARED WITH FISCAL 2017

Sales

The following sales analysis for the fiscal year ended August 31, 2018 is based on activity through our reportable segments as shown in the preceding comparative sales table.

Direct Offices – This segment includes our sales personnel that serve clients in the United States and Canada; our directly owned international offices in Japan, China, the United Kingdom, and Australia; and other groups that were formerly included in the Strategic Markets segment, such as our government services office. During the first quarter of fiscal 2018, we dissolved the Strategic Markets segment and combined those sales groups with the Direct Offices segment since most of these groups have a common focus – selling the All Access Pass and related services. In addition to the benefit from the recognition of previously deferred revenues, during fiscal 2018 our government services sales increased \$4.1 million, and we had \$4.0 million of increased revenue from businesses acquired in the third and fourth quarters of fiscal 2017. These increases were partially offset by decreased facilitator sales, as many of these clients have transitioned to the AAP, and decreased onsite training revenues.

International direct office sales increased \$4.9 million when compared with the prior year. Sales increased at all of our international offices compared with fiscal 2017. Our sales in the United Kingdom and Australia were favorably impacted by the recognition of previously deferred AAP revenues and new contracts. Our new China offices continue to perform well and recognized a \$1.3 million increase in sales compared with the prior year. Our Japan office sales increased by \$0.2 million despite our decision to exit the publishing business in the third quarter of fiscal 2017. Foreign exchange rates had a \$1.0 million favorable impact on our international direct offices sales and a \$0.2 million favorable impact on our international direct office results of operations during fiscal 2018. Early in the third quarter fiscal 2018 we launched the All Access Pass in 15 additional languages. We believe that our international direct offices and international licensees will be favorably impacted by the availability of our content and offerings through the AAP to our foreign clients in these additional languages.

Education Division – Our Education practice 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. Our Education practice has grown consistently over the past several years, from \$8.4 million of sales in fiscal 2010 to \$44.1 million in sales during fiscal 2017. In fiscal 2018, however, the Education Division's revenues increased only three percent to \$45.3 million. The primary reason for the slowdown in Education Division revenues was the expiration of a large six-year funding commitment from a charitable educational foundation focused on funding new *The Leader in Me* schools. This contract expiration reduced revenues in the Education Division by \$2.8 million, and gross profit by approximately \$1.6 million during fiscal 2018. However, we continued to see increased demand for *The Leader in Me* program in many school districts in the United States as well as in foreign countries. As of August 31, 2018, *The Leader in Me* program is used in over 3,700 schools and in over 50 countries. During fiscal 2018 we also made the decision to expand *The Leader in Me* program to high schools, and we expect this decision to contribute to increased sales in future periods. We also continue to make substantial investments in sales personnel and new materials to drive increased Education segment sales in the future. We expect the Education Division to resume its strong growth trajectory in fiscal 2019.

International Licensees – In countries or foreign locations where we do not have a directly owned office, our training and consulting services are delivered through independent licensees, which may translate and adapt our offerings to local preferences and customs, if necessary. Our international licensee revenues decreased \$0.3 million compared with the prior year, which was primarily due to decreased sales of training materials during the year. Foreign exchange rates had a \$0.3 million favorable impact on licensee revenues for fiscal 2018.

Corporate and Other – Our “corporate and other” sales are primarily comprised of leasing, and shipping and handling revenues. These sales increased during fiscal 2018 primarily due to increased shipping and handling revenue when compared with the prior year.

Cost of Sales and Gross Profit

Gross profit consists of net sales less the cost of services provided or the cost of goods sold. Our cost of sales includes the direct costs of delivering content onsite at client locations, including presenter costs, materials used in the production of training products and related assessments, assembly, manufacturing labor costs, and freight. Gross profit may be affected by, among other things, the mix services sold to clients, prices of materials, labor rates, changes in product discount levels, and freight costs.

Our cost of sales in fiscal 2018 totaled \$61.5 million compared with \$62.6 million in the prior year. Our gross profit for the fiscal year ended August 31, 2018 increased \$25.6 million to \$148.3 million, compared with \$122.7 million in the prior year. The increase in gross profit was primarily due to increased sales as previously described. Our gross margin increased to 70.7 percent compared with 66.2 percent in fiscal 2017. The improvement in gross margin was primarily due to a change in the mix of revenues

as higher margin subscription revenues, such as the All Access Pass, continue to grow as a percentage of our total revenues. Our gross margin in fiscal 2017 was unfavorably impacted by our decision to exit the publishing business in Japan. Excluding the impact of the \$2.1 million charge to exit this business and write off the majority of our book inventory in Japan, our gross margin was 67.4 percent for the fiscal year ended August 31, 2017.

Operating Expenses

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

YEAR ENDED AUGUST 31,	2018	2017	\$ Change	% Change
SG&A expenses	\$137,266	\$119,426	\$17,840	15
Increase (decrease) to contingent payment liabilities	1,014	(1,936)	2,950	n/a
Stock-based compensation expense	2,846	3,658	(812)	(22)
Consolidated SG&A expense	141,126	121,148	19,978	16
Contract termination costs	—	1,500	(1,500)	(100)
Restructuring costs	—	1,482	(1,482)	(100)
Depreciation	5,161	3,879	1,282	33
Amortization	5,368	3,538	1,830	52
	\$151,655	\$131,547	\$20,108	15

Selling, General and Administrative Expense – The increase in our SG&A expenses for fiscal 2018 was primarily due to 1) a \$14.2 million increase in spending related to investments in new personnel, including additional implementation specialists, increased commissions on higher sales, and new personnel from businesses acquired during fiscal 2017; 2) a \$3.0 million change in expense from adjusting the fair value of estimated contingent consideration liabilities from previous business acquisitions; 3) a \$2.3 million increase in computer and office expenses primarily resulting from our significantly enhanced AAP portal and new ERP system; and 4) a \$1.2 million increase in development and consulting costs primarily related to the development of new content and programs. During fiscal 2017, we determined that the likelihood of further contingent payments arising from the acquisition of NinetyFive 5, LLC was becoming less likely. Accordingly, we reversed the previously accrued contingent consideration expense from these potential payments, which resulted in significant credits during fiscal 2017 that did not repeat in fiscal 2018.

Contract Termination Costs – We entered into a new 10-year license agreement for Education practice content in a foreign country, with minimum required royalties payable to us that total approximately \$13 million (at current exchange rates) over the life of the arrangement. Under the previously existing profit-sharing agreement, we would

have been obligated to pay one-third of the royalty to an international licensee partner that owns the rights in that country. For a \$1.5 million cash payment, we terminated the previously existing profit sharing arrangement and we will owe no further royalty payments to the licensee. Based on the guidance for contract termination costs, we expensed the \$1.5 million payment in fiscal 2017.

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

certain functions to reduce costs in future periods. We expensed \$1.5 million for these restructuring costs in fiscal 2017.

Depreciation – Depreciation expense increased due to the acquisition of assets in fiscal 2018, including our new ERP software and significantly upgraded AAP portal. Based on previous property and equipment acquisitions, and expected capital additions during fiscal 2019, we expect depreciation expense will total approximately \$6.7 million in fiscal 2019.

Amortization – Our consolidated amortization expense increased compared with the prior year primarily due to the fiscal 2017 acquisitions of Robert Gregory Partners, LLC and Jhana Education, and the amortization of acquired intangible assets. Based on current carrying amounts of intangible assets and remaining estimated useful lives, we anticipate amortization expense from intangible assets will total \$4.8 million in fiscal 2019.

Accretion of Discount on Related Party Receivables – We have receivables from FC Organizational Products (FCOP), an entity in which we own a 19.5 percent interest. We classify these receivables as current or long-term based on expected payment dates, and discount long-term receivables at a rate of 15 percent, which we believe approximates FCOP's incremental borrowing rate. During fiscal 2018, FCOP paid receivables sooner than expected and we have accelerated the accretion of the discount on these receivables. We expect that FCOP will continue to pay its receivables sooner than anticipated in forthcoming periods which may result in additional acceleration of the discount on these long-term receivables.

Income Taxes

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

The unfavorable change in tax rate for fiscal 2018 was primarily due to the recognition of a \$3.0 million valuation allowance against our foreign tax credit carryforward from fiscal 2011. Our sales of the All Access Pass and other subscription services have generated, and will likely continue to generate, substantial amounts of deferred revenue for both book and tax purposes. This situation has produced taxable losses for the past two fiscal years and a more-likely-than-not presumption that insufficient taxable income will be available to realize the fiscal 2011 foreign tax carryforward, which expires at the end of fiscal 2021. We

also recognized additional income tax expense from unrecognized tax benefits and disallowed travel and entertainment expenses in fiscal 2018. Partially offsetting these unfavorable factors were tax benefits from the Tax Cut and Jobs Act (the 2017 Tax Act), which was signed into law on December 22, 2017. The 2017 Tax Act decreased the U.S. federal statutory tax rate applicable to our net deferred tax liabilities, resulting in a \$1.7 million benefit, which was partially offset by \$0.5 million of reduced benefits resulting from the decrease in the U.S. federal statutory tax rate applied to our pre-tax loss.

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

During fiscal 2018, we paid \$2.5 million in cash for income taxes, primarily to foreign jurisdictions. We expect to recover a significant portion of our 2018 tax payments as we utilize foreign tax credit carryforwards in the future. Over the next four to six years, we expect that our total cash paid for income taxes will be less than our total income tax provision as we utilize carryforwards of net operating losses and foreign tax credits.

FISCAL 2017 COMPARED WITH FISCAL 2016

Sales

The following sales analysis for the fiscal year ended August 31, 2017 is based on activity through our reportable segments as shown in the preceding comparative sales table.

Direct Offices – During fiscal 2017, our China sales offices recognized \$11.0 million of sales, which was in line with our expectations for these new offices. However, the increase in sales from the new China offices was offset by decreased domestic direct office revenues and decreased revenues from our office in the United Kingdom. Our domestic direct office revenues decreased \$14.2 million compared with the prior year primarily due to the transition to the AAP business model and decreased onsite revenues. The majority of new AAP contract revenue was deferred in fiscal 2017 and will be recognized over the lives of the underlying contracts. Onsite presentation revenues during fiscal 2017 decreased \$5.6 million compared to the prior year due to fewer days booked and discounted pricing available to AAP clients. Additionally, our Sales Performance practice revenues fell by \$5.3 million and our Customer

Loyalty practice revenues decreased by \$1.4 million. These practices' revenues declined primarily due to fewer new contracts during the fiscal year. Partially offsetting these decreases was \$1.2 million of coaching revenue from the acquisition of Robert Gregory Partners, LLC and a \$0.2 million increase in government services sales.

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

Education Practice – During fiscal 2017, we continued to see increased demand for *The Leader in Me* program in many school districts in the United States as well as in some international locations, which contributed to a \$3.3 million, or 8 percent, increase in Education practice revenues compared with the prior year.

Operating Expenses

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

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

International Licensees – Our international licensee revenues decreased \$3.5 million compared with the prior year. The decrease was primarily due to the conversion of our China licensee into a direct office (\$2.5 million of royalty revenues during fiscal 2016) and by decreased sales at certain of our licensee partners during the fiscal year. Foreign exchange rates did not have a material impact on licensee sales in fiscal 2017.

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

Cost of Sales and Gross Profit

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

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

Contract Termination Costs – Refer to the discussion related to the contract termination costs in the preceding section comparing the results of fiscal 2018 with fiscal 2017.

Restructuring Costs – Refer to the discussion related to the fiscal 2017 restructuring costs in the preceding section comparing the results of fiscal 2018 with fiscal 2017.

Depreciation – Depreciation expense increased primarily due to the acquisition of assets in fiscal 2017.

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

Income Taxes

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

QUARTERLY RESULTS

The following tables set forth selected unaudited quarterly consolidated financial data for the fiscal years ended August 31, 2018 and 2017. The quarterly consolidated financial data reflects, in the opinion of management, all normal and recurring adjustments necessary to fairly present the results of operations for such periods. Results of any one or more quarters are not necessarily indicative of continuing trends (in thousands, except for per-share amounts).

YEAR ENDED AUGUST 31, 2018 (unaudited)

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

YEAR ENDED AUGUST 31, 2017 (unaudited)

	November 26	February 28	May 31	August 31
Net sales	\$39,787	\$42,196	\$43,751	\$59,523
Gross profit	25,308	28,031	27,341	41,988
Selling, general, and administrative	29,095	29,370	30,713	31,970
Contract termination costs	—	1,500	—	—
Restructuring costs	—	—	1,335	147
Depreciation	866	928	949	1,136
Amortization	722	721	835	1,261
Income (loss) from operations	(5,375)	(4,488)	(6,491)	7,474
Income (loss) before income taxes	(5,875)	(5,002)	(7,023)	6,995
Net income (loss)	(3,958)	(3,333)	(4,541)	4,659
Net income (loss) per share:				
Basic	\$ (.29)	\$ (.24)	\$ (.33)	\$.34
Diluted	(.29)	(.24)	(.33)	.33

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 AAP and facilitator sales that typically occur during that quarter resulting from year-end incentive programs. Overall, training sales are moderately seasonal because of the timing of corporate training, which is not typically scheduled as heavily during holiday and certain vacation periods. Quarterly fluctuations may also be affected by other factors including the introduction of new offerings, business acquisitions, the addition of new organizational customers, and the elimination of underperforming offerings.

For more information on our quarterly results of operations, refer to our quarterly reports 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

Our cash balance at August 31, 2018 totaled \$10.2 million, with \$18.7 million of available credit remaining on our \$30.0 million revolving credit facility, compared with \$8.9 million of cash at August 31, 2017. Of our \$10.2 million in cash at August 31, 2018, \$8.9 million was held outside the U.S. by our foreign subsidiaries. We routinely repatriate cash from our foreign subsidiaries and consider cash generated from foreign activities a key component of our overall liquidity position. Our net working capital (current assets less current liabilities) was \$5.3 million at August 31, 2018 compared with \$11.2 million at

August 31, 2017. The reduction in our net working capital was primarily due to a \$11.4 million increase in deferred revenues resulting primarily from increased subscription service sales and increased current term note payable. Our primary sources of liquidity are cash flows from the sale of services in the normal course of business and available proceeds from our secured credit facility. Our primary uses of liquidity include payments for operating activities, capital expenditures (including curriculum development), debt payments, payments resulting from the acquisition of businesses, purchases of new content, working capital expansion, and purchases of our common stock.

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

YEAR ENDED AUGUST 31,	2018	2017	2016
Total cash provided by (used for):			
Operating activities	\$ 16,861	\$ 17,357	\$ 32,665
Investing activities	(10,634)	(21,675)	(6,229)
Financing activities	(4,679)	3,134	(32,535)
Effect of exchange rates on cash	(319)	(348)	321
Increase (decrease) in cash and cash equivalents	\$ 1,229	\$ (1,532)	\$ (5,778)

Our 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; (iv) permit us to convert balances outstanding from time to time under the revolving line of credit to term loans; and (v) adjust the fixed charge coverage ratio from 1.40 to 1.15. During fiscal 2017, we entered into the Sixth, Seventh, and Eighth Modification Agreements to the Restated Credit Agreement. The Sixth Modification and Eighth Modification agreements adjusted the definition of EBITDAR in the funded debt to EBITDAR and fixed charge coverage ratios applicable to our debt covenants to include the change in deferred revenue. The Seventh Modification Agreement extended the maturity date of the Restated Credit Agreement. In August 2018, we entered into the Ninth Modification Agreement, which extended the maturity date of the Restated Credit Agreement by one year to March 31, 2021.

The amount of available credit on our revolving credit line is reduced by amounts converted to term loans. Term loans are due three years from the inception of each new loan. Principal payments on our term loans are due quarterly and are equal to the original amount of each term loan divided by 16. Any remaining principal at the maturity date is immediately payable or may be rolled into a new term loan. Interest is charged at the same rate as the revolving line of credit and is payable monthly. At August 31, 2018, the maximum available credit on the revolving facility was \$30.0 million and we owed \$12.8 million on outstanding term loans. We did not convert any balances to term loans during fiscal 2018.

The various modification agreements preserve existing debt covenants that include (i) a funded debt to EBITDAR ratio of less than 3.0 to 1.0; (ii) a fixed charge coverage ratio greater than 1.15 to 1.0; (iii) an annual limit on capital expenditures (excluding capitalized curriculum development) of \$8.0 million; and (iv) consolidated accounts receivable must exceed 150 percent of the amount outstanding on the line of credit. The other key terms and conditions of the various modification agreements are substantially the same as those defined in the Restated Credit Agreement, except as described above. We believe that we were in compliance with the financial covenants and other terms applicable to the Restated Credit Agreement at August 31, 2018.

In addition to our revolving line of credit facility and term loan obligations, we have a long-term lease on our corporate campus that is accounted for as a financing

obligation. For further information on our operating lease obligations, which are not currently recorded on our consolidated balance sheet, refer to the notes to our consolidated financial statements as presented in Item 8 of this report on Form 10-K.

The following discussion is a description of the primary factors affecting our cash flows and their effects upon our liquidity and capital resources during the fiscal year ended August 31, 2018.

Cash Flows from Operating Activities

Our primary source of cash from operating activities was the sale of services and products to our customers in the normal course of business. The primary uses of cash for operating activities were payments for selling, general, and administrative expenses, payments for direct costs necessary to conduct training programs, payments to suppliers for materials used in training manuals sold, and to fund working capital needs. Our cash provided by operating activities was \$16.9 million for the fiscal year ended August 31, 2018 compared with \$17.4 million in fiscal 2017. The decrease was primarily due to cash used to support changes in working capital when compared with the prior year, including the deferral of subscription-based revenues. Although we are required to defer AAP and other subscription-service revenues over the lives of the underlying contracts, we invoice the entire contract amount and collect the associated receivable at the inception of the agreement.

Cash Flows from Investing Activities and Capital Expenditures

Our cash used for investing activities during fiscal 2018 totaled \$10.6 million. The primary uses of cash for investing activities included purchases of property and equipment in the normal course of business, additional spending on the development of our offerings, and a contingent consideration payment associated with the acquisition of Jhana Education, which was completed in the fourth quarter of fiscal 2017.

Our purchases of property and equipment, which totaled \$6.5 million, consisted primarily of computer software costs related to significant upgrades in our AAP portal and the replacement of our ERP software, and \$1.1 million of leasehold improvements on our corporate headquarters facility. We currently anticipate that our purchases of property and equipment will total approximately \$6.0 million in fiscal 2019.

We spent \$3.0 million during fiscal 2018 on the development of various offerings, including our new leadership curriculum and the continued development and expansion of our subscription offerings. We believe continued investment in our offerings is critical to our future success and anticipate that our capital spending for curriculum development will total \$5.5 million during fiscal 2019.

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

Cash Flows from Financing Activities

Our net cash used for financing activities in fiscal 2018 totaled \$4.7 million. Our primary uses of financing cash during fiscal 2018 included \$8.1 million of cash paid on term loans and the financing obligation on our corporate campus, \$2.3 million of cash paid to the former owners of Jhana and RGP for contingent acquisition consideration, and \$2.0 million to purchase shares of our common stock, which consisted entirely of shares withheld for statutory taxes on stock-based compensation awards that vested during fiscal 2018. These uses of cash were partially offset by \$7.0 million of proceeds from our long-term revolving credit facility and \$0.8 million of cash from participants in our employee stock purchase program.

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

On January 23, 2015, our Board of Directors approved a new plan to repurchase up to \$10.0 million of the Company's outstanding common stock. All previously existing common stock repurchase plans were canceled and the new common share repurchase plan does not have an expiration date. On March 27, 2015, our Board of Directors increased the aggregate value of shares of Company common stock that may be purchased under the January 2015 plan to \$40.0 million so long as we have either \$10.0 million in cash

and cash equivalents or have access to debt financing of at least \$10.0 million. Under the terms of this expanded common stock repurchase plan, we have purchased 1,539,828 shares of our common stock for \$26.8 million through August 31, 2018. Our cash used for financing activities will be impacted as we make purchases of shares under the terms of this plan in future periods.

Sources of Liquidity

We expect to meet our projected capital expenditures, service our existing financing obligation, and meet other working capital requirements during fiscal 2019 from current cash balances, future cash flows from operating activities, and available borrowings from our Restated Credit Agreement. Going forward, we will continue to incur costs necessary for the day-to-day operation and potential growth of the business and may use our available revolving line of credit and other financing alternatives, if necessary, for these expenditures. Our Restated Credit Agreement expires in March 2021 and we expect to renew the Restated Credit Agreement on a regular basis to maintain the long-term borrowing capacity of this credit facility. At August 31, 2018, we had \$18.7 million of borrowing capacity on our Restated Credit Agreement. Additional potential sources of liquidity available to us include factoring receivables, issuance of additional equity, or issuance of debt from public or private sources. If necessary, we will evaluate all of these options and select one or more of them depending on overall capital needs and the associated cost of capital.

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

Contractual Obligations

We have not structured any special purpose entities, or participated in any commodity trading activities, which would

expose us to potential undisclosed liabilities or create adverse consequences to our liquidity. Required contractual payments primarily consist of lease payments resulting from the sale of our corporate campus (financing obligation); repayment of term loans payable; expected contingent consideration payments from business acquisitions; short-term purchase obligations for inventory items and

other products and services used in the ordinary course of business; minimum operating lease payments primarily for leased office space; and minimum payments for outsourced warehousing and distribution service charges. At August 31, 2018, our expected payments on these obligations over the next five fiscal years and thereafter are as follows (in thousands):

Contractual Obligations	Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023	Thereafter	Total
Required lease payments on corporate campus	\$ 3,651	\$ 3,724	\$ 3,798	\$3,874	\$3,952	\$7,331	\$26,330
Term loans payable to bank ⁽¹⁾	10,650	2,571	—	—	—	—	13,221
Revolving line of credit ⁽²⁾	442	442	11,595	—	—	—	12,479
Jhana contingent consideration payments ⁽³⁾	922	1,436	2,021	172	—	—	4,551
Purchase obligations	3,464	802	—	—	—	—	4,266
Minimum operating lease payments	865	415	231	85	85	184	1,865
RGP contingent consideration payments ⁽³⁾	—	1,000	—	—	—	—	1,000
Minimum required payments for warehousing services ⁽⁴⁾	189	—	—	—	—	—	189
Total expected contractual obligation payments	\$20,183	\$10,390	\$17,645	\$4,131	\$4,037	\$7,515	\$63,901

- (1) Payment amounts shown include interest at 3.9 percent, which is the current rate on our Term Loan obligations.
- (2) The amounts presented assume that the outstanding balance at August 31, 2018, including interest at 3.9 percent, is repaid at the maturity date of the amended and Restated Credit Agreement, which is March 31, 2021. However, we may repay amounts borrowed on the revolving line of credit without premium or penalty prior to the maturity date.
- (3) The payment of contingent consideration resulting from prior business acquisitions is based on current estimates and projections. We reassess the fair value of estimated contingent consideration payments each quarter based on information available. The actual payment of contingent consideration amounts may differ in amount and timing from those shown in the table.
- (4) The warehousing services contract expires in June 2019.

Our contractual obligations presented above exclude uncertain tax positions totaling \$2.1 million for which we cannot make a reasonably reliable estimate of the amount and period of payment. For further information regarding our uncertain tax positions, refer to the notes to our consolidated financial statements as presented in Part II, Item 8 of this report on Form 10-K.

USE OF ESTIMATES AND CRITICAL ACCOUNTING POLICIES

Our consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America. The significant accounting policies that we used to prepare our consolidated financial statements are outlined primarily in Note 1 to the consolidated financial statements, which are presented in Part II, Item 8 of this Annual Report on Form 10-K. Some of those accounting policies require us to make assumptions and use judgments that may affect the amounts reported in our consolidated financial statements. Management regularly evaluates its estimates and assumptions

and bases those estimates and assumptions on historical experience, factors that are believed to be reasonable under the circumstances, and requirements under accounting principles generally accepted in the United States of America. Actual results may differ from these estimates under different assumptions or conditions, including changes in economic and political conditions and other circumstances that are not in our control, but which may have an impact on these estimates and our actual financial results.

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

Revenue Recognition

We derive revenues primarily from the following sources:

- **Training and Consulting Services** – We provide training and consulting services to both organizations and individuals in leadership, productivity, strategic execution, trust, sales force performance, customer loyalty, and communication effectiveness skills.
- **Products** – We sell books, audio media, and other related products.

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

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

When the Company's training and consulting arrangements contain multiple deliverables, consideration is allocated at the inception of the arrangement to all deliverables based on their relative selling prices at the beginning of the agreement, and revenue is recognized as each curriculum, consulting service, or intellectual property license is delivered. We use the following selling price hierarchy to determine the fair value to be used for allocating revenue to the elements: (i) vendor-specific objective evidence of fair value (VSOE), (ii) third-party evidence (TPE), and (iii) best estimate of selling price (BESP). Generally, VSOE is based on established pricing and discounting practices for the deliverables when sold separately. In determining VSOE, we require that a substantial majority of the selling prices fall within a narrow range. When VSOE cannot be established, judgment is applied with respect to whether a selling price can be established based on TPE, which is determined based on competitor prices for similar offerings when sold separately. Our products and services normally contain a significant level of differentiation such that the comparable pricing of services with similar functionality

cannot be obtained. When we are unable to establish a selling price using VSOE or TPE, BESP is used in our allocation of arrangement consideration. BESP are established as best estimates of what the selling price would be if the deliverables were sold regularly on a stand-alone basis. Our process for determining 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 expect the effect of changes in the selling price or method or assumptions used to determine selling price to have a significant effect on the allocation of arrangement consideration.

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

Our international strategy includes the use of independent licensees in countries where we do not have a wholly owned operation. Licensee companies are unrelated entities that have been granted a license to translate our content, adapt the content to the local culture, and sell our offerings and products in a specific country or region. Licensees are required to pay us royalties based upon a percentage of their sales to clients. We recognize royalty income each period based upon the sales information reported to us from our licensees. International royalty revenue is reported as a component of training and consulting service sales in our consolidated statements of operations.

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

Stock-Based Compensation

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

with the performance goals set for the award. Adjustments to the number of shares awarded, and to the corresponding compensation expense, are made on a cumulative basis at the adjustment date based upon the estimated probable number of common shares to be awarded.

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

Accounts Receivable Valuation

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Our allowance for doubtful accounts calculations contain uncertainties because the calculations require us to make assumptions and judgments regarding the collectability of customer accounts, which may be influenced by a number of factors that are not within our control, such as the financial health of each customer. We regularly review the collectability assumptions of our allowance for doubtful accounts calculation and compare them against historical collections. Adjustments to the assumptions may either increase or decrease our total allowance for doubtful accounts. For example, a 10 percent increase to our allowance for doubtful accounts at August 31, 2018 would increase our reported loss from operations by approximately \$0.4 million.

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

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, 2018, would increase our reported loss from operations by \$0.1 million.

Valuation of Indefinite-Lived Intangible Assets and Goodwill

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

Goodwill is recorded when the purchase price for an acquisition exceeds the estimated fair value of the net tangible and identified intangible assets acquired. During August 2017, we adopted Accounting Standards Update (ASU) 2017-04, *Intangibles – Goodwill and Other: Simplifying the Test for Goodwill Impairment*. This guidance simplifies the subsequent measurement of goodwill and eliminates the two-step goodwill impairment test. Under the new guidance, an annual or interim goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount, and an impairment charge is recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. The amendments also eliminate the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and two-step goodwill impairment test.

We tested goodwill for impairment at August 31, 2018 at the reporting unit level using a quantitative approach. The goodwill impairment testing process involves determining whether the estimated fair value of the reporting unit exceeds its respective book value. If the fair value exceeds the book value, goodwill of that reporting unit is not impaired. If the book value exceeds the fair value, an impairment charge is recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. The estimated fair value of each reporting unit was calculated using a combination of the income approach (discounted cash flows) and the market approach (using market multiples derived from a set of companies with comparable market characteristics). The estimated fair values of the reporting units from these approaches were weighted in the determination of the total fair value.

On an interim basis, we consider whether events or circumstances are present that may lead to the determination that goodwill may be impaired. These circumstances include, but are not limited to, the following:

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

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

Determining the fair value of a reporting unit is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions, and determination of appropriate market comparables. We base our fair value estimates on assumptions we believe to be reasonable, but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates. In addition, we make certain judgments and assumptions in allocating shared assets and liabilities to determine the carrying values for each of our reporting units.

The timing and frequency of our goodwill impairment tests are based on an ongoing assessment of events and circumstances that would indicate a possible impairment. Based on the results of our goodwill impairment testing during fiscal 2018, we determined that no impairment existed at August 31, 2018, as each reportable operating segment's estimated fair value exceeded its carrying value. We will continue to monitor our goodwill and intangible assets for impairment and conduct formal tests when impairment indicators are present.

Acquisitions and Contingent Consideration Liabilities

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

Additionally, we are required to reassess the fair value of contingent consideration liabilities resulting from business acquisitions at each reporting period. Although subsequent changes to the contingent consideration liabilities do not affect the goodwill generated from the acquisition transaction, the valuation of expected contingent consideration often requires us to estimate future sales and profitability. These estimates require the use of numerous assumptions, many of which may change frequently and lead to increased or decreased operating income in future periods. For instance, during fiscal 2018 we recorded \$1.0 million of increases to the fair value of the contingent consideration liabilities related to our fiscal 2017 business acquisitions, which resulted in a corresponding increase in selling, general, and administrative expenses.

Impairment of Long-Lived Assets

Long-lived tangible assets and finite-lived intangible assets are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount

of such assets may not be recoverable. We use an estimate of undiscounted future net cash flows of the assets over their remaining useful lives in determining whether the carrying value of the assets is recoverable. If the carrying values of the assets exceed the anticipated future cash flows of the assets, we calculate an impairment loss. The impairment loss calculation compares the carrying value of the asset to the asset's estimated fair value, which may be based upon discounted cash flows over the estimated remaining useful life of the asset. If we recognize an impairment loss, the adjusted carrying amount of the asset becomes its new cost basis, which is then depreciated or amortized over the remaining useful life of the asset. Impairment of long-lived assets is assessed at the lowest levels for which there are identifiable cash flows that are independent from other groups of assets.

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

Income Taxes

We regularly evaluate our United States federal and various state and foreign jurisdiction income tax exposures. We account for certain aspects of our income tax provision using the provisions of 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 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.

Related Party Receivable

At August 31, 2018, 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, a portion of the FCOP receivable is classified in other long-term assets. In accordance with applicable

accounting guidance, we are required to discount the long-term portion of the receivable to its net present value using an estimated effective borrowing rate for FCOP.

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

Our assessments regarding the collectability of the FCOP receivable require us to make assumptions and judgments regarding the financial health of FCOP and are dependent on projected financial information for FCOP in future periods. Such financial information contains inherent uncertainties and is subject to factors that are not within our control. Failure to receive projected cash flows from FCOP in future periods may result in adverse consequences to our liquidity, financial position, and results of operations.

For 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.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENT

In March 2016, the Financial Accounting Standards Board (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. The guidance in ASU 2016-09 is effective for public companies' annual periods, including interim periods within those fiscal years, beginning after December 15, 2016. We adopted the provisions of ASU 2016-09 on September 1, 2017 on a prospective basis and prior periods have not been restated for these amendments. The primary impact of adopting this guidance on our financial statements has been the classification of

excess income tax benefits or expense in income taxes rather than as a component of additional paid-in capital. The adoption of ASU 2016-09 did not have a material impact on our financial statements in fiscal 2018.

ACCOUNTING PRONOUNCEMENTS ISSUED NOT YET ADOPTED

On May 28, 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This new standard was issued in conjunction with the International Accounting Standards Board (IASB) and is designed to create a single, principles-based process by which all businesses calculate revenue. The core principle of this standard is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. The standard also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. The new standard replaces numerous individual, industry-specific revenue rules found in generally accepted accounting principles in the United States. We will adopt this standard on September 1, 2018 and apply the new guidance during interim periods within fiscal 2019. We plan to adopt ASU No. 2014-09 using the "modified retrospective" approach.

Based upon our analysis of Topic 606, we expect that revenue recognition among our products and services will remain largely unchanged except for our initial license fee associated with licensing an international location. The Company currently records the non-refundable initial license fee from licensing an international location as revenue at the time the license period begins if all other revenue requirements have been met. However, under Topic 606, we have concluded that initial upfront fees should be recognized over the course of the initial contract.

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

We do not expect the accounting for fulfillment costs or costs incurred to obtain a contract to be affected materially in any period due to the adoption of Topic 606.

Although the Company is still finalizing its analysis of the adoption of Topic 606, we estimate that the initial impact upon adoption will be a reduction to the opening balance of retained earnings with offsetting amounts recorded to deferred revenue and deferred tax assets in an amount between \$2 million and \$4 million. We do not expect the adoption of ASU 2014-09 to have any impact on our operating cash flows.

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, and early adoption is permitted for all entities. We expect to adopt the provisions of ASU 2016-02 on September 1, 2019, and we may elect to apply the new standard on a prospective basis. At August 31, 2018, our leases primarily consist of the lease on our corporate campus, which is accounted for as a financing obligation on our consolidated balance sheets and operating leases for office and warehousing space. We expect the adoption of this new standard will increase our reported assets and liabilities since we will record the lease obligation and a corresponding right of use asset on our balance sheet for leases that are currently accounted for as operating leases. However, as of August 31, 2018, we have not yet elected the transition method or determined the full impact that the adoption of ASU 2016-02 will have on our consolidated financial statements.

REGULATORY COMPLIANCE

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

INFLATION AND CHANGING PRICES

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

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

Certain written and oral statements made by us in this report are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934 as amended (the Exchange Act). Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate, or imply future results, performance, or achievements, and may contain words such as "believe," "anticipate," "expect," "estimate," "project," or words or phrases of similar meaning. In our reports and filings we may make forward-looking statements regarding our expectations about future reported revenues and operating results, future sales growth, the expected completion of our new ERP system and new AAP portal, the expected introduction of new or refreshed offerings, including additions to the All Access Pass and improvements to our Education segment, future training and consulting sales activity, the impact of multi-year contracts for the All Access Pass, renewal of existing contracts, the release and success of new publications, the expected growth of our business in China, anticipated expenses, the adequacy of existing capital resources, projected cost reduction and strategic initiatives, expected levels of depreciation and amortization expense, expectations regarding tangible and intangible asset valuations, the seasonality of future sales, the seasonal fluctuations in cash used for and provided by operating activities, future compliance with the terms and conditions of our 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, 2018, entitled “Risk Factors.” In addition, such risks and uncertainties may include unanticipated developments in any one or more of the following areas: unanticipated costs or capital expenditures; delays or unanticipated outcomes relating to our strategic plans; dependence on existing products or services; the rate and consumer acceptance of new product introductions, including the new AAP portal; foreign currency exchange rates; competition; the number and nature of customers and their product orders, including changes in the timing or mix of product or training orders; pricing of our products and services and those of competitors; adverse publicity; adverse effects on certain licensee’s performance due to civil unrest in some of the countries where our licensees operate; and other factors which may adversely affect our business.

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

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

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

in this Management’s Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in our filings with the SEC.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk of Financial Instruments

We are exposed to financial instrument market risk primarily through fluctuations in foreign currency exchange rates and interest rates. To manage risks associated with foreign currency exchange and interest rates, we may make limited use of derivative financial instruments. Derivatives are financial instruments that derive their value from one or more underlying financial instruments. As a matter of policy, our derivative instruments are entered into for periods consistent with the related underlying exposures and do not constitute positions that are independent of those exposures. In addition, we do not enter into derivative contracts for trading or speculative purposes, nor are we party to any leveraged derivative instrument. 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 2018, fiscal 2017, or fiscal 2016.

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, amounts borrowed on our revolving credit facility, deferred income taxes, and contingent consideration payments resulting from our business acquisitions. Our overall interest rate sensitivity is primarily influenced by any amounts borrowed on term loans or on our revolving line of credit facility, and the prevailing interest rate on these instruments. The effective interest rate on the term loans and our revolving line of credit facility was 3.9 percent at August 31, 2018, and we may incur additional expense if interest rates increase in future periods.

For example, a one percent increase in the interest rate on our term loans and the amount outstanding on our revolving credit facility at August 31, 2018 would result in approximately \$0.2 million of additional interest expense in fiscal 2019. 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, 2018, 2017, and 2016, we were not party to any interest rate swap agreements or similar derivative instruments.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

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

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Franklin Covey Co. and subsidiaries (the "Company") as of August 31, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of August 31, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended August 31, 2018, of the Company and our report dated November 14, 2018, expressed an unqualified opinion on those financial statements.

Basis for Opinion

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

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about

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

Definition and Limitations of Internal Control over Financial Reporting

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

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

Deloitte + Touche LLP

Salt Lake City, Utah
November 14, 2018

Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Franklin Covey Co. and subsidiaries (the "Company") as of August 31, 2018 and 2017, the related consolidated statements of operations and comprehensive income (loss), shareholders' equity, and cash flows for each of the three years in the period ended August 31, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of August 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended August 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of August 31, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated November 14, 2018, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

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

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

Deloitte + Touche LLP

Salt Lake City, Utah
November 14, 2018

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

FRANKLIN COVEY CO. CONSOLIDATED BALANCE SHEETS

AUGUST 31,	2018	2017
<i>In thousands, except per-share data</i>		
Assets		
Current assets:		
Cash and cash equivalents	\$ 10,153	\$ 8,924
Accounts receivable, less allowance for doubtful accounts of \$3,555 and \$2,310	71,914	66,343
Inventories	3,160	3,353
Income taxes receivable	179	259
Prepaid expenses	3,864	3,569
Other current assets	10,893	9,387
Total current assets	100,163	91,835
Property and equipment, net	21,401	19,730
Intangible assets, net	51,934	57,294
Goodwill	24,220	24,220
Deferred income tax assets	3,222	1,647
Other long-term assets	12,935	16,005
	\$ 213,875	\$ 210,731
Liabilities And Shareholders' Equity		
Current liabilities:		
Current portion of term notes payable	\$ 10,313	\$ 6,250
Current portion of financing obligation	2,092	1,868
Accounts payable	9,790	9,119
Deferred revenue	51,888	40,772
Accrued liabilities	20,761	22,617
Total current liabilities	94,844	80,626
Line of credit	11,337	4,377
Term notes payable, less current portion	2,500	12,813
Financing obligation, less current portion	18,983	21,075
Other liabilities	5,501	5,742
Deferred income tax liabilities	210	1,033
Total liabilities	133,375	125,666
Commitments and contingencies (Notes 7 and 8)		
Shareholders' equity:		
Common stock, \$.05 par value; 40,000 shares authorized, 27,056 shares issued	1,353	1,353
Additional paid-in capital	211,280	212,484
Retained earnings	63,569	69,456
Accumulated other comprehensive income	341	667
Treasury stock at cost, 13,159 shares and 13,414 shares	(196,043)	(198,895)
Total shareholders' equity	80,500	85,065
	\$ 213,875	\$ 210,731

See accompanying notes to consolidated financial statements.

FRANKLIN COVEY CO.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

YEAR ENDED AUGUST 31,	2018	2017	2016
<i>In thousands, except per-share amounts</i>			
Net sales:			
Training and consulting services	\$202,638	\$177,816	\$189,661
Products	3,577	3,881	6,009
Leasing	3,543	3,559	4,385
	209,758	185,256	200,055
Cost of sales:			
Training and consulting services	58,024	56,557	59,158
Products	1,251	3,990	3,206
Leasing	2,194	2,042	2,537
	61,469	62,589	64,901
Gross profit	148,289	122,667	135,154
Selling, general, and administrative	141,126	121,148	113,589
Contract termination costs	—	1,500	—
Restructuring costs	—	1,482	776
Depreciation	5,161	3,879	3,677
Amortization	5,368	3,538	3,263
Income (loss) from operations	(3,366)	(8,880)	13,849
Interest income	104	223	115
Interest expense	(2,676)	(2,408)	(2,263)
Discount accretion on related-party receivables	418	156	210
Income (loss) before income taxes	(5,520)	(10,909)	11,911
Benefit (provision) for income taxes	(367)	3,737	(4,895)
Net income (loss)	\$ (5,887)	\$ (7,172)	\$ 7,016
Net income (loss) per share:			
Basic and diluted	\$ (0.43)	\$ (0.52)	\$ 0.47
Weighted average number of common shares:			
Basic	13,849	13,819	14,944
Diluted	13,849	13,819	15,076
COMPREHENSIVE INCOME (LOSS):			
Net income (loss)	\$ (5,887)	\$ (7,172)	\$ 7,016
Foreign currency translation adjustments, net of income tax benefit (provision) of \$(75), \$37, and \$115	(326)	(555)	1,030
Comprehensive income (loss)	\$ (6,213)	\$ (7,727)	\$ 8,046

See accompanying notes to consolidated financial statements.

FRANKLIN COVEY CO. CONSOLIDATED STATEMENTS OF CASH FLOWS

YEAR ENDED AUGUST 31,	2018	2017	2016
<i>In thousands</i>			
Cash Flows From Operating Activities			
Net income (loss)	\$ (5,887)	\$ (7,172)	\$ 7,016
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	10,525	7,443	6,943
Amortization of capitalized curriculum development costs	5,280	3,745	3,865
Deferred income taxes	(2,535)	(5,594)	1,854
Stock-based compensation expense	2,846	3,658	3,121
Excess tax expense (benefit) from stock-based compensation	—	(168)	52
Increase (decrease) in contingent consideration liabilities	1,014	(1,936)	1,538
Changes in assets and liabilities, net of effect of acquired businesses:			
Decrease (increase) in accounts receivable, net	(5,679)	164	(576)
Decrease (increase) in inventories	157	1,583	(908)
Decrease in receivable from related party	213	1,421	820
Increase in prepaid expenses and other assets	(1,335)	(4,861)	(1,119)
Increase in accounts payable and accrued liabilities	1,746	676	2,264
Increase in deferred revenue	11,613	19,142	8,112
Increase (decrease) in income taxes payable/receivable	109	(249)	(316)
Decrease in other liabilities	(1,206)	(495)	(1)
Net cash provided by operating activities	16,861	17,357	32,665
Cash Flows From Investing Activities			
Purchases of property and equipment	(6,528)	(7,187)	(3,993)
Capitalized curriculum development costs	(2,998)	(6,466)	(2,236)
Acquisition of businesses, net of cash acquired	(1,108)	(7,272)	—
Acquisition of license rights	—	(750)	—
Net cash used for investing activities	(10,634)	(21,675)	(6,229)
Cash Flows From Financing Activities			
Proceeds from line of credit borrowings	93,391	34,320	46,454
Payments on line of credit borrowings	(86,431)	(29,943)	(46,454)
Proceeds from term notes payable financing	—	10,000	15,000
Principal payments on term notes payable	(6,250)	(5,000)	(937)
Principal payments on financing obligation	(1,868)	(1,662)	(1,472)
Purchases of common stock for treasury	(2,006)	(5,431)	(43,586)
Payment of contingent consideration liabilities	(2,323)	—	(2,167)
Income tax benefit (expense) recorded in paid-in capital	—	168	(52)
Proceeds from sales of common stock held in treasury	808	682	679
Net cash provided by (used for) financing activities	(4,679)	3,134	(32,535)
Effect of foreign currency exchange rates on cash and cash equivalents	(319)	(348)	321
Net increase (decrease) in cash and cash equivalents	1,229	(1,532)	(5,778)
Cash and cash equivalents at beginning of the year	8,924	10,456	16,234
Cash and cash equivalents at end of the year	\$ 10,153	\$ 8,924	\$ 10,456
Supplemental disclosure of cash flow information:			
Cash paid for income taxes	\$ 2,512	\$ 2,562	\$ 3,410
Cash paid for interest	2,655	2,314	2,231
Non-cash investing and financing activities:			
Purchases of property and equipment financed by accounts payable	\$ 1,018	\$ 697	\$ 334

See accompanying notes to consolidated financial statements.

FRANKLIN COVEY CO.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock Shares	Treasury Stock Amount
<i>In thousands</i>							
Balance at August 31, 2015	27,056	\$1,353	\$208,635	\$69,612	\$ 192	(10,909)	\$(154,286)
Issuance of common stock from treasury			(143)			57	823
Purchase of treasury shares						(2,505)	(43,586)
Unvested share award			(356)			25	356
Stock-based compensation			3,121				
Cumulative translation adjustments					1,030		
Tax expense recorded in paid-in capital			(52)				
Other			(2)				2
Net income				7,016			
Balance at August 31, 2016	27,056	1,353	211,203	76,628	1,222	(13,332)	(196,691)
Issuance of common stock from treasury			(2,103)			188	2,785
Purchase of treasury shares						(300)	(5,431)
Unvested share award			(442)			30	442
Stock-based compensation			3,658				
Cumulative translation adjustments					(555)		
Tax benefit recorded in paid-in capital			168				
Net loss				(7,172)			
Balance at August 31, 2017	27,056	1,353	212,484	69,456	667	(13,414)	(198,895)
Issuance of common stock from treasury			(3,702)			337	4,510
Purchase of treasury shares						(105)	(2,006)
Unvested share award			(348)			23	348
Stock-based compensation			2,846				
Cumulative translation adjustments					(326)		
Net loss				(5,887)			
Balance at August 31, 2018	27,056	\$1,353	\$211,280	\$63,569	\$ 341	(13,159)	\$(196,043)

See accompanying notes to consolidated financial statements.

FRANKLIN COVEY CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature Of Operations And Summary Of Significant Accounting Policies

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

Fiscal Year

Our fiscal year ends on August 31 of each year. During fiscal 2017, our Board of Directors approved a change to our fiscal quarter ending dates from a modified 52/53-week calendar in which quarterly periods ended on different dates from year to year, to the last day of the calendar month in each quarter. Beginning with the second quarter of fiscal 2017, our fiscal quarters now end on the last day of November, February, and May. Unless otherwise noted, references to fiscal years apply to the 12 months ended August 31 of the specified year.

Basis of Presentation

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

Pervasiveness of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United

States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to our prior period financial statements to conform with the current period presentation. On our consolidated balance sheet, we have separately classified deferred income tax assets and combined amounts receivable from FC Organizational Products (FCOP) with other current and other long-term assets (Note 17). On our consolidated statements of operations, we reclassified \$0.2 million in each of the fiscal years ended August 31, 2017 and 2016 from interest income to the accretion of discount on related party receivables.

Cash and Cash Equivalents

Some of our cash is deposited with financial institutions located throughout the United States of America and at banks in foreign countries where we operate subsidiary offices, and at times may exceed insured limits. We consider all highly liquid debt instruments with a maturity date of three months or less to be cash equivalents. We did not hold a significant amount of investments that would be considered cash equivalent instruments at August 31, 2018 or 2017. Of our \$10.2 million in cash at August 31, 2018, \$8.9 million of it was held outside the U.S. by our foreign subsidiaries. We routinely repatriate cash from our foreign subsidiaries and consider cash generated from foreign activities a key component of our overall liquidity position.

Inventories

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

AUGUST 31,	2018	2017
Finished goods	\$3,130	\$3,306
Raw materials	30	47
	<u>\$3,160</u>	<u>\$3,353</u>

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

During fiscal 2017, we exited the publishing business in Japan (Note 12) and wrote off the majority of our book inventory located in Japan, which totaled \$2.1 million. The cost of the books written off was recorded in cost of sales during fiscal 2017.

Other Current Assets

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

AUGUST 31,	2018	2017
Deferred commissions	\$ 6,958	\$6,150
Other current assets	3,935	3,237
	<u>\$10,893</u>	<u>\$9,387</u>

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

Property and Equipment

Property and equipment are recorded at cost. Depreciation expense, which includes depreciation on our corporate campus that is accounted for as a financing obligation (Note 6), and the amortization of assets recorded under capital lease obligations, is calculated using the straight-line method over the lesser of the expected useful life of the asset or the contracted lease period. We generally use the following depreciable lives for our major classifications of property and equipment:

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

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

AUGUST 31,	2018	2017
Land and improvements	\$ 1,312	\$ 1,312
Buildings	30,038	30,044
Machinery and equipment	1,723	2,119
Computer hardware and software	27,066	22,647
Furniture, fixtures, and leasehold improvements	8,272	8,319
	<u>68,411</u>	<u>64,441</u>
Less accumulated depreciation	(47,010)	(44,711)
	<u>\$ 21,401</u>	<u>\$ 19,730</u>

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

Impairment of Long-Lived Assets

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

Indefinite-Lived Intangible Assets and Goodwill Impairment Testing

Intangible assets that are deemed to have an indefinite life and acquired goodwill are not amortized, but rather are tested for impairment on an annual basis or more often if events or circumstances indicate that a potential impairment exists. The Covey trade name intangible asset has been deemed to have an indefinite life. This intangible asset is tested for impairment using qualitative factors or the present value of estimated royalties on trade name related revenues, which consist primarily of training seminars and work sessions, international licensee sales, and related products. Based on the fiscal 2018 evaluation of the Covey trade name, we believe the fair value of the Covey trade name substantially exceeds its carrying value. No impairment charges were recorded against the Covey trade name during the fiscal years ended August 31, 2018, 2017, or 2016.

Goodwill is recorded when the purchase price for an acquisition exceeds the estimated fair value of the net tangible and identified intangible assets acquired. During August 2017, we adopted Accounting Standards Update (ASU) 2017-04, *Intangibles – Goodwill and Other: Simplifying the Test for Goodwill Impairment*. This guidance simplifies the subsequent measurement of goodwill and eliminates the two-step goodwill impairment test. Under the new guidance, an annual or interim goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount, and an impairment charge is recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. The amendments also eliminate the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and two-step goodwill impairment test.

We tested goodwill for impairment at August 31, 2018 at the reporting unit level using a quantitative approach. The goodwill impairment testing process involves determining whether the estimated fair value of the reporting unit exceeds its respective book value. If the fair value exceeds the book value, goodwill of that reporting unit is not impaired. If the book value exceeds the fair value, an impairment charge is recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. The estimated fair value of each reporting unit was calculated using a combination of the income approach (discounted cash flows) and the market approach (using market multiples derived from a set of companies with comparable market characteristics).

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

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

Determining the fair value of a reporting unit is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions, and determination of appropriate market comparables. We base our fair value estimates on assumptions we believe to be reasonable, but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates. In addition, we make certain judgments and assumptions in allocating shared assets and liabilities to determine the carrying values for each of our reporting units. The timing and frequency of our goodwill impairment tests are based on an ongoing assessment of events and circumstances that would indicate a possible impairment. Based on the results of our goodwill impairment testing, we determined that no impairment existed at either of August 31, 2018 or 2017 as each reporting unit's estimated fair value exceeded its carrying value. We will continue to monitor our goodwill and intangible assets for impairment and conduct formal tests when impairment indicators are present. For more information regarding our intangible assets and goodwill, refer to Note 4.

Capitalized Curriculum Development Costs

During the normal course of business, we develop training courses and related materials that we sell to our clients. Capitalized curriculum development costs include certain expenditures to develop course materials such as video segments, course manuals, and other related materials. Our capitalized curriculum development spending in fiscal 2018, which totaled \$3.0 million, was primarily for offerings related to the All Access Pass, including *The Four Essential Roles of Leadership*, and for various other offerings in our Education practice. Curriculum costs are capitalized when there is a major revision to an existing course that requires a significant re-write of the course materials. Costs incurred to maintain existing offerings are expensed when incurred. In addition, development costs incurred in the research and development of new offerings and software products to be sold, leased, or otherwise marketed are expensed as incurred until economic and technological feasibility has been established.

Capitalized development costs are amortized over three- to five-year useful lives, which are based on numerous

factors, including expected cycles of major changes to our content. Capitalized curriculum development costs are reported as a component of other long-term assets in our consolidated balance sheets and totaled \$9.3 million and \$11.6 million at August 31, 2018 and 2017. Amortization of capitalized curriculum development costs is reported as a component of cost of sales in the accompanying consolidated statements of operations.

Accrued Liabilities

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

AUGUST 31,	2018	2017
Accrued compensation	\$11,858	\$10,611
Other accrued liabilities	8,903	12,006
	\$20,761	\$22,617

Contingent Consideration Payments from Business Acquisitions

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

Foreign Currency Translation and Transactions

The functional currencies of our foreign operations are the reported local currencies. Translation adjustments result from translating our foreign subsidiaries' financial statements into United States dollars. The balance sheet accounts of our foreign subsidiaries are translated into United States dollars using the exchange rate in effect at the balance sheet dates. Revenues and expenses are translated using average exchange rates for each month during the fiscal

year. The resulting translation differences are recorded as a component of accumulated other comprehensive income in shareholders' equity. Foreign currency transaction losses totaled \$0.5 million, \$0.2 million, and \$0.3 million for the fiscal years ended August 31, 2018, 2017, and 2016, respectively, and are included as a component of selling, general, and administrative expenses in our consolidated statements of operations.

Sales Taxes

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

Revenue Recognition

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

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

When the Company's training and consulting arrangements contain multiple deliverables, consideration is allocated at the inception of the arrangement to all deliverables based

on their relative selling prices at the beginning of the agreement, and revenue is recognized as each offering, 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 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 direct office. Licensee companies are unrelated entities that have been granted a license to translate our content and offerings, adapt the content to the local culture, and sell our content in a specific country or region. Licensees are required to pay us royalties based upon a percentage of their sales to clients. We recognize royalty income each period based upon the sales information reported to us from our licensees. Licensee royalty revenues are included as a component of training sales and totaled \$10.7 million, \$10.6 million, and \$14.4 million for the fiscal years ended August 31, 2018, 2017, and 2016. The decrease in international licensee royalties in fiscal 2017 was primarily due to the conversion of our licensee operations in China into directly-owned offices.

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

Stock-Based Compensation

We record the compensation expense for all stock-based payments, including grants of stock options and the compensatory elements of our employee stock purchase plan, in our consolidated statements of operations based upon their fair values over the requisite service period. For more information on our stock-based compensation plans, refer to Note 11.

Shipping and Handling Fees and Costs

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

Advertising Costs

Costs for advertising are expensed as incurred. Advertising costs included in selling, general, and administrative expenses totaled \$6.9 million, \$6.4 million, and \$6.6 million for the fiscal years ended August 31, 2018, 2017, and 2016.

Income Taxes

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

We may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities

based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement.

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

Comprehensive Income

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

Accounting Pronouncements Issued and Adopted

In March 2016, the Financial Accounting Standards Board (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. The guidance in ASU 2016-09 is effective for public companies' annual periods, including interim periods within those fiscal years, beginning after December 15, 2016. We adopted the provisions of ASU 2016-09 on September 1, 2017 on a prospective basis and prior periods have not been restated for these amendments. The primary impact of adopting this guidance on our financial statements has been the classification of excess income tax benefits or expense in income taxes rather than as a component of additional paid-in capital. The adoption of ASU 2016-09 did not have a material impact on our financial statements in fiscal 2018.

Accounting Pronouncements Issued Not Yet Adopted

On May 28, 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This new standard was issued in conjunction with the International Accounting Standards Board (IASB) and is designed to create a single, principles-based process by which all businesses calculate revenue. The core principle of this

standard is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. The standard also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. The new standard replaces numerous individual, industry-specific revenue rules found in generally accepted accounting principles in the United States. We will adopt this standard on September 1, 2018 and apply the new guidance during interim periods within fiscal 2019. We plan to adopt ASU No. 2014-09 using the "modified retrospective" approach.

Based upon our analysis of Topic 606, we expect that revenue recognition among our products and services will remain largely unchanged except for our initial license fee associated with licensing an international location. The Company currently records the non-refundable initial license fee from licensing an international location as revenue at the time the license period begins if all other revenue requirements have been met. However, under Topic 606, we have concluded that initial upfront fees should be recognized over the course of the initial contract.

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

We do not expect the accounting for fulfillment costs or costs incurred to obtain a contract to be affected materially in any period due to the adoption of Topic 606.

Although the Company is still finalizing its analysis of the adoption of Topic 606, we estimate that the initial impact upon adoption will be a reduction to the opening balance of retained earnings with offsetting amounts recorded to deferred revenue and deferred tax asset in an amount between \$2 million and \$4 million. We do not expect the adoption of ASU 2014-09 to have any impact on our operating cash flows.

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, and early adoption is permitted for all entities. We expect to adopt the provisions of ASU 2016-02 on September 1, 2019, and we may elect to apply the new standard on a prospective basis. At August 31, 2018, our leases primarily consist of the lease on our corporate campus, which is accounted for as a financing obligation (Note 6) on our consolidated balance sheets and operating leases for office and warehousing space. We expect the adoption of this new standard will increase our reported assets and liabilities since we will record the lease obligation and a corresponding right of use asset on our balance sheet for leases that are currently accounted for as operating leases (Note 7). However, as of August 31, 2018, we have not yet elected the transition method or determined the full impact that the adoption of ASU 2016-02 will have on our consolidated financial statements.

2. Business Acquisitions

Robert Gregory Partners, LLC

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

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

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

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

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

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

The payment of contingent consideration is based on the achievement of specified financial results and the delivery of "add-on coaching services" content that is included in our All Access Pass offering. We paid the former owners of RGP \$1.0 million during fiscal 2018 as contingent consideration for achieving specified financial results. During the fourth quarter of fiscal 2017, we paid the former owners of RGP \$0.5 million of contingent consideration for delivery of the content that was integrated into our AAP offering. Due to the timing of the \$0.5 million payment for add-on coaching services, this amount was included in the investing activities section of the accompanying consolidated statement of cash flows for fiscal 2017. Refer to Note 10 for further information regarding the fair value of the contingent consideration liability resulting from the RGP acquisition.

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

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

Our fiscal 2017 consolidated statement of operations include \$1.2 million of revenue and \$0.4 million of income from operations, excluding amortization of intangible assets, attributable to RGP since the date of the acquisition. For the twelve months ended December 31, 2016, RGP had revenues of \$3.3 million (unaudited) and operating income of \$1.1 million (unaudited). The costs to acquire RGP totaled approximately \$0.1 million and were expensed as components of selling, general, and administrative expense in our consolidated financial statements.

Jhana Education

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

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

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

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

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

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

Description	Amount	Weighted Average Life
Content	\$3,097	5 years
Acquired technology	1,474	3 years
Customer list	1,016	5 years
Trade name	445	5 years
Non-compete agreements	44	3 years
	<u>\$6,076</u>	5 years

The goodwill from the Jhana acquisition was assigned to the Direct Offices, Strategic Markets, and International Licensee segments (Note 4). The goodwill was primarily attributed to increased synergies that are expected to be achieved from the integration of Jhana's content and delivery methodologies into our services and offerings, especially in the All Access Pass. None of the goodwill from the Jhana acquisition is expected to be deductible for income tax purposes.

During fiscal 2018, we paid \$2.4 million to the former owners of Jhana as contingent consideration based on the acquisition agreement. The first \$1.1 million was paid within 90 days of the acquisition date and was classified as a component of cash flows from investing activities in our fiscal 2018 consolidated statement of cash flows. The payment of the remaining contingent consideration is based on certain revenue streams over the measurement period, which ends in July 2026. Refer to Note 10 for further information regarding the fair value of contingent consideration resulting from the Jhana acquisition.

The acquisition of Jhana had an immaterial impact on our consolidated financial statements for the fiscal year ended August 31, 2017. For the year ending December 31, 2016, Jhana had revenues of \$1.6 million (unaudited) and a loss before income taxes of \$3.1 million (unaudited). The costs to acquire Jhana totaled approximately \$0.1 million and were expensed as incurred. The acquisition costs were included in our selling, general, and administrative expenses.

Unaudited Pro Forma Information

The following are supplemental consolidated financial results of Franklin Covey Co. on an unaudited pro forma basis as if the acquisitions of RGP and Jhana had been completed on September 1, 2015 (in thousands, except per share amounts):

YEAR ENDED AUGUST 31,	2017	2016
Revenue	\$187,745	\$204,505
Net income (loss)	(7,976)	4,863
Diluted earnings (loss) per share	(0.58)	0.32

These pro forma results were based on estimates and assumptions, which we believe are reasonable. They are not the results that would have been realized had we been a combined company during the periods presented, and are not necessarily indicative of our consolidated results of operations in future periods. The pro forma results include adjustments related to purchase accounting, primarily the amortization of intangible assets, interest expense, and inclusion of acquisition costs.

3. Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts represents our best estimate of the amount of probable credit losses in the existing accounts receivable balance, and we review the adequacy of the allowance for doubtful accounts on a regular basis. We determine the allowance for doubtful accounts using historical write-off experience based on the age of the receivable balances and current general economic conditions. Receivable balances past due over 90 days, which exceed a specified dollar amount, are reviewed individually for collectability. As we increase sales to governmental organizations, including school districts, and offer longer payment terms on certain contracts (which are still within our normal payment terms), our collection cycle may increase in future periods. If the risk of non-collection increases for such receivable balances, there may be additional charges to expense to increase the allowance for doubtful accounts.

Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. We do not have any off-balance sheet credit exposure related to our customers nor do we generally require collateral or other security agreements from our customers. Activity in our allowance for doubtful accounts was comprised of the following for the periods indicated (in thousands):

YEAR ENDED AUGUST 31,	2018	2017	2016
Beginning balance	\$2,310	\$ 1,579	\$ 1,333
Charged to costs and expenses	2,029	1,747	2,022
Deductions	(784)	(1,016)	(1,776)
Ending balance	\$3,555	\$ 2,310	\$ 1,579

Deductions on the foregoing table represent the write-off of amounts deemed uncollectible during the fiscal year presented. Recoveries of amounts previously written off were insignificant for the periods presented.

4. Intangible Assets And Goodwill

Intangible Assets

Our intangible assets were comprised of the following (in thousands):

AUGUST 31, 2018	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
<i>Finite-lived intangible assets:</i>			
License rights	\$ 27,750	\$(18,889)	\$ 8,861
Acquired content	62,102	(46,147)	15,955
Customer lists	20,092	(17,835)	2,257
Acquired technology	3,568	(2,642)	926
Trade names	2,036	(1,441)	595
Non-compete agreements and other	758	(418)	340
	116,306	(87,372)	28,934
<i>Indefinite-lived intangible asset:</i>			
Covey trade name	23,000	–	23,000
	\$139,306	\$(87,372)	\$51,934

AUGUST 31, 2017	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
<i>Finite-lived intangible assets:</i>			
License rights	\$ 27,750	\$(17,802)	\$ 9,948
Acquired content	62,094	(43,864)	18,230
Customer lists	20,092	(16,935)	3,157
Acquired technology	3,568	(2,136)	1,432
Trade names	2,036	(1,163)	873
Non-compete agreements and other	758	(104)	654
	116,298	(82,004)	34,294
<i>Indefinite-lived intangible asset:</i>			
Covey trade name	23,000	–	23,000
	\$139,298	\$(82,004)	\$57,294

Our intangible assets are amortized over the estimated useful life of the asset. The range of remaining estimated useful lives and weighted-average amortization period over which we are amortizing the major categories of finite-lived intangible assets at August 31, 2018 were as follows:

Category of Intangible Asset	Range of Remaining Estimated Useful Lives	Weighted Average Original Amortization Period
License rights	4 to 8 years	30 years
Acquired content	1 to 8 years	25 years
Customer lists	1 to 9 years	12 years
Acquired technology	2 years	3 years
Trade names	1 to 4 years	5 years
Non-compete agreements and other	1 to 9 years	4 years

Our aggregate amortization expense from finite-lived intangible assets totaled \$5.4 million, \$3.5 million, and \$3.3 million for the fiscal years ended August 31, 2018, 2017, and 2016. Amortization expense from our intangible assets over the next five years is expected to be as follows (in thousands):

YEAR ENDING AUGUST 31,	
2019	\$4,790
2020	4,324
2021	3,809
2022	3,498
2023	2,612

Goodwill

Activity in our consolidated goodwill consisted of the following during fiscal 2018 and 2017 (in thousands):

Balance at August 31, 2016	\$19,903
Acquisition of RGP (Note 2)	1,232
Acquisition of Jhana (Note 2)	3,085
Accumulated impairments	–
Balance at August 31, 2017	24,220
Accumulated impairments	–
Balance at August 31, 2018	\$24,220

We allocated the goodwill generated from our fiscal 2017 business acquisitions to our operating segments based on their relative fair values as shown below (in thousands):

Direct offices	\$2,592
Strategic markets	513
Education practice	154
International licensees	1,058
	\$4,317

During fiscal 2018, we dissolved the Strategic Markets segment and combined its operations with the Direct Office segment (Note 16). We reclassified the goodwill from the Strategic Market segment to the Direct Office segment as shown below (in thousands):

AUGUST 31,	2017	Adjusted Goodwill	2018
Direct offices	\$13,382	\$ 3,443	\$16,825
Strategic markets	3,443	(3,443)	–
Education practice	2,330	–	2,330
International licensees	5,065	–	5,065
	\$24,220	\$ –	\$24,220

5. Term Loans Payable and Revolving Line of Credit

We have entered into an amended and restated secured credit agreement (the Restated Credit Agreement) with our existing lender. The Restated Credit Agreement provides us with a revolving line of credit facility and the ability to borrow on other instruments, such as term loans. We generally renew the Restated Credit Agreement on a regular basis to maintain the long-term availability of this credit facility.

During fiscal 2017, we entered into the Sixth, Seventh, and Eighth Modification Agreements to the Restated Credit Agreement. The Sixth Modification and Eighth

Modification agreements adjusted the definition of EBITDAR in the funded debt to EBITDAR and fixed charge coverage ratios applicable to our debt covenants to include the change in deferred revenue from subscription sales. The Seventh Modification Agreement extended the maturity date of the Restated Credit Agreement. On August 17, 2018, we entered into the Ninth Modification Agreement, which extended the maturity date of the Restated Credit Agreement by one year to March 31, 2021.

In connection with the modification agreements to the Restated Credit Agreement, we have entered into a security agreement, repayment guaranty agreements, and a pledge and security agreement. These agreements pledge substantially all of our assets located in the United States to the lender as collateral for borrowings under the Restated Credit Agreement and subsequent amendments.

The effective interest rate on our term loans and revolving line of credit was 3.9 percent at August 31, 2018 and 3.1 percent at August 31, 2017.

Term Loans Payable

In connection with the terms of our modified Restated Credit Agreement, we obtained a \$15.0 million term loan and have the ability to obtain additional term loans in increments of \$5.0 million up to a maximum of \$40.0 million. Each additional term loan reduces the amount available to borrow on the revolving line of credit facility on a dollar-for-dollar basis. We obtained additional \$5.0 million term loans during each of September 2016 and August 2017. Interest on the term loans is payable monthly at LIBOR plus 1.85 percent per year and each term loan matures three years from the date of borrowing. Interest is payable monthly and principal payments are due and payable on the first day of each January, April, July, and October. Principal payments are equal to the original amount of each term loan divided by 16 and any remaining principal at the maturity date is immediately payable or may be rolled into a new term loan. The proceeds from each term loan may be used for general corporate purposes and each term loan may be repaid sooner than the maturity date at our discretion. The following information applies to our term loans payable at August 31, 2018 (in thousands):

Maturity Date	Original Principal Amount	Quarterly	
		Principal Payment Amount	Outstanding Principal
May 24, 2019	\$15,000	\$938	\$ 6,563
August 29, 2019	5,000	313	2,500
August 29, 2020	5,000	313	3,750
			\$12,813

Principal payments by fiscal year through the maturity dates of the term loans are as follows (in thousands):

YEAR ENDING AUGUST 31,	
2019	\$10,313
2020	2,500
	\$12,813

Revolving Line of Credit

The key terms and conditions of our revolving line of credit are as follows:

- **Available Credit** – \$30.0 million as of August 31, 2018.
- **Maturity Date** – March 31, 2021.
- **Interest Rate** – The effective interest rate is LIBOR plus 1.85 percent per annum and the unused credit fee on the line of credit is 0.25 percent per annum.
- **Financial Covenants** – The Restated Credit Agreement requires us to be in compliance with specified financial covenants, including (a) a funded debt to EBITDAR (earnings before interest, taxes, depreciation, amortization, and rental expense) ratio of less than 3.00 to 1.00; (b) a fixed charge coverage ratio greater than 1.15 to 1.0; (c) an annual limit on capital expenditures (not including capitalized curriculum development) of \$8.0 million; and (d) consolidated accounts receivable must exceed 150 percent of the amount outstanding on the line of credit.

In the event of noncompliance with these financial covenants and other defined events of default, the lender is entitled to certain remedies, including acceleration of the repayment of any amounts outstanding on the Restated Credit Agreement. At August 31, 2018, we believe that we were in compliance with the terms and covenants applicable to our Restated Credit Agreement and its modifications. We had \$11.3 million outstanding on our revolving line of credit at August 31, 2018, and \$4.4 million outstanding on August 31, 2017.

6. Financing Obligation

In connection with the sale and leaseback of our corporate headquarters facility located in Salt Lake City, Utah, we entered into a 20-year master lease agreement with the purchaser, an unrelated private investment group. The 20-year master lease agreement also contains six five-year renewal options that allow us to maintain our operations at the current location for up to 50 years. Although the

corporate headquarters facility was sold and the Company has no legal ownership of the property, under applicable accounting guidance we were prohibited from recording the transaction as a sale since we have subleased a significant portion of the property that was sold. Accordingly, we account for the sale as a financing transaction, which requires us to continue reporting the corporate headquarters facility as an asset and to record a financing obligation for the sale price.

The financing obligation on our corporate campus was comprised of the following (in thousands):

AUGUST 31,	2018	2017
Financing obligation payable in monthly installments of \$303 at August 31, 2018, including principal and interest, with two percent annual increases (imputed interest at 7.7%), through June 2025	\$21,075	\$22,943
Less current portion	(2,092)	(1,868)
Total financing obligation, less current portion	\$18,983	\$21,075

Future principal maturities of our financing obligation were as follows at August 31, 2018 (in thousands):

YEAR ENDING AUGUST 31,	
2019	\$ 2,092
2020	2,335
2021	2,600
2022	2,887
2023	3,199
Thereafter	7,962
	\$21,075

Our remaining future minimum payments under the financing obligation in the initial 20-year lease term are as follows (in thousands):

YEAR ENDING AUGUST 31,	
2019	\$ 3,651
2020	3,724
2021	3,798
2022	3,874
2023	3,952
Thereafter	7,331
Total future minimum financing obligation payments	26,330
Less interest	(6,567)
Present value of future minimum financing obligation payments	\$19,763

The \$1.3 million difference between the carrying value of the financing obligation and the present value of the future minimum financing obligation payments represents the carrying value of the land sold in the financing transaction, which is not depreciated. At the conclusion of the master lease agreement, the remaining financing obligation and carrying value of the land will be offset and written off of our consolidated financial statements.

7. Operating Leases

Lease Expense

In the normal course of business, we lease office space and warehouse and distribution facilities under non-cancelable operating lease agreements. We rent office space, primarily for international and domestic regional sales administration offices, in commercial office complexes that are conducive to sales and administrative operations. We also rent warehousing and distribution facilities that are designed to provide secure storage and efficient distribution of our training products, books, and accessories. These operating lease agreements often contain renewal options that may be exercised at our discretion after the completion of the base rental term. In addition, many of the rental agreements provide for regular increases to the base rental rate at specified intervals, which usually occur on an annual basis. At August 31, 2018, we had operating leases with remaining terms ranging from less than one year to approximately seven years. The following table summarizes our future minimum lease payments under operating lease agreements at August 31, 2018 (in thousands):

YEAR ENDING AUGUST 31,	
2019	\$ 865
2020	415
2021	231
2022	85
2023	85
Thereafter	184
	\$1,865

We recognize lease expense on a straight-line basis over the life of the lease agreement. Contingent rent expense is recognized as it is incurred and was insignificant for the periods presented. Total rent expense recorded in selling, general, and administrative expense from operating lease agreements was \$1.6 million, \$1.8 million, and \$2.2 million for the fiscal years ended August 31, 2018, 2017, and 2016.

Lease Income

We have subleased the majority of our corporate headquarters campus located in Salt Lake City, Utah to multiple, unrelated tenants as well as to FC Organizational Products (Note 17). We recognize sublease income on a straight-line basis over the life of the sublease agreement. The cost basis of our corporate campus was \$34.8 million, which had a carrying value of \$7.6 million at August 31, 2018. The following future minimum lease payments due to us from our sublease agreements at August 31, 2018 include lease income of approximately \$0.6 million per year from FCOP (in thousands):

YEAR ENDING	
AUGUST 31,	
2019	\$ 3,789
2020	3,888
2021	2,340
2022	1,514
2023	1,514
Thereafter	2,802
	\$15,847

Sublease revenue totaled \$3.5 million, \$3.6 million, and \$4.4 million during the fiscal years ended August 31, 2018, 2017, and 2016.

8. Commitments And Contingencies

Warehouse Outsourcing Contract

Effective July 1, 2016, we entered into a warehousing services agreement with an independent warehouse and distribution company to provide product kitting, warehousing, and order fulfillment services at a facility in Des Moines, Iowa. Under the terms of this contract, we pay a fixed charge of approximately \$19,000 per month for account management services and variable charges for other warehousing services based on specified activities, including shipping charges. The warehouse charges may be increased each year of the contract based upon changes in the Employment Cost Index. The warehousing and distribution contract expires on June 30, 2019.

During fiscal years 2018, 2017, and 2016, we expensed \$2.9 million, \$2.6 million, and \$3.8 million for services provided under the terms of our warehouse and distribution outsourcing contract. The total amount expensed each year under these contracts include freight charges, which are billed to the Company based upon activity. Freight charges included in the warehouse and distribution outsourcing costs totaled \$1.9 million, \$1.5 million, and

\$1.8 million during the fiscal years ended August 31, 2018, 2017, and 2016. Because of the variable component of the agreement, our payments for warehouse and distribution services may fluctuate in future periods based upon sales and levels of specified activities.

Purchase Commitments

During the normal course of business, we issue purchase orders to various vendors for products and services. At August 31, 2018, we had open purchase commitments totaling \$4.3 million for products and services to be delivered primarily in fiscal 2019.

Letters of Credit

At August 31, 2018 and 2017, we had standby letters of credit totaling \$0.1 million. These letters of credit were primarily required to secure commitments for certain insurance policies and expire in January 2019. No amounts were drawn on the letters of credit at either August 31, 2018 or August 31, 2017.

Legal Matters and Loss Contingencies

We are the subject of certain legal actions, which we consider routine to our business activities. At August 31, 2018, we believe that, after consultation with legal counsel, any potential liability to us under these other actions will not materially affect our financial position, liquidity, or results of operations.

9. Shareholders' Equity

Preferred Stock

We have 14.0 million shares of preferred stock authorized for issuance. At August 31, 2018 and 2017, no shares of preferred stock were issued or outstanding.

Treasury Stock

Open Market Purchases

On January 23, 2015, our Board of Directors approved a new plan to repurchase up to \$10.0 million of the Company's outstanding common stock. All previously existing common stock repurchase plans were canceled and the new common share repurchase plan does not have an expiration date. On March 27, 2015, our Board of Directors increased the aggregate value of shares of Company common stock that may be purchased under the January 2015 plan to \$40.0 million so long as we have either \$10.0 million in cash

and cash equivalents or have access to debt financing of at least \$10.0 million. Through August 31, 2018, we have purchased 1,539,828 shares of our common stock for \$26.8 million under the terms of this expanded common stock repurchase plan. The actual timing, number, and value of common shares repurchased under this plan will be determined at our discretion and will depend on a number of factors, including, among others, general market and business conditions, the trading price of our common shares, and applicable legal requirements. 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.

The cost of common stock purchased for treasury as shown on our consolidated statement of cash flows for the year ending August 31, 2018 is comprised of the cost of 104,699 shares that were withheld for statutory income taxes on stock-based compensation awards issued to participants during the fiscal 2018. The withheld shares were valued at the market price on the date the shares were distributed to participants, which totaled \$2.0 million. For the fiscal years ended August 31, 2017 and 2016, we withheld 51,156 shares and 2,260 shares for minimum statutory taxes on stock-based compensation awards, which had a total value of \$0.9 million and \$38,000, respectively.

Fiscal 2016 Tender Offer

On December 8, 2015, we announced that our Board of Directors approved a modified Dutch auction tender offer for up to \$35.0 million in value of shares of our common stock at a price within (and including) the range of \$15.50 to \$17.75 per share. The tender offer commenced on December 14, 2015, and expired at 11:59 p.m. Eastern time, on January 12, 2016. The tender offer was fully subscribed and we acquired 1,971,832 shares of our common stock at \$17.75 per share. Including fees to complete the tender offer, the total cost of the tendered shares was \$35.3 million, which was financed by existing cash and proceeds from our revolving line of credit facility. For further information regarding the terms and conditions of this completed tender offer, refer to information in the Tender Offer Statement on Schedule TO filed with Securities and Exchange Commission on December 14, 2015 and subsequent amendments thereto.

10. Fair Value Of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the

measurement date. The accounting standards related to fair value measurements include a hierarchy for information and valuations used in measuring fair value that is broken down into the following three levels based on reliability:

- Level 1 valuations are based on quoted prices in active markets for identical instruments that the Company can access at the measurement date.
- Level 2 valuations are based on inputs other than quoted prices included in Level 1 that are observable for the instrument, either directly or indirectly, for substantially the full term of the asset or liability including the following:
 - a. quoted prices for similar, but not identical, instruments in active markets;
 - b. quoted prices for identical or similar instruments in markets that are not active;
 - c. inputs other than quoted prices that are observable for the instrument; or
 - d. inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 valuations are based on information that is unobservable and significant to the overall fair value measurement.

The book values of our financial instruments at August 31, 2018 and 2017 approximated their fair values. The assessment of the fair values of our financial instruments is based on a variety of factors and assumptions. Accordingly, the fair values may not represent the actual values of the financial instruments that could have been realized at August 31, 2018 or 2017, or that will be realized in the future, and do not include expenses that could be incurred in an actual sale or settlement. The following methods and assumptions were used to determine the fair values of our financial instruments, none of which were held for trading or speculative purposes:

Cash, Cash Equivalents, and Accounts Receivable – The carrying amounts of cash, cash equivalents, and accounts receivable approximate their fair values due to the liquidity and short-term maturity of these instruments.

Other Assets – Our other assets, including notes receivable, were recorded at the net realizable value of estimated future cash flows from these instruments.

Debt Obligations – At August 31, 2018, our debt obligations consisted of variable-rate term notes payable and borrowings on our variable-rate revolving line of credit. The term

notes payable and revolving line of credit (Note 5) are negotiated components of our Restated Credit Agreement, which is renewed on a regular basis to maintain the long-term borrowing capability of the agreement. Accordingly, the applicable interest rates on the term loans and revolving line of credit are reflective of current market conditions, and the carrying value of term loan and revolving line of credit obligations therefore approximate their fair value.

Contingent Consideration Liabilities from Business Acquisitions

We have contingent consideration liabilities resulting from our fiscal 2017 business acquisitions (Note 2). We measure the fair values of our contingent consideration liabilities at each reporting date based on various valuation models as described below. Changes to the fair value of the contingent consideration liabilities are recorded as components of our selling, general, and administrative expenses in the accompanying consolidated statements of operations in the period of adjustment. The fair value of the contingent consideration liabilities from the acquisition of RGP and Jhana changed as follows during fiscal 2018 (in thousands):

AUGUST 31,	2017	Increase in Fair Value	Payments	2018
RGP Acquisition	\$ 913	\$ 693	\$(1,000)	\$ 606
Jhana Acquisition	6,052	321	(2,431)	3,942
	\$6,965	\$1,014	\$(3,431)	\$4,548

The fair values of contingent consideration liabilities are recorded as components of accrued liabilities and other long-term liabilities based on expected payment dates.

Robert Gregory Partners – On May 15, 2017, we acquired the assets of RGP. The purchase price included contingent consideration payments to the former owners of RGP of up to \$4.5 million, based on the achievement of specified levels of earnings before interest, income taxes, depreciation, and amortization expense (EBITDA) and the delivery of “add-on coaching services content” for our AAP as set forth in the purchase agreement. The specified levels of EBITDA include measures for RGP coaching services plus earnings from add-on coaching services sold through the AAP. The fair value of the RGP contingent liability is estimated using a Monte Carlo simulation method, which considers numerous potential financial outcomes using estimated variables such as expected revenues, growth rates, and a discount rate. This fair value measurement is considered a Level 3 measurement because we estimate

revenues and corresponding expected growth rates each period. The following range of growth rates were used to calculate the initial fair value of the contingent consideration:

	Likely	Minimum	Maximum
RGP growth rate – Year 1	14.8%	(12.0)%	35.0%
RGP growth rate – Year 2	10.0%	(12.0)%	35.0%
RGP growth rate – Year 3	10.0%	(12.0)%	35.0%
Add-on services growth rate – Year 1	60.0%	(20.0)%	130.0%
Add-on services growth rate – Year 2	50.0%	(20.0)%	130.0%
Add-on services growth rate – Year 3	40.0%	(20.0)%	130.0%

Jhana Education – On July 11, 2017, we acquired the stock of Jhana Education. The purchase price included potential contingent consideration of \$7.2 million through the measurement period, which ends in July 2026. The fair value of the contingent consideration was calculated using a probability weighted expected return methodology, which is a Level 3 measurement because we estimate projected consolidated Company and AAP sales over the measurement period. Probabilities were applied to each potential sales outcome and the resulting values were discounted using a rate that considered Jhana’s weighted average cost of capital and specific risk premiums associated with the potential contingent consideration.

11. Stock-Based Compensation Plans

Overview

We utilize various stock-based compensation plans as integral components of our overall compensation and associate retention strategy. Our shareholders have approved various stock incentive plans that permit us to grant performance awards, unvested share awards, stock options, and employee stock purchase plan (ESPP) shares. In addition, our Board of Directors and shareholders may, from time to time, approve fully vested stock awards. The Organization and Compensation Committee of the Board of Directors (the Compensation Committee) has responsibility for the approval and oversight of our stock-based compensation plans.

On January 23, 2015, our shareholders approved the 2015 Omnibus Incentive Plan (the 2015 Plan), which authorized 1.0 million shares of common stock for issuance to employees and members of the Board of Directors as stock-based payments. A more detailed description of the

2015 Plan is set forth in our Definitive Proxy Statement filed with the SEC on December 22, 2014. At August 31, 2018, the 2015 Plan had approximately 254,000 shares available for future grants.

At the annual meeting of shareholders held on January 26, 2018, our shareholders approved the Franklin Covey Co. 2017 Employee Stock Purchase Plan (the 2017 ESPP). The 2017 ESPP replaced the Franklin Covey Co. 2004 Employee Stock Purchase Plan, which previously expired. The 2017 ESPP authorized an additional 1.0 million shares, subject to certain adjustments, of our common stock for issuance to ESPP participants. For further information regarding the 2017 ESPP, including the full text of the 2017 ESPP, please refer to our definitive Proxy Statement as filed with the SEC on December 22, 2017. At August 31, 2018, the 2017 ESPP had approximately 946,000 shares remaining for purchase by plan participants.

The total compensation expense of our stock-based compensation plans was as follows (in thousands):

YEAR ENDED AUGUST 31,	2018	2017	2016
Performance awards	\$2,034	\$2,902	\$2,492
Unvested stock awards	642	500	450
Fully vested stock awards	15	135	60
Compensation cost of the ESPP	155	121	119
	\$2,846	\$3,658	\$3,121

The compensation expense of our stock-based compensation plans was included in selling, general, and administrative expenses in the accompanying consolidated statements of operations, and no stock-based compensation was capitalized during fiscal years 2018, 2017, or 2016. We recognize forfeitures of stock-based compensation instruments as they occur. During fiscal 2018, we issued 311,898 shares of our common stock from shares held in treasury for various stock-based compensation plans. Our stock-based compensation plans allow shares to be withheld from the award to pay statutory income tax liabilities. We withheld 104,699 shares of our common stock (Note 9) for statutory income taxes during fiscal 2018.

The following is a description of our stock-based compensation plans.

Performance Awards

The Compensation Committee has awarded various performance-based stock compensation awards to members of our senior management as long-term incentive plan

(LTIP) compensation. These awards vest to the participants based upon the achievement of specified performance criteria. Compensation expense is recognized as we determine it is probable that the shares will vest. Adjustments to compensation expense to reflect the timing of and the number of shares expected to be awarded are made on a cumulative basis at the date of the adjustment. We reevaluate the likelihood of shares vesting under performance awards at each reporting date.

Due to the significant change in our business resulting from sales of the All Access Pass, on October 18, 2016, the Compensation Committee approved a modification to the fiscal 2012 through fiscal 2016 performance awards to include the change in deferred revenue, less certain costs, in adjusted earnings before interest, taxes, depreciation, and amortization (Adjusted EBITDA) in the vesting calculations. Our share price on October 18, 2016 was less than the share prices used to recognize stock-based compensation expense on the fiscal 2012 through fiscal 2015 performance awards and no incremental stock-based compensation expense was recognized from this modification for those awards. The incremental compensation expense recorded in fiscal 2017 as a result of this modification for the fiscal 2016 LTIP award was approximately \$0.6 million.

The following is a description of our performance-based LTIP awards as of August 31, 2018.

Fiscal 2018 LTIP Award – On November 14, 2017, the Compensation Committee granted a new performance-based LTIP award to our executive officers and members of senior management. The fiscal 2018 LTIP award has three tranches, which consist of the following: 1) shares that vest after three years of service; 2) the achievement of certain levels of fiscal 2020 qualified Adjusted EBITDA; and 3) fiscal 2020 subscription service sales. Twenty-five percent of a participant's award vests after three years of service, and the number of shares awarded in this tranche will not fluctuate based on the described financial measures. The number of shares granted in this tranche totals 42,883 shares. The remaining two tranches of the award are divided between the achievement of certain levels of Adjusted EBITDA and subscription sales recognized in fiscal 2020. The number of shares that will vest to participants for these two tranches is variable and may be 50 percent of the award (minimum award threshold) up to 200 percent of the participant's award (maximum threshold). The maximum number of shares that may be awarded in connection with these tranches totals 257,300 shares. The fiscal 2018 LTIP has a three-year life and expires on August 31, 2020.

Fiscal 2017 LTIP Award – On October 18, 2016, the Compensation Committee granted performance-based awards for our executive officers and members of senior management. A total of 183,381 shares may be earned by the participants based on six individual vesting conditions that are divided into two performance measures, trailing four-quarter Adjusted EBITDA and trailing four-quarter gross All Access Pass sales. As of August 31, 2018, four tranches of this award have vested, totaling 97,803 shares. The 2017 LTIP has a six-year life and expires on August 31, 2022.

Fiscal 2016 LTIP Award – The fiscal 2016 LTIP was granted on November 12, 2015, to our executive officers and members of senior management. A total of 231,276 shares may be awarded to the participants based on six individual vesting conditions that are divided into two performance measures, trailing four-quarter Adjusted EBITDA and increased sales of Organizational Development Suite (OD Suite) offerings. The OD Suite is defined as Leadership, Productivity, and Trust practice sales. As of August 31, 2018, four tranches of the fiscal 2016 LTIP have vested to participants, totaling 123,348 shares. The 2016 LTIP has a six-year life and expires on August 31, 2021.

Fiscal 2015 LTIP Award – During fiscal 2015, the Compensation Committee granted a performance-based award for our executive officers and certain members of senior management. A total of 112,464 shares may be awarded to the participants based on six individual vesting conditions that are divided into two performance measures, trailing four-quarter Adjusted EBITDA and increased sales of OD Suite sales as described above. As of August 31, 2018, a total of 59,980 shares, or four tranches, of the fiscal 2015 LTIP have vested to participants. The 2015 LTIP has a six-year life and expires on August 31, 2020.

Fiscal 2014 LTIP Award – During the first quarter of fiscal 2014, the Compensation Committee granted performance-based equity awards to our executive officers. A total of 89,418 shares may be awarded to the participants based on six individual vesting conditions that are divided into two performance measures, trailing four-quarter Adjusted EBITDA and trailing four-quarter increased sales of courses related to *The 7 Habits of Highly Effective People*. As of August 31, 2018, four tranches of the fiscal 2014 LTIP, totaling 47,690 shares, have vested to participants. The fiscal 2014 LTIP has a six-year life and expires on August 31, 2019.

Fiscal 2013 LTIP Award – During fiscal 2013, the Compensation Committee granted a performance-based equity award for the Chief Executive Officer (CEO), Chief

Financial Officer, and the Chief People Officer. A total of 68,085 shares may be issued to the participants based on six individual vesting conditions that are divided into two performance measures, trailing four-quarter Adjusted EBITDA and Productivity Practice sales. As of August 31, 2018, three tranches of the fiscal 2013 LTIP award, or 38,582 shares, have vested to participants. The fiscal 2013 LTIP award had a six-year life that ended on August 31, 2018, and the remaining award tranches totaling 29,503 shares expired unvested to the participants.

Unvested Stock Awards

The annual Board of Director unvested stock award, which is administered under the terms of the Franklin Covey Co. 2015 Omnibus Incentive Plan, is designed to provide our non-employee directors, who are not eligible to participate in our employee stock purchase plan, an opportunity to obtain an interest in the Company through the acquisition of shares of our common stock. Each eligible director is entitled to receive a whole-share grant equal to \$100,000 with a one-year vesting period, which is generally granted in January (following the Annual Shareholders' Meeting) of each year. Shares granted under the terms of this annual award may not be voted or participate in any common stock dividends until they are vested.

Under the terms of this program, we issued 23,338 shares, 29,834 shares, and 25,032 shares of our common stock to eligible members of the Board of Directors during the fiscal years ended August 31, 2018, 2017, and 2016. The fair value of shares awarded to the directors was \$0.7 million in fiscal 2018 and \$0.5 million in each of fiscal 2017 and fiscal 2016 as calculated on the grant date of the awards. The corresponding compensation cost is recognized over the vesting period of the awards, which is one year. The cost of the common stock issued from treasury for these awards was \$0.3 million in fiscal 2018, \$0.4 million in fiscal 2017, and \$0.3 million in fiscal 2016. The following information applies to our unvested stock awards for the fiscal year ended August 31, 2018:

	Number of Shares	Weighted-Average Grant-Date Fair Value Per Share
Unvested stock awards at August 31, 2017	29,834	\$17.60
Granted	23,338	30.00
Forfeited	–	–
Vested	(29,834)	17.60
Unvested stock awards at August 31, 2018	23,338	\$30.00

At August 31, 2018, there was \$0.2 million of unrecognized compensation cost related to unvested stock awards, which is expected to be recognized over the remaining weighted-average vesting period of four months. The total recognized income tax benefit from unvested stock awards totaled \$0.2 million in fiscal 2018, \$0.2 million for fiscal 2017, and \$0.1 million in fiscal 2016. The intrinsic value of our unvested stock awards at August 31, 2018 was \$0.6 million.

Stock Options

We have an incentive stock option plan whereby options to purchase shares of our common stock may be issued to key employees at an exercise price not less than the fair market value of the Company's common stock on the date of grant. Information related to our stock option activity during the fiscal year ended August 31, 2018 is presented below:

	Number of Stock Options	Weighted Avg. Exercise Price Per Share	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (thousands)
Outstanding at August 31, 2017	568,750	\$11.67		
Granted	—	—		
Exercised	—	—		
Forfeited	—	—		
Outstanding at August 31, 2018	568,750	\$11.67	1.8	\$7,923
Options vested and exercisable at August 31, 2018	568,750	\$11.67	1.8	\$7,923

During fiscal 2017, we had 62,500 stock options exercised on a net share basis, which had an intrinsic value of \$0.5 million. At August 31, 2018, there was no remaining unrecognized compensation expense related to our stock options and no options were exercised during either fiscal 2018 or 2016.

The following additional information applies to our stock options outstanding at August 31, 2018:

Exercise Prices	Number Outstanding at August 31, 2018	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Options Exercisable at August 31, 2018	Weighted Average Exercise Price
\$ 9.00	62,500	2.4	\$ 9.00	62,500	\$ 9.00
\$10.00	168,750	1.8	\$10.00	168,750	\$10.00
\$12.00	168,750	1.8	\$12.00	168,750	\$12.00
\$14.00	168,750	1.8	\$14.00	168,750	\$14.00
	<u>568,750</u>			<u>568,750</u>	

Fully Vested Stock Awards

We have a stock-based incentive program that is designed to reward our client partners and training consultants for exceptional long-term performance. The program grants shares of our common stock with a total value of \$15,000 to each client partner who has sold over \$20.0 million in cumulative sales and to each training consultant who has delivered over 1,500 days of training during their career. During fiscal 2018, one individual qualified for this award; nine individuals qualified for this award in fiscal 2017; and four individuals qualified for this award in fiscal 2016.

Employee Stock Purchase Plan

We have an employee stock purchase plan that offers qualified employees the opportunity to purchase shares of our common stock at a price equal to 85 percent of the average fair market value of our common stock on the last trading day of each quarter. We issued a total of 40,941 shares, 43,199 shares, and 49,375 shares to ESPP participants during the fiscal years ended August 31, 2018, 2017, and 2016, which had a corresponding cost basis of \$0.6 million, \$0.6 million, and \$0.7 million, respectively. We received cash proceeds for these shares from ESPP participants totaling \$0.8 million in fiscal 2018 and \$0.7 million in each of the fiscal years ended August 31, 2017 and 2016.

12. Contract Termination and Restructuring Costs

Contract Termination Costs

During fiscal 2017, we entered into a new 10-year license agreement for Education practice content in a foreign country, with minimum required royalties payable to us totaling approximately \$13 million (at current exchange rates) over the life of the arrangement. Under a previously existing profit-sharing agreement, we would have been obligated to pay one-third of the new minimum royalty stream plus one-third of any royalties in excess of the contractual minimums to the licensee that owns the rights for that country. In exchange for a \$1.5 million cash payment, we terminated the previously existing profit-sharing agreement and we will not owe any further profit sharing-payments to the international licensee. Based on the guidance for contract termination costs, we expensed the \$1.5 million payment during fiscal 2017.

Restructuring Costs

Fiscal 2017 Restructuring Costs

During the third quarter of fiscal 2017, we determined to exit the publishing business in Japan and restructured our U.S./Canada direct office operations in order to support new sales and renewals of the All Access Pass. We expensed \$3.6 million related to these changes during fiscal 2017 as described below. The majority of these costs were attributable to our Direct Offices segment.

Exit Japan Publishing Business

Due to a change in strategy designed to focus resources and efforts on sales of the All Access Pass in Japan, and declining sales and profitability of the publishing business, we decided to exit the publishing business in Japan. As a result of this determination, we wrote off the majority of our book inventory located in Japan for \$2.1 million, which was recorded as a component of product cost of sales in the accompanying consolidated statements of operations for fiscal 2017.

U.S./Canada Direct Office Restructuring

We restructured the operations of our U.S./Canada direct offices to create new smaller regional teams which are focused on selling the All Access Pass, helping clients strategically implement the AAP, and providing services to further develop long-term client relationships. Accordingly, we determined that our three remaining sales offices located

in Atlanta, Georgia; Irvine, California; and Chicago, Illinois were unnecessary since most client partners work from home-based offices; restructured the operations of the Sales Performance and Winning Customer Loyalty Practices; and eliminated certain functions to reduce costs in future periods. The \$1.5 million restructuring charge associated with these operational changes was comprised of the following (in thousands):

Description	Amount
Severance costs	\$ 986
Office closure costs	496
	<u>\$1,482</u>

As of August 31, 2018 and August 31, 2017, we had accrued office closure costs totaling \$0.1 million and \$0.5 million, which are included as components of accrued liabilities on the accompanying consolidated balance sheets. All of the severance costs associated with this restructuring plan were paid as of August 31, 2017.

Fiscal 2016 Restructuring Costs

In the fourth quarter of fiscal 2016, we restructured the operations of certain of our domestic sales offices. 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.

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 and certain sales support functions. Our remaining sales and support personnel in Australia now work from home offices, similar to many of our sales personnel located in the U.S. and Canada. The Australia office restructure cost \$0.4 million and was primarily comprised of office closure costs, including remaining lease expense on the offices that were closed, and for employee severance costs. The severance costs included in the restructuring charge totaled less than \$40,000. As of August 31, 2017 substantially all of the remaining accrued restructuring costs were paid.

13. Employee Benefit Plans

Profit Sharing Plans

We have defined contribution profit sharing plans for our employees that qualify under Section 401(k) of the Internal Revenue Code. These plans provide retirement

benefits for employees meeting minimum age and service requirements. Qualified participants may contribute up to 75 percent of their gross wages, subject to certain limitations. These plans also provide for matching contributions to the participants that are paid by the Company. The matching contributions, which were expensed as incurred, totaled \$2.1 million, \$1.9 million, and \$1.9 million during the fiscal years ended August 31, 2018, 2017, and 2016. We do not sponsor or participate in any defined-benefit pension plans.

Non-Qualified Deferred Compensation Plan

We had a non-qualified deferred compensation (NQDC) plan that provided certain key officers and employees the ability to defer a portion of their compensation until a later date. Deferred compensation amounts used to pay benefits were held in a “rabbi trust,” which invested in insurance contracts, various mutual funds, and shares of our common stock as directed by the plan participants. However, due to legal changes resulting from the American Jobs Creation Act of 2004, we determined to cease compensation deferrals to the NQDC plan after December 31, 2004. Following the cessation of deferrals to the NQDC plan, the number of participants remaining in the plan declined steadily, and our Board of Directors decided to partially terminate the NQDC plan. Following this decision, all of the plan’s assets were liquidated, the plan’s liabilities were paid, and the only remaining items in the NQDC plan are shares of our common stock owned by the remaining plan participants. At August 31, 2018 and 2017, the cost basis of the shares of our common stock held by the rabbi trust was \$0.2 million and \$0.4 million. Shares of our common stock held in the rabbi trust are included as components of treasury stock on the accompanying consolidated balance sheets.

14. Income Taxes

Our benefit (provision) for income taxes consisted of the following (in thousands):

YEAR ENDED AUGUST 31,	2018	2017	2016
Current:			
Federal	\$ 29	\$ 69	\$ (380)
State	210	(71)	(197)
Foreign	(2,947)	(2,320)	(2,553)
	(2,708)	(2,322)	(3,130)
Deferred:			
Federal	1,426	(1,227)	(1,584)
State	(314)	(17)	70
Foreign	(281)	468	50
Operating loss carryforward	2,636	6,964	–
Adjustment for changes in U.S. income tax rates	1,654	–	–
Valuation allowance	(2,780)	(129)	(301)
	2,341	6,059	(1,765)
	\$ (367)	\$ 3,737	\$ (4,895)

The allocation of our total income tax benefit (provision) is as follows (in thousands):

YEAR ENDED AUGUST 31,	2018	2017	2016
Net income (loss)	\$(367)	\$3,737	\$(4,895)
Other comprehensive income	(75)	37	115
	\$(442)	\$3,774	\$(4,780)

Income (loss) before income taxes consisted of the following (in thousands):

YEAR ENDED AUGUST 31,	2018	2017	2016
United States	\$(8,960)	\$(10,126)	\$ 9,328
Foreign	3,440	(783)	2,583
	\$(5,520)	\$(10,909)	\$11,911

The differences between income taxes at the statutory federal income tax rate and the consolidated income tax rate reported in our consolidated statements of operations were as follows:

YEAR ENDED AUGUST 31,	2018	2017	2016
Federal statutory income tax rate	25.7%	35.0%	(35.0)%
State income taxes, net of federal effect	2.6	2.3	(1.9)
Effect of change in U.S. federal tax rate	30.0	–	–
Valuation allowance	(50.4)	(1.2)	(2.5)
Foreign jurisdictions tax differential	(6.8)	(1.9)	0.6
Tax differential on income subject to both U.S. and foreign taxes	2.3	0.4	(1.9)
Uncertain tax positions	(5.1)	4.4	0.4
Non-deductible executive compensation	(2.7)	(1.6)	–
Non-deductible meals and entertainment	(8.9)	(2.2)	(1.6)
Payout of deferred compensation (NQDC)	4.4	–	–
Other	2.2	(0.9)	0.8
	(6.7)%	34.3%	(41.1)%

The Tax Cut and Jobs Act (the 2017 Tax Act) was signed into law on December 22, 2017. The 2017 Tax Act significantly revises the U.S. corporate income tax code by, among other things, lowering the statutory corporate tax rate from 35 percent to 21 percent; eliminating certain deductions; imposing a mandatory one-time transition tax, or deemed repatriation tax, on accumulated earnings of foreign subsidiaries as of 2017 that were previously tax deferred; introducing new tax regimes; and changing how foreign earnings are subject to U.S. tax.

Since we have an August 31 fiscal year end, the lower corporate income tax rate is phased in, resulting in a U.S. statutory federal rate of 25.7 percent for fiscal 2018 and 21 percent rate for subsequent fiscal years. Other provisions of the 2017 Tax Act will not be effective for us until fiscal 2019, including limitations on the deductibility of interest and executive compensation as well as anti-deferral provisions on Global Intangible Low-Taxed Income.

We have completed our accounting for the effects of the 2017 Tax Act and recorded income tax benefits totaling \$1.7 million during fiscal 2018, including a one-time income tax benefit of \$0.9 million as of the date of enactment. We recognized \$0.8 million of the one-time benefit from

re-measuring our net deferred tax liabilities at the reduced U.S. federal tax rate and \$0.2 million of the benefit from other changes enacted by the 2017 Tax Act. These benefits were partially offset by \$0.1 million of expense from the deemed repatriation of accumulated earnings from our foreign subsidiaries.

On September 1, 2017, we adopted the provisions of ASU 2016-09, which requires that the benefits of deductions resulting from stock-based compensation in excess of the corresponding book expense be recorded as a component of our income tax provision or benefit for the period, instead of being recorded to additional paid-in capital. We recorded an immaterial amount of income tax expense in fiscal 2018 for stock-based compensation deductions that were less than the corresponding book expense. We recorded \$0.2 million to paid-in capital in fiscal 2017 for excess tax deductions and an insignificant deduction against paid-in capital during fiscal 2016 for the shortfall in tax deductions related to stock-based compensation.

The significant components of our deferred tax assets and liabilities were comprised of the following (in thousands):

AUGUST 31,	2018	2017
<i>Deferred income tax assets:</i>		
Net operating loss carryforward	\$ 9,039	\$ 10,310
Sale and financing of corporate headquarters	4,919	8,420
Foreign income tax credit carryforward	6,562	4,382
Stock-based compensation	1,174	2,954
Inventory and bad debt reserves	1,046	1,643
Bonus and other accruals	1,511	1,574
Deferred revenue	236	510
Other	323	337
Total deferred income tax assets	24,810	30,130
Less: valuation allowance	(3,397)	(612)
Net deferred income tax assets	21,413	29,518
<i>Deferred income tax liabilities:</i>		
Intangibles step-ups – indefinite lived	(5,427)	(8,539)
Intangibles step-ups – finite lived	(4,103)	(7,607)
Intangible asset impairment and amortization	(3,023)	(4,875)
Property and equipment depreciation	(3,518)	(4,960)
Deferred commissions	(1,596)	(2,195)
Unremitted earnings of foreign subsidiaries	(380)	(492)
Other	(354)	(236)
Total deferred income tax liabilities	(18,401)	(28,904)
Net deferred income taxes	\$ 3,012	\$ 614

Deferred income tax amounts are recorded as follows in our consolidated balance sheets (in thousands):

AUGUST 31,	2018	2017
Long-term assets	\$3,222	\$ 1,647
Long-term liabilities	(210)	(1,033)
Net deferred income tax asset	\$3,012	\$ 614

As of August 31, 2016, we had utilized all of our U.S.

Loss Carryforward for Year Ended	Loss Carryforward Expires August 31,	Amount	Loss Deductions in Prior Years	Loss Deductions in Current Year	Operating Loss Carried Forward
December 31, 2012	2031	\$ 243	\$ –	\$ –	\$ 243
December 31, 2013	2032	553	–	–	553
December 31, 2014	2033	1,285	–	–	1,285
December 31, 2015	2034	1,491	–	–	1,491
December 31, 2016	2035	3,052	–	–	3,052
July 15, 2017 Acquired NOL	2036	1,117	–	–	1,117
		7,741	–	–	7,741
August 31, 2017	2037	16,381	–	–	16,381
August 31, 2018	No expiration	9,677	–	–	9,677
		\$33,799	\$ –	\$ –	\$33,799

We have U.S. state net operating loss carryforwards generated in fiscal 2009 and before in various jurisdictions that expire primarily between September 1, 2018 and August 31, 2029. The U.S. state net operating loss carryforwards generated in fiscal 2017 and fiscal 2018 primarily expire on August 31, 2037 and 2038, respectively.

federal net operating loss carryforwards. However, we incurred a federal net operating loss of \$16.4 million in fiscal 2017 and acquired a federal net operating loss carryforward of \$7.7 million in connection with the purchase of the stock of Jhana Education (Note 2) in fiscal 2017. During fiscal 2018, we incurred a federal net operating loss of \$9.7 million. Our U.S. federal net operating loss carryforwards were comprised of the following at August 31, 2018 (in thousands):

The state net operating loss carryforwards acquired through the purchase of Jhana Education stock expire between August 31, 2031 and August 31, 2036.

Our U.S. foreign income tax credit carryforwards were comprised of the following at August 31, 2018 (in thousands):

Credit Generated in Fiscal Year Ended August 31,	Credit Expires August 31,	Credits Generated	Credits Used in Prior Years	Credits Used in Fiscal 2018	Credits Carried Forward
2011	2021	\$ 3,445	\$ (414)	\$ –	\$3,031
2012	2022	2,563	(2,563)	–	–
2013	2023	2,815	(2,815)	–	–
2014	2024	1,378	(1,378)	–	–
2015	2025	1,422	(1,422)	–	–
2016	2026	1,569	(1,569)	–	–
2017	2027	1,804	–	–	1,804
2018	2028	1,727	–	–	1,727
		\$16,723	\$(10,161)	\$ –	\$6,562

In fiscal 2018, we established a valuation allowance of \$3.0 million against our foreign tax credit carryforward from fiscal 2011, after concluding it is more likely than not that the carryforward will expire unused at the end of fiscal 2021. Our emphasis of the All Access Pass has generated, and will likely continue to generate, substantial amounts of deferred revenue for both book and tax purposes. This situation has produced taxable losses for the past two fiscal years and a more-likely-than-not presumption that insufficient taxable income will be available to realize

the fiscal 2011 foreign tax carryforward, which expires at the end of fiscal 2021.

During the year ended August 31, 2016, we determined it was more likely than not that deferred tax assets of a foreign subsidiary would not be realized. Accordingly, we recorded a \$0.3 million valuation allowance against these deferred tax assets in fiscal 2016. During fiscal 2017, we increased this valuation allowance by \$0.1 million to \$0.4 million, which reduced our income tax benefit for the year by \$0.1 million. During fiscal 2018, we reduced

this valuation allowance by \$0.2 million, which increased our income tax benefit for the year by \$0.2 million.

We acquired federal and state net operating loss carryforwards in connection with the purchase of Jhana Education stock during fiscal 2017. Section 382 of the Internal Revenue Code limits our ability to use these acquired losses. Accordingly, we recorded valuation allowances in the amount of \$0.2 million against the related deferred tax assets. Our income tax benefit for fiscal 2017 was unaffected by this valuation allowance. The reduction of the federal income tax rate under the 2017 Tax Act reduced this valuation allowance by \$0.1 million and resulted in a corresponding increase to our income tax benefit during fiscal 2018.

We have determined that projected future taxable income is adequate to allow for realization of all deferred tax assets, except for the assets subject to valuation allowances. We considered sources of taxable income, including reversals of taxable temporary differences, future taxable income exclusive of reversing temporary differences and carryforwards, and reasonable, practical tax-planning strategies to generate additional taxable income. Based on the factors described above, we concluded that realization of our deferred tax assets, except those subject to the valuation allowances described above, is more likely than not at August 31, 2018.

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows (in thousands):

YEAR ENDED	2018	2017	2016
AUGUST 31,			
Beginning balance	\$2,359	\$3,024	\$3,115
Additions based on tax positions related to the current year	27	10	199
Additions for tax positions in prior years	367	85	3
Reductions for tax positions of prior years resulting from the lapse of applicable statute of limitations	(253)	(634)	(212)
Other reductions for tax positions of prior years	(389)	(126)	(81)
Ending balance	\$2,111	\$2,359	\$3,024

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is \$1.8 million at August 31, 2018, and \$1.6 million at August 31, 2017. Included in the ending balance of gross unrecognized tax benefits at August 31, 2018 is \$1.8 million related to individual states' net operating loss carryforwards. Interest and penalties related to uncertain tax positions are recognized as components of income tax expense. The net

accruals and reversals of interest and penalties increased or decreased our income tax expense by an insignificant amount in each of fiscal 2018, fiscal 2017 and fiscal 2016. The balance of interest and penalties included in other long-term liabilities on our consolidated balance sheets at August 31, 2018 and 2017 was \$0.2 million and \$0.3 million, respectively.

During the next 12 months, we expect a decrease in unrecognized tax benefits totaling \$0.2 million relating to non-deductible expenses and state net operating loss deductions upon the lapse of the applicable statute of limitations.

We file United States federal income tax returns as well as income tax returns in various states and foreign jurisdictions. The tax years that remain subject to examinations for our major tax jurisdictions are shown below.

2011 – 2018	Canada and Australia
2013 – 2018	Japan and the United Kingdom
2014 – 2018	United States – state and local income tax
2015 – 2018	United States – federal income tax
2016 – 2018	China
2017 – 2018	Singapore

15. Earnings (Loss) Per Share

The following is a reconciliation from basic earnings (loss) per share (EPS) to diluted EPS (in thousands, except per-share amounts).

YEAR ENDED	2018	2017	2016
AUGUST 31,			
Numerator for basic and diluted earnings per share:			
Net income (loss)	\$ (5,887)	\$ (7,172)	\$ 7,016
Denominator for basic and diluted earnings per share:			
Basic weighted average shares outstanding	13,849	13,819	14,944
Effect of dilutive securities:			
Stock options and other stock-based awards	–	–	132
Diluted weighted average shares outstanding	13,849	13,819	15,076
EPS Calculations:			
Net income (loss) per share:			
Basic and diluted	\$ (0.43)	\$ (0.52)	\$ 0.47

Since we incurred a net loss for the fiscal year ended August 31, 2018, no potentially dilutive securities were included in the calculation of our loss per share because the

inclusion of these securities would be antidilutive. The number of dilutive securities that would have been included at August 31, 2018 was approximately 0.2 million shares. Other securities, including performance stock-based compensation instruments, may have a dilutive effect on our EPS calculation in future periods if our financial results reach specified targets (Note 11).

16. Segment Information

Reportable Segments

Our sales are primarily comprised of training and consulting services. Consistent with changes during the first quarter of fiscal 2018 in our organization designed to promote the sale of subscription-based offerings, our internal reporting structure was revised and is now comprised of three operating segments and a corporate services group. The former Strategic Markets operating segment was absorbed by the Direct Office operating segment since its target customers and sales methodologies were essentially identical. The remaining operating segments were determined to be reportable segments under the applicable accounting guidance. The following is a brief description of our reportable segments:

- **Direct Offices** – This segment includes our sales personnel that serve the United States and Canada; our international sales offices located in Japan, China, the United Kingdom, and Australia; our governmental sales channel; and our public program operations.
- **Education Practice** – This group includes our domestic and international Education practice operations, which are focused on sales to educational institutions.
- **International Licensees** – This segment is primarily comprised of our international licensees' royalty revenues.
- **Corporate and Other** – Our corporate and other information includes leasing operations, shipping and handling revenues, and certain corporate administrative expenses.

We have determined that the Company's chief operating decision maker continues to be the CEO, and the primary measurement tool used in business unit performance analysis is Adjusted EBITDA, which may not be calculated as similarly titled amounts calculated by other companies. For reporting purposes, our consolidated Adjusted EBITDA can be calculated as our income or loss from operations excluding stock-based compensation, contract termination costs, restructuring charges, depreciation expense,

amortization expense, and certain other items such as adjustments for changes in the fair value of contingent consideration liabilities from business acquisitions.

Our operations are not capital intensive and we do not own any manufacturing facilities or equipment. Accordingly, we do not allocate assets to the divisions for analysis purposes. Interest expense and interest income are primarily generated at the corporate level and are not allocated. Income taxes are likewise calculated and paid on a corporate level (except for entities that operate in foreign jurisdictions) and are not allocated for analysis purposes.

All prior period segment information has been revised to conform to our current organizational structure, assigned responsibilities, and primary internal reports. We account for our segment information on the same basis as the accompanying consolidated financial statements.

Fiscal Year Ended	Sales to External Customers	Gross Profit	Adjusted EBITDA
August 31, 2018			
Direct offices	\$145,890	\$108,140	\$ 15,773
Education practice	45,272	28,654	3,606
International licensees	13,226	10,031	5,087
Total	204,388	146,825	24,466
Corporate and eliminations	5,370	1,464	(12,588)
Consolidated	\$209,758	\$148,289	\$ 11,878

Fiscal Year Ended	Sales to External Customers	Gross Profit	Adjusted EBITDA
August 31, 2017			
Direct offices	\$122,309	\$ 81,700	\$ 4,242
Education practice	44,122	27,916	7,195
International licensees	13,571	10,483	6,415
Total	180,002	120,099	17,852
Corporate and eliminations	5,254	2,568	(10,153)
Consolidated	\$185,256	\$122,667	\$ 7,699

Fiscal Year Ended	Sales to External Customers	Gross Profit	Adjusted EBITDA
August 31, 2016			
Direct offices	\$135,954	\$ 95,211	\$20,610
Education practice	40,844	24,513	5,188
International licensees	17,113	13,152	9,268
Total	193,911	132,876	35,066
Corporate and eliminations	6,144	2,278	(8,172)
Consolidated	\$200,055	\$135,154	\$26,894

A reconciliation of Adjusted EBITDA to consolidated net income (loss) is provided below (in thousands):

YEAR ENDED AUGUST 31,	2018	2017	2016
Segment Adjusted EBITDA	\$ 24,466	\$ 17,852	\$35,066
Corporate expenses	(12,588)	(10,153)	(8,172)
Consolidated Adjusted EBITDA	11,878	7,699	26,894
Stock-based compensation	(2,846)	(3,658)	(3,121)
Reduction (increase) in contingent consideration liabilities	(1,014)	1,936	(1,538)
Costs to exit Japan publishing business	–	(2,107)	–
Contract termination costs	–	(1,500)	–
Restructuring costs	–	(1,482)	(776)
ERP system implementation costs	(855)	(1,404)	(448)
China office start-up costs	–	(505)	(222)
Business acquisition costs	–	(442)	–
Depreciation	(5,161)	(3,879)	(3,677)
Amortization	(5,368)	(3,538)	(3,263)
Income (loss) from operations	(3,366)	(8,880)	13,849
Interest income	104	223	115
Interest expense	(2,676)	(2,408)	(2,263)
Accretion of discount on related party receivable	418	156	210
Income (loss) before income taxes	(5,520)	(10,909)	11,911
Benefit (provision) for income taxes	(367)	3,737	(4,895)
Net income (loss)	\$ (5,887)	\$ (7,172)	\$ 7,016

Geographic Information

Our revenues are derived primarily from the United States. However, we also operate wholly owned offices or contract with licensees to provide our services in various

countries throughout the world. Our consolidated revenues were derived from the following countries/regions (in thousands):

YEAR ENDED AUGUST 31,	2018	2017	2016
United States	\$151,022	\$136,206	\$155,153
Japan	15,670	14,482	14,997
China	14,176	11,552	3,884
United Kingdom	7,411	4,754	7,716
Canada	4,722	4,372	4,357
Australia	4,148	2,704	3,404
Western Europe	2,016	1,679	1,503
Brazil	1,285	1,423	319
Thailand	1,219	1,147	1,226
Mexico/Central America	872	751	917
Singapore	865	722	1,143
Middle East	840	723	584
Central/Eastern Europe	757	638	644
Denmark/Scandinavia	752	775	863
Indonesia	715	614	579
India	647	701	677
The Philippines	353	324	332
Malaysia	338	364	384
Others	1,950	1,325	1,373
	\$209,758	\$185,256	\$200,055

At August 31, 2018, we had wholly owned direct offices in Australia, China, Japan, and the United Kingdom. Our long-lived assets, excluding intangible assets, goodwill, and the long-term portion of the related party receivable were held in the following locations for the periods indicated (in thousands):

AUGUST 31,	2018	2017
United States/Canada	\$34,237	\$33,146
Japan	1,450	2,350
China	581	301
Singapore	315	152
United Kingdom	276	240
Australia	250	466
	\$37,109	\$36,655

Inter-segment sales were immaterial and were eliminated in consolidation.

17. Related Party Transactions

Knowledge Capital Investment Group

Knowledge Capital Investment Group (Knowledge Capital) held a warrant to purchase 5.9 million shares of our common stock, exercised its warrant at various dates according to the terms of a fiscal 2011 exercise agreement, and received a total of 2.2 million shares of our common stock from shares held in treasury. Two members of our Board of Directors, including our CEO, have an equity interest in Knowledge Capital.

Pursuant to the warrant exercise agreement with Knowledge Capital, we filed a registration statement with the SEC on Form S-3 to register shares held by Knowledge Capital. This registration statement was declared effective on January 26, 2015. At each of August 31, 2018 and 2017, Knowledge Capital held 2.8 million shares of our common stock.

FC Organizational Products

During fiscal 2008, we joined with Peterson Partners to create a new company, FC Organizational Products, LLC (FCOP). This new company purchased substantially all of the assets of our consumer solutions business unit with the objective of expanding the worldwide sales of FCOP as governed by a comprehensive license agreement between us and FCOP. On the date of the sale closing, we invested approximately \$1.8 million to purchase a 19.5 percent voting interest in FCOP, and made a \$1.0 million priority capital contribution with a 10 percent return. At the time of the transaction, we determined that FCOP was not a variable interest entity.

As a result of FCOP's structure as a limited liability company with separate owner capital accounts, we determined that our investment in FCOP is more than minor and we are required to account for our investment in FCOP using the equity method of accounting. We have not recorded our share of FCOP's losses in the accompanying consolidated statements of operations because we have impaired and written off investment balances, as defined within the applicable accounting guidance, in previous periods in excess of our share of FCOP's losses through August 31, 2018.

Based on changes to FCOP's debt agreements and certain other factors in fiscal 2012, we reconsidered whether FCOP was a variable interest entity as defined under FASC 810, and determined that FCOP was a variable interest entity. Although the changes to the debt agreements did not

modify the governing documents of FCOP, the changes were substantial enough to raise doubts regarding the sufficiency of FCOP's equity investment at risk. We further determined that we are not the primary beneficiary of FCOP because we do not have the ability to direct the activities that most significantly impact FCOP's economic performance, which primarily consist of the day-to-day sale of planning products and related accessories, and we do not have an obligation to absorb losses or the right to receive benefits from FCOP that could potentially be significant. Our voting rights and management board representation approximate our ownership interest and we are unable to exercise control through voting interests or through other means.

The operations of FCOP are primarily financed by the sale of planning products and accessories, and our primary exposure related to FCOP is from amounts owed to us by FCOP. We receive reimbursement from FCOP for certain operating costs and rental payments for the office space that FCOP occupies. We classify our receivables from FCOP based upon expected payment. Long-term receivable balances are discounted at 15 percent, which was the estimated risk-adjusted borrowing rate of FCOP. This rate was based on a variety of factors including, but not limited to, current market interest rates for various qualities of comparable debt, discussions with FCOP's lenders, and an evaluation of the realizability of FCOP's future cash flows. Receivables from FCOP are reported as components of other current and other long-term assets based on their expected payment dates and consisted of the following (in thousands):

AUGUST 31,	2018	2017
Other current assets	\$1,123	\$1,020
Other long-term assets	411	727
	<u>\$1,534</u>	<u>\$1,747</u>

Amounts receivable from FCOP are presented net of \$0.3 million discount at August 31, 2018 and net of \$0.7 million discount at August 31, 2017.

CoveyLink Acquisition and Contractual Payments

During fiscal 2009, we acquired the assets of CoveyLink Worldwide, LLC (CoveyLink). CoveyLink conducts training and provides consulting based upon the book *The Speed of Trust* by Stephen M.R. Covey, who is the brother of one of our executive officers.

Prior to the acquisition date, CoveyLink had granted us a non-exclusive license for content related to *The Speed of Trust* book and related training courses for which we paid

CoveyLink specified royalties. As part of the CoveyLink acquisition, an amended and restated license for intellectual property was signed that granted us an exclusive, perpetual, worldwide, transferable, royalty-bearing license to use, reproduce, display, distribute, sell, prepare derivative works of, and perform the licensed material in any format or medium and through any market or distribution channel. We are required to pay Stephen M.R. Covey royalties for the use of certain intellectual property developed by him. The amount expensed for these royalties totaled \$1.8 million, \$1.5 million, and \$1.4 million during the fiscal years ended August 31, 2018, 2017, and 2016. As part of the acquisition of CoveyLink, we signed an amended license agreement as well as a speaker services agreement. Based on the provisions of the speakers' services agreement, we pay Stephen M.R. Covey a portion of the speaking revenues received for his presentations. We expensed \$0.9 million, \$1.2 million, and \$1.3 million for payment on these presentations during fiscal years 2018, 2017 and 2016. We had \$0.7 million accrued for these royalties and speaking fees at each of August 31, 2018 and 2017, which were included as components of accrued liabilities in our consolidated balance sheets.

Acquired License Rights for Intellectual Property

During the third quarter of fiscal 2017, we acquired the license rights for certain intellectual property owned

by Higher Moment, LLC for \$0.8 million. The intellectual property is in part based on works authored and developed by Dr. Clayton Christensen, a well-known author and lecturer, who is a member of our Board of Directors. However, Dr. Christensen does not have an ownership interest in Higher Moment, LLC. The initial license period is five years and the agreement may be renewed for successive five-year periods for \$0.8 million at each renewal date. The agreement may be terminated by either party at any time, but if we choose to terminate the agreement prior to the third renewal date, we are required to pay \$0.3 million to Higher Moment, LLC.

Other Related Party Transactions

We pay an executive officer of the Company a percentage of the royalty proceeds received from the sales of certain books authored by him in addition to his annual salary. During the fiscal years ended August 31, 2018, 2017, and 2016, we expensed \$0.2 million, \$0.2 million, and \$0.3 million for these royalties, and we had \$0.1 million accrued at each of August 31, 2018 and 2017 as payable under the terms of these arrangements. These amounts are included as components of accrued liabilities in our consolidated balance sheets.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Disclosure controls and procedures are designed with the objective of ensuring that information required to be disclosed in the Company's reports filed under the Exchange Act, such as this report, is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures are also designed with the objective of ensuring that such information is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Evaluation of Disclosure Controls and Procedures

An evaluation was conducted under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act, as of the end of the period covered by this report.

Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

Management's Report on Internal Control Over Financial Reporting

The management of Franklin Covey Co. is responsible for establishing and maintaining adequate internal control over financial reporting for the Company (including its consolidated subsidiaries) and all related information appearing in the Company's Annual Report on Form 10-K. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes those policies and procedures that:

1. pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
2. provide reasonable assurance that the transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with the authorization of management and/or of our Board of Directors; and
3. provide reasonable assurance regarding the prevention or timely detection of any unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

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

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting using the criteria set forth in *Internal Control – Integrated Framework* as issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 COSO Framework). Based upon this evaluation, our management concluded that our internal control over financial reporting was effective as of the end of the period covered by this Annual Report on Form 10-K.

Our independent registered public accounting firm, Deloitte & Touche LLP, has audited the consolidated financial statements included in this annual report on Form 10-K and, as part of their audit, has issued an audit report, included herein, on the effectiveness of our internal control over financial reporting. Their report is included in Item 8 of this Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) or 15d-15(f)) during the fourth quarter ended August 31, 2018 that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Certain information required by this Item is incorporated by reference to the sections entitled “Nominees for Election to the Board of Directors,” “Section 16(a) Beneficial Ownership Reporting Compliance,” “Corporate Governance,” and “Board of Director Meetings and Committees” in our definitive Proxy Statement for the annual meeting of shareholders, which is scheduled to be held on January 25, 2019. The definitive Proxy Statement will be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended. Executive officer biographies may be found in Item 1, under the section entitled “Executive Officers,” of this report on Form 10-K.

The Board of Directors has determined that one of the Audit Committee members, Mr. Michael Fung, is a “financial

expert” as defined in Regulation S-K 407(d)(5) adopted under the Securities Exchange Act of 1934, as amended. Our Board of Directors has also determined that Mr. Fung is an “independent director” as defined by the NYSE.

We have adopted a code of ethics for our senior financial officers that include the Chief Executive Officer, the Chief Financial Officer, and other members of our financial leadership team. This code of ethics is available on our website at www.franklincovey.com. We intend to satisfy any disclosure requirements under Item 5.05 of Form 8-K regarding amendment to, or waiver from, a provision of this Code of Business Conduct and Ethics by posting such information on our web site at the address and location specified above.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the sections entitled “Compensation Discussion and Analysis,” “Compensation Committee Interlocks and Insider Participation,” and “Compensation Committee Report” in our definitive Proxy Statement for the annual meeting of shareholders, which is scheduled to be held on January 25, 2019.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**Securities Authorized for Issuance Under Equity Compensation Plans**

Plan Category	[a] Number of securities to be issued upon exercise of outstanding options, warrants, and rights <i>(in thousands)</i>	[b] Weighted-average exercise price of outstanding options, warrants, and rights	[c] Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column [a]) <i>(in thousands)</i>
Equity compensation plans approved by security holders	1,129 ⁽¹⁾⁽²⁾	\$11.67	1,200 ⁽³⁾⁽⁴⁾

- (1) Excludes 23,338 shares of unvested (restricted) stock awards that are subject to forfeiture.
- (2) Amount includes 790,143 performance share awards that may be awarded under the terms of various long-term incentive plans. The number of shares eventually awarded to participants through our long-term incentive plans is variable and based upon the achievement of specified financial goals. For performance-based compensation awards where the number of shares may fluctuate within a range based on the achievement of the specified goal, this amount includes the maximum number of shares that may be awarded to participants. The actual number of shares issued to participants therefore, may be less than the amount disclosed. The weighted average exercise price of outstanding options, warrants, and rights does not include the impact of performance awards or restricted stock units. For further information on our stock-based compensation plans, refer to the notes to our financial statements as presented in Item 8 of this report.
- (3) Amount is comprised of the remaining shares authorized in our 2015 Omnibus Incentive Plan and 2017 Employee Stock Purchase Plan. The number of performance-based plan shares expected to be awarded at August 31, 2018 may change in future periods based upon the achievement of specified goals and revisions to estimates.
- (4) At August 31, 2018, we had approximately 946,000 shares authorized for purchase by participants in our Employee Stock Purchase Plan.

Beneficial Ownership of Company Stock

The remaining information required by this Item is incorporated by reference to the section entitled “Principal Holders of Voting Securities” in our definitive Proxy Statement for the annual meeting of shareholders, which is scheduled to be held on January 25, 2019.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated by reference to the section entitled “Certain Relationships and Related Transactions” and “Corporate Governance” in

our definitive Proxy Statement for the annual meeting of shareholders, which is scheduled to be held on January 25, 2019.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated by reference to the section entitled “Principal Accountant Fees” in our definitive Proxy Statement for the annual meeting of shareholders, which is scheduled to be held on January 25, 2019.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

a. List of documents filed as part of this report:

1. *Financial Statements.* The consolidated financial statements of the Company and Report of Independent Registered Public Accounting Firm thereon included in the Annual Report to Shareholders on Form 10-K for the year ended August 31, 2018, are as follows:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets at August 31, 2018 and 2017

Consolidated Statements of Operations and Statements of Comprehensive Income (Loss) for the fiscal years ended August 31, 2018, 2017, and 2016

Consolidated Statements of Cash Flows for the fiscal years ended August 31, 2018, 2017, and 2016

Consolidated Statements of Shareholders’ Equity for the fiscal years ended August 31, 2018, 2017, and 2016

Notes to Consolidated Financial Statements

2. *Financial Statement Schedules.*

Other financial statement schedules are omitted because they are not required or applicable, or the required information is shown in the financial statements or notes thereto, or contained in this report.

3. *Exhibit List.*

Exhibit No.	Exhibit	Incorporated By Reference	Filed Herewith
2.1	Master Asset Purchase Agreement between Franklin Covey Products, LLC and Franklin Covey Co. dated May 22, 2008	(8)	
2.2	Amendment to Master Asset Purchase Agreement between Franklin Covey Products, LLC and Franklin Covey Co. dated May 22, 2008	(9)	

Exhibit No.	Exhibit	Incorporated By Reference	Filed Herewith
3.1	Articles of Restatement dated March 4, 2005 amending and restating the Company's Articles of Incorporation	(4)	
3.2	Amendment to Amended and Restated Articles of Incorporation of Franklin Covey (Appendix C)	(7)	
3.3	Amended and Restated Bylaws of Franklin Covey Co.	(15)	
4.1	Specimen Certificate of the Registrant's Common Stock, par value \$.05 per share	(2)	
4.2	Stockholder Agreements, dated May 11, 1999 and June 2, 1999	(3)	
4.3	Registration Rights Agreement, dated June 2, 1999	(3)	
4.4	Amended and Restated Shareholders Agreement, dated as of March 8, 2005, between the Company and Knowledge Capital Investment Group	(4)	
4.5	Amended and Restated Registration Rights Agreement, dated as of March 8, 2005, between the Company and Knowledge Capital Investment Group	(4)	
10.1*	Forms of Nonstatutory Stock Options	(1)	
10.2	Master Lease Agreement, dated June 17, 2005, between Franklin SaltLake LLC (Landlord) and Franklin Development Corporation (Tenant)	(5)	
10.3	Purchase and Sale Agreement and Escrow Instructions between Levy Affiliated Holdings, LLC (Buyer) and Franklin Development Corporation (Seller) and Amendments	(5)	
10.4	Redemption Extension Voting Agreement between Franklin Covey Co. and Knowledge Capital Investment Group, dated October 20, 2005	(6)	
10.5	Master License Agreement between Franklin Covey Co. and Franklin Covey Products, LLC	(10)	
10.6	Master Shared Services Agreement between The Franklin Covey Products Companies and the Shared Services Companies	(10)	
10.7	Amended and Restated Operating Agreement of Franklin Covey Products, LLC	(10)	
10.8	Sublease Agreement between Franklin Development Corporation and Franklin Covey Products, LLC	(10)	
10.9	Sub-Sublease Agreement between Franklin Covey Co. and Franklin Covey Products, LLC	(10)	
10.10	Asset Purchase Agreement by and Among Covey/Link, LLC, CoveyLink Worldwide LLC, Franklin Covey Co., and Franklin Covey Client Sales, Inc. dated December 31, 2008	(11)	
10.11	Amended and Restated License of Intellectual Property by and Among Franklin Covey Co. and Covey/Link, LLC, dated December 31, 2008	(11)	

Exhibit No.	Exhibit	Incorporated By Reference	Filed Herewith
10.12*	Franklin Covey Co. Second Amended and Restated 1992 Stock Incentive Plan	(12)	
10.13	Amended and Restated Credit Agreement by and between JPMorgan Chase Bank, N.A. and Franklin Covey Co., dated March 14, 2011	(13)	
10.14	Amended and Restated Security Agreement by and among Franklin Covey Co., Franklin Development Corporation, Franklin Covey Travel, Inc., Franklin Covey Client Sales, Inc., and JPMorgan Chase Bank, N.A., dated March 14, 2011	(13)	
10.15	Amended and Restated Repayment Guaranty by and among Franklin Development Corporation, Franklin Covey Travel, Inc., Franklin Covey Client Sales, Inc., and JPMorgan Chase Bank, N.A., dated March 14, 2011	(13)	
10.16	Agreement dated July 26, 2011, between Franklin Covey Co., and Knowledge Capital Investment Group	(14)	
10.17	First Modification Agreement by and among JPMorgan Chase Bank, N.A. and Franklin Covey Co., dated March 13, 2012	(16)	
10.18	Second Modification Agreement by and among JPMorgan Chase Bank, N.A. and Franklin Covey Co., dated June 15, 2012	(17)	
10.19*	Form of Change in Control Severance Agreement	(18)	
10.20	Asset Purchase Agreement made as of March 11, 2013 by and among NinetyFive 5 LLC and Franklin Covey Client Sales, Inc. and other parties thereto	(19)	
10.21	Third Modification Agreement by and among JPMorgan Chase Bank, N.A. and Franklin Covey Co. dated March 25, 2013	(20)	
10.22*	Franklin Covey Co. 2015 Omnibus Incentive Plan	(21)	
10.23	Fourth Modification Agreement by and among JPMorgan Chase Bank, N.A. and Franklin Covey Co. dated March 31, 2015	(22)	
10.24	Fifth Modification Agreement by and among JPMorgan Chase Bank, N.A., Franklin Covey Co., and the subsidiary guarantors signatory thereto, dated May 24, 2016	(23)	
10.25	Secured Promissory Note between Franklin Covey Co. and JPMorgan Chase Bank, N.A., for \$15 million term loan, dated May 24, 2016	(23)	
10.26	Sixth Modification Agreement by and among JPMorgan Chase Bank, N.A., Franklin Covey Co., and the subsidiary guarantors signatory thereto, dated February 28, 2017	(24)	
10.27	Seventh Modification Agreement by and among JPMorgan Chase Bank, N.A., Franklin Covey Co., and the subsidiary guarantors signatory thereto, dated May 31, 2017	(25)	

Exhibit No.	Exhibit	Incorporated By Reference	Filed Herewith
10.28	Eighth Modification Agreement by and among JPMorgan Chase Bank, N.A., Franklin Covey Co., and the subsidiary guarantors signatory thereto, dated August 29, 2017	(26)	
10.29	Consent and Agreement of Guarantor by and between JPMorgan Chase Bank, N.A., Franklin Covey Co., and the subsidiary guarantors signatory thereto, dated August 29, 2017	(26)	
10.30*	Franklin Covey Co. 2017 Employee Stock Purchase Plan (incorporated by reference to Appendix A in the Company's Proxy Statement (File No. 001-11107) filed with the Securities and Exchange Commission on December 22, 2017)	(27)	
10.31	Ninth Modification Agreement by and among JPMorgan Chase Bank, N.A., Franklin Covey Co., and the subsidiary guarantors signatory thereto, dated August 17, 2018	(28)	
21	Subsidiaries of the Registrant		★★
23	Consent of Independent Registered Public Accounting Firm		★★
31.1	Rule 13a-14(a) Certification of the Chief Executive Officer		★★
31.2	Rule 13a-14(a) Certification of the Chief Financial Officer		★★
32	Section 1350 Certifications		★★
101.INS	XBRL Instance Document		★★
101.SCH	XBRL Taxonomy Extension Schema		★★
101.CAL	XBRL Taxonomy Extension Calculation Linkbase		★★
101.DEF	XBRL Taxonomy Extension Definition Linkbase		★★
101.LAB	XBRL Taxonomy Extension Label Linkbase		★★
101.PRE	XBRL Extension Presentation Linkbase		★★

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- (1) Incorporated by reference to Registration Statement on Form S-1 filed with the Commission on April 17, 1992, Registration No. 33-47283.
- (2) Incorporated by reference to Amendment No. 1 to Registration Statement on Form S-1 filed with the Commission on May 26, 1992, Registration No. 33-47283.
- (3) Incorporated by reference to Schedule 13D (CUSIP No. 534691090 as filed with the Commission on June 14, 1999). Registration No. 005-43123.
- (4) Incorporated by reference to Report on Form 8-K filed with the Commission on March 10, 2005.**
- (5) Incorporated by reference to Report on Form 8-K filed with the Commission on June 27, 2005.**
- (6) Incorporated by reference to Report on Form 8-K filed with the Commission on October 24, 2005.**
- (7) Incorporated by reference to the Definitive Proxy Statement on Form DEF 14A filed with the Commission on December 12, 2005.**
- (8) Incorporated by reference to Report on Form 8-K/A filed with the Commission on May 29, 2008.**
- (9) Incorporated by reference to Report on Form 10-Q filed July 10, 2008, for the Quarter ended May 31, 2008.**
- (10) Incorporated by reference to Report on Form 8-K filed with the Commission on July 11, 2008.**
- (11) Incorporated by reference to Report on Form 10-Q filed with the Commission on April 9, 2009.**
- (12) Incorporated by reference to the Definitive Proxy Statement on Form DEF 14A (Appendix A) filed with the Commission on December 15, 2010.**
- (13) Incorporated by reference to Report on Form 8-K filed with the Commission on March 17, 2011.**

- (14) Incorporated by reference to Report on Form 8-K filed with the Commission on July 28, 2011.**
- (15) Incorporated by reference to Report on Form 8-K filed with the Commission on February 1, 2012.**
- (16) Incorporated by reference to Report on Form 8-K filed with the Commission on March 15, 2012.**
- (17) Incorporated by reference to Report on Form 8-K filed with the Commission on June 19, 2012.**
- (18) Incorporated by reference to Report on Form 8-K filed with the Commission on March 14, 2012.**
- (19) Incorporated by reference to Report on Form 8-K filed with the Commission on March 14, 2013.**
- (20) Incorporated by reference to Report on Form 8-K filed with the Commission on March 27, 2013.**
- (21) Incorporated by reference to the Definitive Proxy Statement on Form DEF 14A (Appendix A) filed with the Commission on December 22, 2014.**
- (22) Incorporated by reference to Report on Form 8-K filed with the Commission on April 2, 2015.**
- (23) Incorporated by reference to Report on Form 8-K filed with the Commission on May 24, 2016.**
- (24) Incorporated by reference to Report on Form 8-K filed with the Commission on March 3, 2017.**
- (25) Incorporated by reference to Report on Form 8-K filed with the Commission on June 1, 2017.**
- (26) Incorporated by reference to Report on Form 8-K filed with the Commission on August 29, 2017.**
- (27) Incorporated by reference to the Definitive Proxy Statement on Form DEF 14A (Appendix A) filed with the Commission on December 22, 2017.**
- (28) Incorporated by reference to Report on Form 8-K filed with the Commission on August 20, 2018.**

★★ Filed herewith and attached to this report.

* Indicates a management contract or compensatory plan or agreement.

** Registration No. 001-11107.

ITEM 16. FORM 10-K SUMMARY

None.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on November 14, 2018.

FRANKLIN COVEY CO.

By: /s/ ROBERT A. WHITMAN

Robert A. Whitman

Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ ROBERT A. WHITMAN</u> Robert A. Whitman	Chairman of the Board and Chief Executive Officer	November 14, 2018
<u>/s/ ANNE H. CHOW</u> Anne H. Chow	Director	November 14, 2018
<u>/s/ CLAYTON M. CHRISTENSEN</u> Clayton M. Christensen	Director	November 14, 2018
<u>/s/ MICHAEL FUNG</u> Michael Fung	Director	November 14, 2018
<u>/s/ DENNIS G. HEINER</u> Dennis G. Heiner	Director	November 14, 2018
<u>/s/ DONALD J. MCNAMARA</u> Donald J. McNamara	Director	November 14, 2018
<u>/s/ JOEL C. PETERSON</u> Joel C. Peterson	Director	November 14, 2018
<u>/s/ E. KAY STEPP</u> E. Kay Stepp	Director	November 14, 2018
<u>/s/ STEPHEN D. YOUNG</u> Stephen D. Young	Chief Financial Officer and Chief Accounting Officer	November 14, 2018

Section 302 Certification

I, Robert A. Whitman, certify that:

1. I have reviewed this yearly report on Form 10-K of Franklin Covey Co.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2018

 /s/ ROBERT A. WHITMAN

Robert A. Whitman
Chief Executive Officer

Section 302 Certification

I, Stephen D. Young, certify that:

1. I have reviewed this yearly report on Form 10-K of Franklin Covey Co.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2018

/s/ STEPHEN D. YOUNG
Stephen D. Young
Chief Financial Officer

Certification

In connection with the yearly report of Franklin Covey Co. (the “Company”) on Form 10-K for the period ended August 31, 2018, as filed with the Securities and Exchange Commission (the “Report”), we, Robert A. Whitman, President and Chief Executive Officer of the Company, and Stephen D. Young, Chief Financial Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of our knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

This Certification has not been, and shall not be deemed, “filed” with the Securities and Exchange Commission.

/s/ ROBERT A. WHITMAN

Robert A. Whitman
Chief Executive Officer

Date: November 14, 2018

/s/ STEPHEN D. YOUNG

Stephen D. Young
Chief Financial Officer

Date: November 14, 2018

Executive Team

Robert A. Whitman
Chairman of the Board
of Directors and Chief
Executive Officer

Stephen D. Young
Chief Financial Officer
and Corporate Secretary

M. Sean Covey
President
Education Division

Paul S. Walker
President
Enterprise Division

C. Todd Davis
Executive Vice President
Chief People Officer

Colleen Dom
Executive Vice President
of Operations

Scott J. Miller
Executive Vice President
Thought Leadership

Board of Directors

Robert A. Whitman
Chairman of the Board of
Directors

Anne H. Chow
Director

Clayton M. Christensen
Director

Michael Fung
Director

Dennis G. Heiner
Director

Donald J. McNamara
Director

Joel C. Peterson
Director

E. Kay Stepp
Director

Shareholder Information

Annual Meeting

We invite shareholders to attend our Annual Meeting of Shareholders at 8:30 a.m. on Friday, January 25, 2019, at the Hyrum W. Smith Auditorium on the Franklin Covey Co. headquarters campus, 2200 West Parkway Boulevard, Salt Lake City, Utah 84119.

Independent Registered Public Accountants

Deloitte & Touche, LLP
111 Main Street #1500
Salt Lake City, Utah 84111

Counsel

Dorsey & Whitney LLP
111 S. Main Street Suite 2100
Salt Lake City, Utah 84111-2176

Jones Day Reavis & Pogue
222 East 41st Street
New York, New York 10017-6702

Registrar and Transfer Agent

Zions Bank, N.A.
Stock Transfer Department
One South Main Street
Salt Lake City, Utah 84111

Common Stock

The Company's Common Stock is traded on the New York Stock Exchange under the ticker symbol FC. There were approximately 544 shareholders of record on the Company's record date of November 30, 2018.

Certifications

The certifications required by Section 302 of the Sarbanes-Oxley Act have been filed as exhibits to the Company's SEC Form 10-K. The most recent certification required by Section 303A.12(a) of the New York Stock Exchange Listed Company Manual has been filed with the New York Stock Exchange without qualification.

Dividend

No dividends have been paid or declared on the Company's common stock.

Requests for Additional Information

Additional financial information is available to shareholders. Requests should be directed to the attention of Investor Relations, Franklin Covey Co., 2200 West Parkway Boulevard, Salt Lake City, Utah 84119-2331, or call at 801-817-1776. Additional information on the Company is available on the Internet at <http://www.franklincovey.com>.

