

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

**FORM 10-Q**

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended May 31, 2024

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-11107



**FRANKLIN COVEY CO.**

(Exact name of registrant as specified in its charter)

Utah  
(State or other jurisdiction of incorporation or organization)

87-0401551  
(I.R.S. employer identification no.)

2200 West Parkway Boulevard  
Salt Lake City, Utah  
(Address of principal executive offices)

84119-2099  
(Zip Code)

Registrant's telephone number,  
Including area code

(801) 817-1776

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

<u>Title of Each Class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.05 Par Value	FC	New York Stock Exchange

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 T No £

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes T No £

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

Large Accelerated Filer	£	Accelerated Filer	T
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 T

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock as of the latest practicable date:

13,094,424 shares of Common Stock, \$0.05 par value per share, as of June 30, 2024

PART I. FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS

FRANKLIN COVEY CO.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per-share amounts)

	May 31, 2024	August 31, 2023
	(unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 36,574	\$ 38,230
Accounts receivable, less allowance for doubtful accounts of \$3,111 and \$3,790	60,424	81,935
Inventories	4,644	4,213
Prepaid expenses and other current assets	18,389	20,639
Total current assets	<u>120,031</u>	<u>145,017</u>
Property and equipment, net	8,631	10,039
Intangible assets, net	38,808	40,511
Goodwill	31,220	31,220
Deferred income tax assets	1,636	1,661
Other long-term assets	20,645	17,471
	<u>\$ 220,971</u>	<u>\$ 245,919</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of notes payable	\$ 2,085	\$ 5,835
Current portion of financing obligation	3,810	3,538
Accounts payable	6,185	6,501
Deferred subscription revenue	80,092	95,386
Customer deposits	22,204	12,137
Accrued liabilities	22,215	28,252
Total current liabilities	<u>136,591</u>	<u>151,649</u>
Notes payable, less current portion	761	1,535
Financing obligation, less current portion	1,533	4,424
Other liabilities	8,076	7,617
Deferred income tax liabilities	1,847	2,040
Total liabilities	<u>148,808</u>	<u>167,265</u>
Shareholders' equity:		
Common stock, \$0.05 par value; 40,000 shares authorized, 27,056 shares issued	1,353	1,353
Additional paid-in capital	228,612	232,373
Retained earnings	111,248	99,802
Accumulated other comprehensive loss	(1,250)	(987)
Treasury stock at cost, 13,969 shares and 13,974 shares	(267,800)	(253,887)
Total shareholders' equity	<u>72,163</u>	<u>78,654</u>
	<u>\$ 220,971</u>	<u>\$ 245,919</u>

See notes to condensed consolidated financial statements

FRANKLIN COVEY CO.  
CONDENSED CONSOLIDATED INCOME STATEMENTS AND STATEMENTS  
OF COMPREHENSIVE INCOME  
(in thousands, except per-share amounts)

	Quarter Ended		Three Quarters Ended	
	May 31, 2024	May 31, 2023	May 31, 2024	May 31, 2023
	(unaudited)		(unaudited)	
Revenue	\$ 73,373	\$ 71,441	\$ 203,109	\$ 202,565
Cost of revenue	17,167	17,208	47,773	48,380
Gross profit	56,206	54,233	155,336	154,185
Selling, general, and administrative	45,110	45,641	130,088	131,991
Restructuring costs	701	-	3,008	-
Impairment of asset	-	-	928	-
Depreciation	990	934	2,994	3,131
Amortization	1,062	1,086	3,204	3,270
Income from operations	8,343	6,572	15,114	15,793
Interest income	268	362	857	804
Interest expense	(247)	(354)	(916)	(1,173)
Income before income taxes	8,364	6,580	15,055	15,424
Income tax provision	(2,643)	(2,017)	(3,609)	(4,455)
Net income	<u>\$ 5,721</u>	<u>\$ 4,563</u>	<u>\$ 11,446</u>	<u>\$ 10,969</u>
Net income per share:				
Basic	\$ 0.43	\$ 0.33	\$ 0.87	\$ 0.79
Diluted	0.43	0.32	0.85	0.76
Weighted average number of common shares:				
Basic	13,160	13,621	13,222	13,799
Diluted	13,378	14,273	13,499	14,437
COMPREHENSIVE INCOME				
Net income	\$ 5,721	\$ 4,563	\$ 11,446	\$ 10,969
Foreign currency translation adjustments, net of income taxes of \$0, \$0, \$0, and \$0	(175)	(139)	(263)	(123)
Comprehensive income	<u>\$ 5,546</u>	<u>\$ 4,424</u>	<u>\$ 11,183</u>	<u>\$ 10,846</u>

See notes to condensed consolidated financial statements

FRANKLIN COVEY CO.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Three Quarters Ended	
	May 31, 2024	May 31, 2023
	(unaudited)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 11,446	\$ 10,969
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,198	6,401
Amortization of capitalized curriculum costs	2,340	2,385
Impairment of asset	928	-
Stock-based compensation	7,092	9,357
Deferred income taxes	(169)	2,399
Change in fair value of contingent consideration liabilities	-	7
Amortization of right-of-use operating lease assets	596	633
Changes in assets and liabilities:		
Decrease in accounts receivable, net	21,436	17,071
Increase in inventories	(434)	(1,050)
Decrease in prepaid expenses and other assets	2,032	3,415
Decrease in accounts payable and accrued liabilities	(8,305)	(12,615)
Decrease in deferred revenue and customer deposits	(5,154)	(11,901)
Increase (decrease) in income taxes payable	628	(621)
Decrease in other long-term liabilities	(249)	(503)
Net cash provided by operating activities	<u>38,385</u>	<u>25,947</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(2,618)	(3,545)
Curriculum development costs	(5,195)	(6,841)
Net cash used for investing activities	<u>(7,813)</u>	<u>(10,386)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from term notes payable	-	7,500
Principal payments on notes payable	(4,585)	(12,085)
Principal payments on financing obligation	(2,618)	(2,366)
Purchases of common stock for treasury	(25,844)	(29,672)
Payment of contingent consideration liabilities	-	(736)
Cash paid to obtain new credit agreement	-	(393)
Proceeds from sales of common stock held in treasury	1,077	1,162
Net cash used for financing activities	<u>(31,970)</u>	<u>(36,590)</u>
Effect of foreign currency exchange rates on cash and cash equivalents	(258)	(159)
Net decrease in cash and cash equivalents	(1,656)	(21,188)
Cash and cash equivalents at the beginning of the period	38,230	60,517
Cash and cash equivalents at the end of the period	<u>\$ 36,574</u>	<u>\$ 39,329</u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for income taxes	\$ 2,962	\$ 2,452
Cash paid for interest	931	1,158
<b>Non-cash investing and financing activities:</b>		
Purchases of property and equipment financed by accounts payable	\$ 111	\$ 21
Acquisition of right-of-use operating lease assets for operating lease liabilities	1,042	504
Acquisition of content rights financed by accrued liabilities	1,500	-

See notes to condensed consolidated financial statements

FRANKLIN COVEY CO.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands and unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock Shares	Treasury Stock Amount
Balance at August 31, 2023	27,056	\$ 1,353	\$ 232,373	\$ 99,802	(987)	(13,974)	\$ (253,887)
Issuance of common stock from treasury			(10,569)			601	10,925
Purchases of common shares for treasury						(409)	(16,308)
Stock-based compensation			2,897				
Cumulative translation adjustments					51		
Net income				4,851			
Balance at November 30, 2023	27,056	1,353	224,701	104,653	(936)	(13,782)	(259,270)
Issuance of common stock from treasury			143			10	185
Purchases of common shares for treasury						(52)	(2,105)
Stock-based compensation			1,368				
Unvested stock award			(436)			23	436
Cumulative translation adjustments					(139)		
Net income				874			
Balance at February 29, 2024	27,056	1,353	225,776	105,527	(1,075)	(13,801)	(260,754)
Issuance of common stock from treasury			8			20	385
Purchases of common shares for treasury						(188)	(7,431)
Stock-based compensation			2,828				
Cumulative translation adjustments					(175)		
Net income				5,721			
Balance at May 31, 2024	27,056	\$ 1,353	\$ 228,612	\$ 111,248	(1,250)	(13,969)	\$ (267,800)

See notes to condensed consolidated financial statements

FRANKLIN COVEY CO.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY –

PRIOR YEAR

(in thousands and unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock Shares	Treasury Stock Amount
Balance at August 31, 2022	27,056	\$ 1,353	\$ 220,246	\$ 82,021	(542)	(13,203)	\$ (220,264)
Issuance of common stock from treasury			(568)			56	935
Purchases of common shares for treasury						(18)	(835)
Stock-based compensation			2,735				
Cumulative translation adjustments					(130)		
Net income				4,667			
Balance at November 30, 2022	27,056	1,353	222,413	86,688	(672)	(13,165)	(220,164)
Issuance of common stock from treasury			181			12	192
Purchases of common shares for treasury						(79)	(3,830)
Stock-based compensation			3,315				
Unvested stock award			(266)			16	266
Cumulative translation adjustments					146		
Net income				1,739			
Balance at February 28, 2023	27,056	1,353	225,643	88,427	(526)	(13,216)	(223,536)
Issuance of common stock from treasury			184			14	238
Purchases of common shares for treasury						(664)	(25,007)
Stock-based compensation			3,307				
Cumulative translation adjustments					(139)		
Net income				4,563			
Balance at May 31, 2023	27,056	\$ 1,353	\$ 229,134	\$ 92,990	(665)	(13,866)	\$ (248,305)

See notes to condensed consolidated financial statements

FRANKLIN COVEY CO.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

**NOTE 1 – BASIS OF PRESENTATION**

Franklin Covey Co. (hereafter referred to as us, we, our, or the Company) 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. We are fundamentally a content and solutions company, and we believe that our offerings and services create the connection between capabilities and results. We have a wide range of content delivery options, including: the All Access Pass (AAP) subscription, the *Leader in Me* membership, and other intellectual property licenses; digital online learning; onsite training; training led through certified facilitators; blended learning; and organization-wide transformational processes, including consulting and coaching. We believe our investments in digital delivery modalities over the past few years have enabled us to deliver our content to clients in a high-quality learning environment whether those clients are working remotely or meeting in a centralized location. We believe that our clients are able to utilize our content to create cultures which produce 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.

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*, *The Leader in Me*, *The 4 Disciplines of Execution*, and *Multipliers*, and proprietary content in the areas of Leadership, Execution, Productivity, Educational Improvement, and Sales Performance. Our offerings are described in further detail at [www.franklincovey.com](http://www.franklincovey.com). The information posted on our website is not incorporated into this report.

The accompanying unaudited condensed consolidated financial statements reflect, in the opinion of management, all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position and results of operations of the Company as of the dates and for the periods indicated. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted pursuant to Securities and Exchange Commission (SEC) rules and regulations. The information included in this quarterly report on Form 10-Q should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended August 31, 2023.

The preparation of financial statements in conformity with GAAP 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.

The results of operations for the quarter and three quarters ended May 31, 2024 are not necessarily indicative of results expected for the entire fiscal year ending August 31, 2024, or for any future periods.

**Accounting Pronouncement Issued and Not Adopted**

In November 2023, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*. This ASU is intended to improve reportable segment disclosure primarily by requiring entities to provide more disaggregated expense information about their reportable segments. The new guidance also improves interim disclosure requirements, clarifies circumstances in which an entity can disclose multiple segment measures of profit or loss, provides new segment disclosure requirements for entities with a single reportable segment, and contains other disclosure requirements. ASU 2023-07 is effective for public entities in fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. We have not yet completed our analysis of the requirements of ASU 2023-07, but we expect to be able to comply with the new disclosure and other guidelines within the required time frame.

On December 14, 2023, the FASB issued ASU 2023-09, *Improvements to Income Tax Disclosures*. ASU 2023-09 provides guidance to enhance transparency about income tax information through improvements to income tax disclosures primarily related to the effective income tax rate reconciliation and income taxes paid. This new guidance also includes certain other amendments to improve the effectiveness of income tax disclosures. For public companies, the guidance in ASU 2023-09 is effective for annual periods beginning after December 15, 2024. While we have not yet completed our full analysis of the new income tax guidance, we do not currently expect significant challenges in adopting its provisions, which primarily focus on income tax disclosures.

## NOTE 2 – INVENTORIES

Inventories are stated at the lower of cost or net realizable value, cost being determined using the first-in, first-out method, and were comprised of the following (in thousands):

	May 31, 2024	August 31, 2023
Finished goods	\$ 4,644	\$ 4,204
Raw materials	-	9
	<u>\$ 4,644</u>	<u>\$ 4,213</u>

## NOTE 3 – PURCHASES OF COMMON STOCK FOR TREASURY

Our purchases of common stock during the first three quarters of fiscal 2024 were comprised of shares purchased on the open market and shares withheld for income taxes on stock-based compensation awards. Our stock-based compensation plans allow shares to be withheld to cover statutory income taxes if so elected by the award recipient. These shares are valued at the market price on the date the shares are withheld. Shares purchased in fiscal 2024 through May 31, 2024 consisted of the following (in thousands):

	Shares	Cost
Shares withheld for taxes on stock-based compensation awards	252	\$ 10,333
Open market purchases	397	15,511
	<u>649</u>	<u>\$ 25,844</u>

On April 18, 2024, our Board of Directors approved a new plan to purchase up to \$50.0 million of our outstanding common stock. The previously existing common stock purchase plan was canceled, and the new common share purchase plan does not have an expiration date. The actual timing, number, and value of common shares purchased under the new board-approved plan will be determined at our discretion and will depend on a number of factors, including, among others, general market and business conditions, the trading price of our common shares, and applicable legal requirements. We have no obligation to purchase any common shares under the authorization, and the purchase plan may be suspended, discontinued, or modified at any time for any reason. All shares purchased during the three quarters ended May 31, 2024, were made under the previously existing purchase plan.



## NOTE 4 – REVENUE RECOGNITION

### Contract Balances

Our deferred subscription revenue and customer deposits totaled \$106.0 million at May 31, 2024 and \$111.2 million at August 31, 2023, of which \$3.7 million was classified as components of other long-term liabilities at each of May 31, 2024, and August 31, 2023. The amount of deferred revenue that was generated from subscription offerings totaled \$83.8 million at May 31, 2024 and \$99.0 million at August 31, 2023. During the quarter and three quarters ended May 31, 2024, we recognized \$36.7 million and \$108.9 million of previously deferred subscription revenue, respectively.

Deferred subscription revenue primarily consists of billings or payments received in advance of revenue being recognized from subscription services. Deferred revenue is recognized in sales as the applicable revenue recognition criteria are met. We generally invoice customers in annual installments upon execution of a contract. Our *Leader in Me* membership offering is bifurcated into a portal membership obligation and a coaching delivery obligation. We have determined that it is appropriate to recognize revenue related to the portal membership over the term of the underlying contract and to recognize revenue from coaching as those services are performed. The combined contract amount is recorded in deferred subscription revenue until the performance obligations are satisfied. Any additional coaching or training days which are contracted independent of a *Leader in Me* membership are recorded as revenue in accordance with our general policy for services and products as described in our annual report on Form 10-K for the fiscal year ended August 31, 2023.

### Remaining Performance Obligations

Whenever possible, we enter into multi-year non-cancellable contracts which are invoiced either upon execution of the contract or at the beginning of each annual contract period. Remaining transaction price represents contracted revenue that has not yet been recognized, including unearned revenue and unbilled amounts that will be recognized as revenue in future periods. Transaction price is influenced by factors such as inflation, the average length of the contract term, and the ability of the Company to continue to enter into multi-year non-cancellable contracts. At May 31, 2024, we had \$153.2 million of remaining performance obligations, including our deferred subscription revenue. The remaining performance obligation does not include customer deposits, as these amounts are generally refundable at the client's request prior to the satisfaction of the obligation.

### Disaggregated Revenue Information

Refer to Note 9, *Segment Information*, to these condensed consolidated financial statements for our disaggregated revenue information.

## NOTE 5 – STOCK-BASED COMPENSATION

Our stock-based compensation was comprised of the following for the periods presented (in thousands):

	Quarter Ended		Three Quarters Ended	
	May 31, 2024	May 31, 2023	May 31, 2024	May 31, 2023
Long-term incentive awards	\$ 2,355	\$ 2,871	\$ 5,707	\$ 8,074
Strive acquisition compensation	165	190	550	556
Unvested stock awards	240	180	640	520
Employee stock purchase plan	68	66	195	207
	<u>\$ 2,828</u>	<u>\$ 3,307</u>	<u>\$ 7,092</u>	<u>\$ 9,357</u>

During the quarter and three quarters ended May 31, 2024, we issued 20,346 shares and 654,030 shares of our common stock under various stock-based compensation arrangements, including our employee stock purchase plan (ESPP).

At each reporting date, we reassess the probable number of shares that are expected to vest under the terms of our long-term incentive plan (LTIP) awards. At the end of the second quarter of fiscal 2024, our reassessment resulted in a \$1.6 million cumulative reduction to stock-based compensation expense for long-term incentive awards primarily from changes in the number of shares expected to vest to participants in the fiscal 2024 and fiscal 2023 LTIP awards.

## Fiscal 2024 Long-Term Incentive Plan Award

On October 6, 2023, the Organization and Compensation Committee granted a new Long-Term Incentive Plan (the 2024 LTIP) award to our executive officers and members of senior management. The fiscal 2024 LTIP award has two tranches, one with a time-based vesting condition and one with a performance-based vesting condition as described below:

**Time-Based Award Shares** – Twenty-five percent of the 2024 LTIP award shares vest to participants on August 31, 2026. The number of shares that may be earned by participants at the end of the service period totals 26,749 shares (adjusted for forfeitures). The number of shares awarded in this tranche does not fluctuate based on the achievement of financial measures.

**Performance-Based Award Shares** – The remaining shares of the fiscal 2024 LTIP award are earned based on the highest rolling four-quarter level of qualified Adjusted EBITDA achieved in the three-year measurement period ending on August 31, 2026. The number of shares that will vest to participants for this tranche is variable and may be 50% of the award (minimum award threshold) or up to 200% of the participant's award (maximum threshold) depending on the level of qualified Adjusted EBITDA achieved. The number of shares that may be earned for achieving 100% of the performance-based objective totals 80,217 shares (adjusted for forfeitures). The maximum number of shares that may be awarded in connection with the performance-based tranche of the 2024 LTIP totals 160,434 shares.

## Annual Long-Term Incentive Performance and Retention Plan

In fiscal 2023, we introduced a new long-term equity incentive plan for client partners, managing directors, and certain other associates that we believe are critical to our long-term success. These awards are generally based on the achievement of specified sales goals, are granted following the completion of the fiscal year, and one-third of the shares vest on August 31 of each year following the grant. We granted a total of 48,740 unvested share units in the first quarter of fiscal 2024 to participants in this long-term incentive plan for achievements in fiscal 2023, which will vest over the next three years. The compensation cost of these awards is included in the long-term incentive awards category in the preceding table.

## Fiscal 2024 Board of Director Unvested Share Award

Our annual unvested stock award granted to non-employee members of the Board of Directors is administered under the terms of our omnibus incentive plans, and 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 as part of their compensation. The annual award is normally granted in January of each year on the same day as our annual shareholders' meeting. For the fiscal 2024 award, each eligible director received a whole-share grant equal to \$120,000 with a one year vesting period. Our Board of Director unvested stock award activity during the three quarters ended May 31, 2024 consisted of the following:

	Number of Shares		Weighted-Average Grant Date Fair Value Per Share
Unvested stock awards at August 31, 2023	15,882	\$	45.34
Granted	23,136		41.50
Forfeited	-		-
Vested	(15,882)		45.34
Unvested stock awards at May 31, 2024	<u>23,136</u>	\$	41.50

## **Employee Stock Purchase Plan**

We have an ESPP that offers qualified employees the opportunity to purchase shares of our common stock at a price equal to 85% of the average fair market value of our common stock on the last trading day of each fiscal quarter. During the quarter and three quarters ended May 31, 2024, we issued 12,102 shares and 31,630 shares of our common stock to participants in the ESPP.

## **NOTE 6 – RESTRUCTURING**

During the second quarter of fiscal 2024, we commenced a plan to restructure certain areas of our operations to sharpen the focus of our efforts and resources on plans and initiatives to drive additional growth in the future. As a result of this restructuring plan, we reduced our workforce by approximately 50 associates and incurred severance charges totaling \$1.7 million. During the quarter ended May 31, 2024, we incurred an additional \$0.7 million of severance and legal expense to complete the plan initiated in the second quarter. Approximately \$1.9 million of the restructuring expense is attributable to the Direct Office segment, \$0.4 million is attributable to the Education segment, and \$0.1 million is attributable to corporate functions. We intend to invest the resources from this restructuring in initiatives to drive growth in both divisions. The restructuring liability of \$0.6 million is included in accrued liabilities in our condensed consolidated balance sheet at May 31, 2024 and accrued amounts are expected to be paid through the second quarter of fiscal 2024.

During the first quarter of fiscal 2024, we also restructured certain areas of our operations in the Direct Offices segment. We incurred a \$0.6 million charge for these restructured operations. All accrued costs related to this restructuring activity were paid in the second quarter of fiscal 2024.

## **NOTE 7 – IMPAIRED ASSET**

In a prior period, we initiated the development of a student leadership assessment. However, due to societal changes in perception regarding the collection of student information and potential legal challenges, during the second quarter of fiscal 2024 we determined that it was in the best interest of the Company to suspend further development of the student leadership assessment and impair the associated asset. Approximately \$0.6 million of the capitalized costs were for software and were previously included in property and equipment, and \$0.3 million was included in capitalized development, which is included in our other long-term assets. The student leadership assessment was being developed solely for use in our Education Division.

## NOTE 8 – EARNINGS PER SHARE

The following schedule shows the calculation of net income per share for the periods presented (in thousands, except per-share amounts).

	Quarter Ended		Three Quarters Ended	
	May 31, 2024	May 31, 2023	May 31, 2024	May 31, 2023
<b>Numerator for basic and diluted income per share:</b>				
Net income	\$ 5,721	\$ 4,563	\$ 11,446	\$ 10,969
<b>Denominator for basic and diluted income per share:</b>				
Basic weighted average shares outstanding	13,160	13,621	13,222	13,799
Effect of dilutive securities:				
Stock-based compensation awards	218	652	277	638
Diluted weighted average shares outstanding	13,378	14,273	13,499	14,437
<b>EPS Calculations:</b>				
Net income per share:				
Basic	\$ 0.43	\$ 0.33	\$ 0.87	\$ 0.79
Diluted	0.43	0.32	0.85	0.76

## NOTE 9 – SEGMENT INFORMATION

### Segment Information

Our sales are primarily comprised of training and consulting services and our internal reporting and operating structure is currently organized around two divisions: the Enterprise Division, which consists of our Direct Office and International Licensee segments and the Education Division, which is comprised of our Education practice. Based on the applicable guidance, our operations consist of three reportable segments and one 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 direct sales offices; our government services sales channel; and our book and audio sales.

**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 sales are primarily comprised of royalty revenues received from these licensees.

**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.

**Corporate and Other** – Our corporate and other information includes leasing operations, shipping and handling revenues, royalty revenues from Franklin Planner Corp., and the cost of certain administrative functions.

We have determined that the Company's chief operating decision maker is the Chief Executive Officer, and the primary measurement tool used in business unit performance analysis is Adjusted EBITDA, which may not be calculated as similarly titled amounts disclosed by other companies. Adjusted EBITDA is a non-GAAP financial measure. For reporting purposes, our consolidated Adjusted EBITDA may be calculated as net income excluding interest, income taxes, depreciation expense, intangible asset amortization expense, stock-based compensation, and certain other charges such as restructuring costs and impaired asset charges. We reference this non-GAAP financial measure in our decision making because it provides supplemental information that facilitates consistent internal comparisons to the historical operating performance of prior periods and we believe it provides investors with greater transparency to evaluate operational activities and financial results.

Our operations are not capital intensive and we do not own any manufacturing facilities or equipment. Accordingly, we do not allocate assets to the reportable segments 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.

We account for the following segment information on the same basis as the accompanying condensed consolidated financial statements (in thousands).

<i>Quarter Ended</i> <i>May 31, 2024</i>	Revenue From External Customers	Gross Profit	Adjusted EBITDA
Enterprise Division:			
Direct offices	\$ 49,334	\$ 40,172	\$ 12,170
International licensees	2,701	2,435	1,334
	<u>52,035</u>	<u>42,607</u>	<u>13,504</u>
Education practice	20,079	13,179	3,080
Corporate and eliminations	1,259	420	(2,660)
Consolidated	<u>\$ 73,373</u>	<u>\$ 56,206</u>	<u>\$ 13,924</u>

<i>Quarter Ended</i> <i>May 31, 2023</i>	Revenue From External Customers	Gross Profit	Adjusted EBITDA
Enterprise Division:			
Direct offices	\$ 50,382	\$ 40,425	\$ 11,322
International licensees	2,835	2,549	1,415
	<u>53,217</u>	<u>42,974</u>	<u>12,737</u>
Education practice	17,082	10,929	1,649
Corporate and eliminations	1,142	330	(2,487)
Consolidated	<u>\$ 71,441</u>	<u>\$ 54,233</u>	<u>\$ 11,899</u>

<i>Three Quarters Ended</i> <i>May 31, 2024</i>	Revenue From External Customers	Gross Profit	Adjusted EBITDA
Enterprise Division:			
Direct offices	\$ 141,509	\$ 115,186	\$ 32,978
International licensees	8,826	7,861	4,571
	<u>150,335</u>	<u>123,047</u>	<u>37,549</u>
Education practice	49,402	31,157	2,593
Corporate and eliminations	3,372	1,132	(7,802)
Consolidated	<u>\$ 203,109</u>	<u>\$ 155,336</u>	<u>\$ 32,340</u>

<i>Three Quarters Ended</i> <i>May 31, 2023</i>	Revenue From External Customers	Gross Profit	Adjusted EBITDA
Enterprise Division:			
Direct offices	\$ 144,194	\$ 116,199	\$ 32,212
International licensees	9,048	8,184	4,787
	<u>153,242</u>	<u>124,383</u>	<u>36,999</u>
Education practice	45,631	28,497	1,309
Corporate and eliminations	3,692	1,305	(6,750)
Consolidated	<u>\$ 202,565</u>	<u>\$ 154,185</u>	<u>\$ 31,558</u>

A reconciliation of our consolidated Adjusted EBITDA to consolidated net income is provided below (in thousands).

	Quarter Ended		Three Quarters Ended	
	May 31, 2024	May 31, 2023	May 31, 2024	May 31, 2023
Segment Adjusted EBITDA	\$ 16,584	\$ 14,386	\$ 40,142	\$ 38,308
Corporate expenses	(2,660)	(2,487)	(7,802)	(6,750)
Consolidated Adjusted EBITDA	13,924	11,899	32,340	31,558
Stock-based compensation	(2,828)	(3,307)	(7,092)	(9,357)
Restructuring costs	(701)	-	(3,008)	-
Impaired asset	-	-	(928)	-
Increase in the fair value of contingent consideration liabilities	-	-	-	(7)
Depreciation	(990)	(934)	(2,994)	(3,131)
Amortization	(1,062)	(1,086)	(3,204)	(3,270)
Income from operations	8,343	6,572	15,114	15,793
Interest income	268	362	857	804
Interest expense	(247)	(354)	(916)	(1,173)
Income before income taxes	8,364	6,580	15,055	15,424
Income tax provision	(2,643)	(2,017)	(3,609)	(4,455)
Net income	\$ 5,721	\$ 4,563	\$ 11,446	\$ 10,969

### Revenue by Category

The following table presents our revenue disaggregated by geographic region (in thousands).

	Quarter Ended		Three Quarters Ended	
	May 31, 2024	May 31, 2023	May 31, 2024	May 31, 2023
Americas	\$ 62,084	\$ 59,456	\$ 169,840	\$ 167,835
Asia Pacific	6,460	7,418	19,438	20,801
Europe/Middle East/Africa	4,829	4,567	13,831	13,929
	\$ 73,373	\$ 71,441	\$ 203,109	\$ 202,565

The following table presents our revenue disaggregated by type of service (in thousands).

<i>Quarter Ended</i> <i>May 31, 2024</i>	Services and Products	Subscriptions	Royalties	Leases and Other	Consolidated
Enterprise Division:					
Direct offices	\$ 22,682	\$ 26,028	\$ 624	\$ -	\$ 49,334
International licensees	58	303	2,340	-	2,701
	<u>22,740</u>	<u>26,331</u>	<u>2,964</u>	<u>-</u>	<u>52,035</u>
Education practice	9,117	10,397	565	-	20,079
Corporate and eliminations	-	-	313	946	1,259
Consolidated	<u>\$ 31,857</u>	<u>\$ 36,728</u>	<u>\$ 3,842</u>	<u>\$ 946</u>	<u>\$ 73,373</u>

*Quarter Ended*  
*May 31, 2023*

Enterprise Division:					
Direct offices	\$ 24,808	\$ 25,033	\$ 541	\$ -	\$ 50,382
International licensees	89	321	2,425	-	2,835
	<u>24,897</u>	<u>25,354</u>	<u>2,966</u>	<u>-</u>	<u>53,217</u>
Education practice	6,456	9,971	655	-	17,082
Corporate and eliminations	-	-	313	829	1,142
Consolidated	<u>\$ 31,353</u>	<u>\$ 35,325</u>	<u>\$ 3,934</u>	<u>\$ 829</u>	<u>\$ 71,441</u>

*Three Quarters Ended*  
*May 31, 2024*

Enterprise Division:					
Direct offices	\$ 61,398	\$ 78,457	\$ 1,654	\$ -	\$ 141,509
International licensees	374	959	7,493	-	8,826
	<u>61,772</u>	<u>79,416</u>	<u>9,147</u>	<u>-</u>	<u>150,335</u>
Education practice	16,783	29,662	2,957	-	49,402
Corporate and eliminations	-	-	939	2,433	3,372
Consolidated	<u>\$ 78,555</u>	<u>\$ 109,078</u>	<u>\$ 13,043</u>	<u>\$ 2,433</u>	<u>\$ 203,109</u>

*Three Quarters Ended*  
*May 31, 2023*

Enterprise Division:					
Direct offices	\$ 70,112	\$ 72,233	\$ 1,849	\$ -	\$ 144,194
International licensees	276	1,016	7,756	-	9,048
	<u>70,388</u>	<u>73,249</u>	<u>9,605</u>	<u>-</u>	<u>153,242</u>
Education practice	15,065	28,015	2,551	-	45,631
Corporate and eliminations	-	-	936	2,756	3,692
Consolidated	<u>\$ 85,453</u>	<u>\$ 101,264</u>	<u>\$ 13,092</u>	<u>\$ 2,756</u>	<u>\$ 202,565</u>



## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based upon management's current expectations and are subject to various uncertainties and changes in circumstances. Important factors that could cause actual results to differ materially from those described in forward-looking statements are set forth below under the heading "Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995."

We suggest that the following discussion and analysis be read in conjunction with the Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended August 31, 2023 as filed with the SEC on November 13, 2023.

### Non-GAAP Measures

This Management's Discussion and Analysis includes the concept of Adjusted EBITDA which is a non-GAAP financial measure. We define Adjusted EBITDA as net income excluding the impact of interest, income taxes, intangible asset amortization, depreciation, stock-based compensation expense, and certain other items, including infrequently occurring items such as restructuring and impaired asset costs. We reference this non-GAAP measure in our decision making because it provides supplemental information that facilitates consistent internal comparisons to the operating performance of prior periods and we believe it provides investors with greater transparency to evaluate operational activities and financial results. For a reconciliation of our segment Adjusted EBITDA to net income, a related GAAP measure, refer to Note 9, *Segment Information*, to our condensed consolidated financial statements.

## RESULTS OF OPERATIONS

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

Our consolidated revenue for the quarter ended May 31, 2024, increased to \$73.4 million compared with \$71.4 million in the prior year. Third quarter fiscal 2024 revenue performance included the following:

- Enterprise Division revenues for the third quarter of fiscal 2024 totaled \$52.0 million compared with \$53.2 million in fiscal 2023. Increased All Access Pass (AAP) revenues in the third quarter were offset by decreased legacy training program revenue and reduced international direct office and licensee revenues. AAP subscription revenue grew 4% compared with the third quarter of fiscal 2023 and AAP subscription plus subscription services revenue grew 3% compared with the prior year. During the first three quarters of fiscal 2024, AAP subscription revenue retention levels in the United States and Canada remained strong and were greater than 90%.
- Education Division revenues grew 18% to \$20.1 million in the third quarter of fiscal 2024 primarily due to increased classroom materials revenue, due in part to a new initiative with a state that began in the third quarter, and increased membership subscription revenues. Delivery of training and coaching days remained strong during the third quarter of fiscal 2024, as the Education Division delivered nearly 100 more training and coaching days than the prior year.

- Our consolidated subscription and subscription services revenues reached \$60.8 million, a 6% increase over the third quarter of fiscal 2023. For the rolling four quarters ended May 31, 2024, subscription and subscription service revenue reached \$230.6 million, an \$8.4 million, or 4%, increase over the rolling four quarters ended May 31, 2023.
- Consolidated deferred subscription revenue at May 31, 2024 increased 15% to \$83.8 million compared with \$72.7 million at May 31, 2023. At May 31, 2024, 55% of our AAP contracts are for at least two years, compared with 50% at May 31, 2023, and the percentage of contracted amounts represented by multi-year contracts increased to 60% from 57% at May 31, 2023.
- Unbilled deferred subscription revenue at May 31, 2024, grew to \$69.4 million compared with \$68.2 million at May 31, 2023. We believe the continued growth of our deferred subscription revenue balances provide a solid foundation for revenue growth in future periods.

The following is a summary of other consolidated financial highlights from our third quarter of fiscal 2024:

**Cost of Revenue/Gross Profit** – For the quarter ended May 31, 2024, our cost of revenue was consistent with the prior year at \$17.2 million. Gross profit for the quarter ended May 31, 2024, was \$56.2 million compared with \$54.2 million in the third quarter of fiscal 2023. Our gross margin for the third quarter of fiscal 2024 remained strong and increased to 76.6% of revenue compared with 75.9% in the prior year. The improvement was primarily due to a change in the mix of services provided and products sold compared with the prior year.

**Operating Expenses** – Our operating expenses for the third quarter of fiscal 2024 increased \$0.2 million compared with the prior year, which was primarily due to \$0.7 million of additional restructuring expenses (refer to Note 6 – *Restructuring* to our condensed consolidated financial statements), and was partially offset by decreased selling, general, and administrative (SG&A) expenses.

**Income Taxes** – Our income tax provision for the quarter ended May 31, 2024, was \$2.6 million compared with \$2.0 million in the third quarter of fiscal 2023. Our effective tax rate for the third quarter of fiscal 2024 was generally consistent with the prior year at 31.6% compared with 30.7% in fiscal 2023. The effective tax rates for the third quarters of both fiscal 2024 and 2023 were higher than statutory rates primarily due to non-deductible executive compensation, non-deductible meals and entertainment expense, and additional income tax expense related to foreign earnings.

**Operating Income, Net Income, and Adjusted EBITDA** – Our income from operations for the quarter ended May 31, 2024, increased 27%, or \$1.8 million, to \$8.3 million compared with \$6.6 million in the prior year, which reflected the above noted factors. Net income for the third quarter of fiscal 2024 increased 25% to \$5.7 million, or \$0.43 per diluted share, compared with \$4.6 million, or \$0.32 per diluted share, in the prior year. Our Adjusted EBITDA for the quarter ended May 31, 2024, increased 17%, or \$2.0 million, to \$13.9 million, compared with \$11.9 million in the third quarter of fiscal 2023. For the three quarters ended May 31, 2024, our Adjusted EBITDA increased to \$32.3 million, compared with \$31.6 million in the prior year.

**Cash Flows** – Our cash flows from operating activities for the first three quarters of fiscal 2024 increased to \$38.4 million compared with \$25.9 million in the first three quarters of fiscal 2023. The increase was primarily due to favorable changes in working capital and featured strong collections of accounts receivable and reduced payments for accounts payable and accrued liabilities.

**Purchases of Common Stock** – During the quarter ended May 31, 2024, we purchased 188,373 shares of our common stock on the open market for \$7.4 million. Over the first three quarters of fiscal 2024, we purchased approximately 649,000 shares of our common stock for \$25.8 million (see Note 3, *Purchases of Common Stock for Treasury*, to our condensed consolidated financial statements).

**Liquidity and Financial Position** – Even after the purchase of \$25.8 million of common stock during the first three quarters of 2024, our liquidity and financial position remained strong. At May 31, 2024, we had nearly \$100 million of available liquidity which consisted of \$36.6 million of cash and our undrawn \$62.5 million line of credit.

Further details regarding our results for the quarter and three quarters ended May 31, 2024, are provided throughout the following management's discussion and analysis.

### **Quarter Ended May 31, 2024 Compared with the Quarter Ended May 31, 2023**

#### **Enterprise Division**

##### **Direct Offices Segment**

The Direct Office segment includes our personnel that serve clients in the United States and Canada; our directly owned international offices that serve clients in Japan, China, the United Kingdom, Ireland, Australia, New Zealand, Germany, Switzerland, and Austria; and other groups such as our government services and books and audio department.

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

	Quarter Ended May 31, 2024		% of Sales	Quarter Ended May 31, 2023		% of Sales	Change
Revenue	\$	49,334	100.0	\$	50,382	100.0	\$ (1,048)
Cost of revenue		9,162	18.6		9,957	19.8	(795)
Gross profit		40,172	81.4		40,425	80.2	(253)
SG&A expenses		28,002	56.8		29,103	57.8	(1,101)
Adjusted EBITDA	\$	12,170	24.7	\$	11,322	22.5	\$ 848

**Revenue.** For the quarter ended May 31, 2024, our Direct Office segment revenue totaled \$49.3 million compared with \$50.4 million in fiscal 2023. During the third quarter of fiscal 2024, our AAP subscription revenue grew 4% compared with the prior year and AAP subscription plus subscription services revenues grew 3% to \$42.6 million for the quarter. During the third quarter our AAP subscription revenue retention levels remained strong and were greater than 90%. Consistent with the first and second quarters of fiscal 2024, subscription revenue growth in the third quarter was offset by decreased legacy onsite presentations in the Company's domestic and international offices. However, add-on services in our domestic sales operations increased slightly in the third quarter and the booking pace for future add-on services strengthened during the quarter. Foreign direct office revenue performance during the third quarter was primarily impacted by decreased revenues in China, which declined 39% compared with the prior year. Our China office revenue continues to be adversely impacted by current Chinese governmental actions and initiatives. Revenue increased at all of our other international direct office locations, which partially offset decreased China revenue. Despite a challenging and uncertain economic environment, we remain confident in the strength and durability of our AAP offering, our principle-based content, and our subscription business model in both our domestic and international markets. We believe the combination of these strengths will continue to help our clients solve difficult issues and will continue to drive growth and stakeholder value in future periods. The fluctuation of foreign exchange rates had a \$0.3 million adverse impact on our Direct Office revenue and a \$0.2 million unfavorable impact on its operating results for the quarter ended May 31, 2024.

**Gross Profit.** Gross profit decreased primarily due to sales performance as previously described. Direct Office gross margin remained strong and increased to 81.4% of sales compared with 80.2% in the prior year. Our Direct Office gross margin improved primarily due to the mix of services provided and products sold to clients compared with the prior year.

**SG&A Expense.** Direct Office SG&A expense decreased primarily due to less associate costs resulting from decreased headcount and lower variable compensation on less revenue compared with the prior year.

##### **International Licensees Segment**

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

	Quarter Ended May 31, 2024		% of Sales	Quarter Ended May 31, 2023		% of Sales	Change
Revenue	\$	2,701	100.0	\$	2,835	100.0	\$ (134)
Cost of revenue		266	9.8		286	10.1	(20)
Gross profit		2,435	90.2		2,549	89.9	(114)
SG&A expenses		1,101	40.8		1,134	40.0	(33)
Adjusted EBITDA	\$	1,334	49.4	\$	1,415	49.9	\$ (81)

**Revenue.** International licensee revenue is primarily comprised of royalties on sales of our content by the licensees. In the third quarter of fiscal 2024, our international licensees' revenue decreased by 5%, which was primarily due to a 4% decrease in royalty revenues and a small decrease in our share of AAP revenue during the quarter. Licensee royalty revenue declined primarily due to economic challenges in certain of the countries in which our licensees operate and staffing issues at some of the licensee operations. While we remain optimistic that our licensees' sales and our corresponding royalty revenues will grow during fiscal 2024, difficult macroeconomic conditions, such as slowing economic growth and regional conflicts may negatively impact our licensees' operations and our royalty revenues in future periods. Foreign exchange rates had a \$0.1 million adverse impact on international licensee revenues and operating results for the quarter ended May 31, 2024.

**Gross Profit.** Gross profit decreased due to licensee revenue performance as previously described. International licensee gross margin was generally consistent with the prior year at 90.2% compared with 89.9% in fiscal 2023.

**SG&A Expense.** International licensee SG&A expenses decreased slightly due to cost savings initiatives enacted during the third quarter of fiscal 2024.

## Education Division

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

	Quarter Ended May 31, 2024		% of Sales	Quarter Ended May 31, 2023		% of Sales	Change
Revenue	\$	20,079	100.0	\$	17,082	100.0	\$ 2,997
Cost of revenue		6,900	34.4		6,153	36.0	747
Gross profit		13,179	65.6		10,929	64.0	2,250
SG&A expenses		10,099	50.3		9,280	54.3	819
Adjusted EBITDA	\$	3,080	15.3	\$	1,649	9.7	\$ 1,431

**Revenue.** Education Division revenue for the quarter ended May 31, 2024, increased 18%, or \$3.0 million, compared with the prior year. This growth was primarily due to increased sales of classroom and training materials, due in part to a new initiative with a state that began in the third quarter, and increased membership subscription revenues. We invoiced \$4.9 million related to this new state-wide initiative in the third quarter, which included \$1.4 million of classroom and training materials. Training materials are recognized in revenue upon shipment of the product. Education subscription and subscription services revenues in the third quarter of fiscal 2024 increased 13% compared with the prior year. In addition, the delivery of training and coaching days remained strong, and during the third quarter of fiscal 2024 the Education Division delivered nearly 100 more training and coaching days than the prior year, which are recognized as revenue when they are delivered. We continue to be pleased with the strength and momentum of our Education Division, which added a record 791 new *Leader in Me* schools during fiscal 2023. We believe this positive momentum generated in fiscal 2023 and in the first three quarters of fiscal 2024 will continue through the remainder of fiscal 2024. At May 31, 2024, we had over 3,800 schools using the *Leader in Me* program in the United States and Canada.

**Gross Profit.** Education Division gross profit increased primarily due to revenue growth as previously described. Education segment gross margin remained strong and increased to 65.6% of sales compared with 64.0% in the prior year and increased primarily due to improved margins on classroom and training materials and a change in the mix of services delivered and products sold during the quarter.

**SG&A Expenses.** Education SG&A expenses increased primarily due to increased commissions on higher revenue, new personnel, and changes to compensation plans.

## Other Operating Expense Items

**Depreciation** – Depreciation expense for the quarter ended May 31, 2024, was \$1.0 million, compared with \$0.9 million in the quarter ended May 31, 2023, and increased primarily due to new assets acquired or put into service during the third quarter of fiscal 2024. We currently expect depreciation to total approximately \$4.4 million in fiscal 2024. Our estimated depreciation expense is somewhat dependent on leasehold improvements that may be necessary on our corporate campus

as we approach the end of the master lease agreement in fiscal 2025. Therefore, our fiscal 2024 depreciation expense may differ from current expectations.

**Amortization** – Amortization expense during the quarter ended May 31, 2024, was consistent with the third quarter of fiscal 2023 at \$1.1 million. We currently expect definite-lived intangible asset amortization expense will total \$4.3 million during fiscal 2024.

**Interest Expense** – Our interest expense decreased \$0.1 million compared with the third quarter of the prior year due to decreased term loan and financing obligation liabilities as payments have been made in the normal course of business.

## Income Taxes

Our income tax provision for the quarter ended May 31, 2024, was \$2.6 million compared with \$2.0 million in the third quarter of fiscal 2023. Our effective tax rate for the third quarter of fiscal 2024 was generally consistent with the prior year at 31.6% compared with 30.7% in fiscal 2023. The effective tax rates for the third quarters of both fiscal 2024 and 2023 were higher than statutory rates primarily due to non-deductible executive compensation, non-deductible meals and entertainment expense, and additional income tax expense related to foreign earnings.

## Three Quarters Ended May 31, 2024 Compared with the Three Quarters Ended May 31, 2023

### Enterprise Division

#### Direct Offices Segment

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

	Three Quarters Ended			Three Quarters Ended			Change
	May 31, 2024	% of Sales		May 31, 2023	% of Sales		
Revenue	\$ 141,509	100.0	\$	144,194	100.0	\$	(2,685)
Cost of revenue	26,323	18.6		27,995	19.4		(1,672)
Gross profit	115,186	81.4		116,199	80.6		(1,013)
SG&A expenses	82,208	58.1		83,987	58.2		(1,779)
Adjusted EBITDA	\$ 32,978	23.3	\$	32,212	22.3	\$	766

**Revenue.** Through the first three quarters of fiscal 2024, our Direct Office segment revenue was \$141.5 million compared with \$144.2 million in fiscal 2023. During fiscal 2024, our AAP subscription revenue grew 8% to \$79.4 million compared with the first three quarters of fiscal 2023 and our AAP subscription plus subscription services revenues grew 5% to \$121.6 million compared with the prior year. During the first three quarters of fiscal 2024, AAP subscription revenue retention levels remained strong and were greater than 90%. Increased subscription revenue growth in our Direct Offices during the first three quarters of fiscal 2024 was offset by decreased legacy onsite presentation and add-on subscription services revenue in both the Company's domestic and international offices. However, the booking pace for subscription services strengthened in the third quarter of fiscal 2024 and we are confident that subscription service sales will improve in the fourth quarter and into fiscal 2025. Foreign direct office sales in the first three quarters of fiscal 2024 were adversely impacted by decreased revenue in our China operations and by weak economic conditions in many of the countries in which we operate. Fiscal 2024 revenue from our China office decreased by 20% compared with the prior year and the other international direct offices were essentially flat compared with fiscal 2023. The fluctuation of foreign exchange rates had a \$0.6 million adverse impact on our Direct Office revenue and a \$0.4 million unfavorable impact on our Direct Office operating results in the first three quarters of fiscal 2024.

**Gross Profit.** Gross profit decreased primarily due to sales performance as previously described. Direct Office gross margin remained strong and increased to 81.4% of sales compared with 80.6% in the prior year. Our Direct Office gross margin improved primarily due to the mix of services and products sold to clients compared with the prior year.

**SG&A Expense.** Direct Office SG&A expense decreased primarily due to decreased associate costs resulting from lower variable compensation on decreased revenue and reduced headcount compared with the prior year.

### International Licensees Segment

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

	Three Quarters Ended May 31, 2024			Three Quarters Ended May 31, 2023			
		% of Sales			% of Sales		Change
Revenue	\$	8,826	100.0	\$	9,048	100.0	\$ (222)
Cost of revenue		965	10.9		864	9.5	101
Gross profit		7,861	89.1		8,184	90.5	(323)
SG&A expenses		3,290	37.3		3,397	37.5	(107)
Adjusted EBITDA	\$	4,571	51.8	\$	4,787	52.9	\$ (216)

**Revenue.** During the first three quarters of fiscal 2024, our international licensees' revenue decreased by 3%, which was due to a 3% decrease in royalty revenues. Decreased royalty revenue was partially offset by increased licensee support revenues during the first three quarters of fiscal 2024. Foreign exchange rates had a \$0.2 million adverse impact on international licensee sales and operating results for the three quarters ended May 31, 2024.

**Gross Profit.** Gross profit decreased primarily due to lower licensee revenues as previously discussed. Gross margin was 89.1% compared with 90.5% in the first three quarters of fiscal 2023 and decreased primarily due to the mix of revenue recognized during fiscal 2024, which included less royalty revenue and more licensee support revenues than in the prior year.

**SG&A Expense.** International licensee SG&A expenses decreased by \$0.1 million compared with the prior year primarily due to efforts to reduce operating expenses in the international licensee segment that were initiated during fiscal 2024.

### **Education Division**

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

	Three Quarters Ended May 31, 2024			Three Quarters Ended May 31, 2023			
		% of Sales			% of Sales		Change
Revenue	\$	49,402	100.0	\$	45,631	100.0	\$ 3,771
Cost of revenue		18,245	36.9		17,134	37.5	1,111
Gross profit		31,157	63.1		28,497	62.5	2,660
SG&A expenses		28,564	57.8		27,188	59.6	1,376
Adjusted EBITDA	\$	2,593	5.2	\$	1,309	2.9	\$ 1,284

**Revenue.** Education Division revenue through May 31, 2024, increased 8%, or \$3.8 million, compared with the first three quarters of fiscal 2023. Fiscal 2024 growth was primarily driven by increased revenues from classroom and training materials, membership subscriptions, and international royalties. Education subscription and subscription services revenues increased 6% compared with the prior year. Delivery of coaching and training days also remained strong during the first three quarters of fiscal 2024, as the Education Division delivered over 300 more training and coaching days than in fiscal 2023. We continue to be pleased with the Education Division performance and believe the momentum generated in fiscal 2023 and in the first three quarters of fiscal 2024 will continue in the fourth quarter and contribute to a strong finish to fiscal 2024.

**Gross Profit.** Education Division gross profit increased primarily due to sales growth as previously described. Education segment gross margin remained strong during fiscal 2024 and increased to 63.1% compared with 62.5% in fiscal 2023. The increase was primarily attributable to a change in the mix of services delivered and products sold during the fiscal year.

*SG&A Expenses.* Education SG&A expenses increased primarily due to increased associate expenses from new personnel, changes to compensation plans, and increased commission on higher revenue.

## **Other Operating Expense Items**

**Depreciation** – Depreciation expense for the three quarters ended May 31, 2024, was \$3.0 million, compared with \$3.1 million in the corresponding period of fiscal 2023, and decreased primarily due to the full depreciation of certain assets.

**Amortization** – Amortization expense for the first three quarters of fiscal 2024 was \$3.2 million compared with \$3.3 million in the corresponding period of the prior year. Amortization expense decreased primarily due to the full amortization of certain intangible assets generated from previous business acquisitions.

**Interest Expense** – Our interest expense decreased \$0.3 million compared with the first three quarters of fiscal 2023 primarily due to decreased term loan and financing obligation liabilities as payments have been made in the normal course of business.

## **Income Taxes**

Our income tax provision for the first three quarters of fiscal 2024 was \$3.6 million on pre-tax income of \$15.1 million, for an effective tax rate of 24.0%, compared with an effective rate of 28.9% for the three quarters ended May 31, 2023, when we recorded income tax expense of \$4.5 million on pre-tax income of \$15.4 million. Our effective tax rate for the first three quarters of fiscal 2024 was lower than the effective rate in fiscal 2023 primarily due to a \$3.2 million tax benefit for stock-based compensation deductions in the first quarter of fiscal 2024 that exceeded the corresponding expense for book purposes, which was partially offset by \$2.2 million of tax expense for the non-deductible portion of stock-based compensation paid to executives. These stock-based compensation factors produced a net benefit of \$1.0 million, or 6.6%, in the first three quarters of fiscal 2024.

We currently expect our effective income tax rate for the full fiscal 2024 year to be approximately 30%, including a net benefit of 2% from stock-based compensation, compared with the effective rate of 24.0% for the first three quarters of fiscal 2024, including the net benefit of 6.6% for stock-based compensation discussed above.

During the first three quarters of fiscal 2024 we paid \$3.0 million of cash for income taxes. During the fourth quarter of fiscal 2024, we expect to pay significantly less cash for income taxes than our income tax provision for the quarter as we expect to utilize nearly all of our remaining U.S. domestic net operating loss carryforwards and foreign tax credit carryforwards. In fiscal 2025 and in subsequent years, we expect that our cash paid for income taxes will approximate our total income tax provision for each year.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Introduction**

On May 31, 2024, our cash and cash equivalents totaled \$36.6 million, with no borrowings on our \$62.5 million revolving credit facility. Our cash balance on May 31, 2024, included \$12.7 million which was held at our foreign subsidiaries. We routinely repatriate cash from our foreign subsidiaries and consider cash generated from foreign activities a key component of our overall liquidity position. Our primary sources of liquidity are cash flows from the sale of services in the normal course of business and available proceeds from our revolving line of credit facility. Our primary uses of liquidity include payments for operating activities, purchases of common stock, debt payments, capital expenditures (including curriculum development), and working capital expansion.

In fiscal 2023, we entered into a new credit agreement (the 2023 Credit Agreement) with KeyBank National Association (KeyBank) leading a group of financial institutions (collectively, the Lenders), which replaced our previous credit agreement. The 2023 Credit Agreement provides up to \$70.0 million in total credit, of which \$7.5 million was used to replace the outstanding term loan balance from the previous credit agreement. The remaining \$62.5 million is available as a revolving line of credit or for future term loans. Principal payments on our current term loan consist of quarterly payments totaling \$1.25 million that are due and payable on the last business day of each March, June, September, and

December until the term loan obligation is repaid. The 2023 Credit Agreement matures on March 27, 2028, and interest on term loan borrowings under the 2023 Credit Agreement is due and payable when the term loan principal payments are due and payable. Interest on all other borrowings is due and payable on the last day of each month. The interest rate for borrowings on the 2023 Credit Agreement is based on the Secured Overnight Financing Rate (SOFR) and is a tiered structure that varies according to the Leverage Ratio as defined in the 2023 Credit Agreement.

As defined in the 2023 Credit Agreement, we are (i) required to maintain a Leverage Ratio of less than 3.00 to 1.00 and a Fixed Charge Coverage Ratio greater than 1.15 to 1.00; and (ii) we are restricted from making certain distributions to stockholders, including repurchases of common stock. However, we are permitted to make distributions, including through purchases of outstanding common stock, provided that we are in compliance with the Leverage Ratio and Fixed Charge Coverage Ratio financial covenants before and after such distribution. At May 31, 2024, we believe that we were in compliance with the terms and covenants contained in the 2023 Credit Agreement.

In addition to our term-loan obligation, we have a long-term rental agreement on our corporate campus that is accounted for as a financing obligation.

The following discussion is a description of the primary factors affecting our cash flows and their effects upon our liquidity and capital resources during the three quarters ended May 31, 2024.

### **Cash Flows Provided By Operating Activities**

Our primary source of cash from operating activities was the sale of services to our customers in the normal course of business. Our primary uses of cash for operating activities were payments for SG&A expenses, payments for direct costs necessary to conduct training programs, to fund working capital changes, and payments to suppliers for materials used in training manuals sold. Our cash provided by operating activities during the first three quarters of fiscal 2024 increased \$12.4 million to \$38.4 million compared with \$25.9 million in the first three quarters of the prior year. The difference was primarily attributable to favorable changes in working capital during the first three quarters of fiscal 2024 and featured strong collections of accounts receivable, less cash used to pay seasonally high year-end accounts payable and accrued liabilities, and a smaller change in deferred revenue compared with the prior year. Through May 31, 2024, our collection of accounts receivable remained strong and provided the necessary cash to support our operations, pay our obligations, and make critical investments. We currently anticipate that our cash flows from operating activities will remain strong during the remainder of fiscal 2024.

### **Cash Flows Used For Investing Activities and Capital Expenditures**

During the three quarters ended May 31, 2024, our cash used for investing activities totaled \$7.8 million. Our primary uses of cash for investing activities consisted of additional investments in the development of our offerings and purchases of property and equipment in the normal course of business.

Through May 31, 2024, we spent \$5.2 million on the development of our various offerings and related content. We are expecting to launch new and significantly refurbished offerings in fiscal 2024 and in future years, and we believe continued investment in our offerings and content is key to future growth and the development of our subscription offerings. We currently expect that our capital spending for curriculum development will total \$7.1 million in fiscal 2024.

Our purchases of property and equipment in the first three quarters of fiscal 2024 consisted primarily of computer software and hardware, and leasehold improvements on our corporate campus. We currently anticipate that our purchases of property and equipment will total \$4.0 million in fiscal 2024. However, our purchases of property and equipment in fiscal 2024 and 2025 are highly dependent upon leasehold improvements that may be necessary on our corporate campus as we approach the end of the master lease in June 2025. While we do not have an asset retirement obligation as we exit the campus lease, we are required to maintain infrastructure and repair or replace any broken or inoperable equipment. Therefore, our capital expenditures for property and equipment may differ from this estimate.

### **Cash Flows Used For Financing Activities**

Through May 31, 2024, our net cash used for financing activities totaled \$32.0 million. Our primary use of financing cash was \$25.8 million used to purchase shares of our common stock, including \$10.3 million used for shares withheld for



income taxes on stock-based compensation awards which were distributed during the first quarter (refer to Note 3, *Purchases of Common Stock for Treasury*, to our condensed consolidated financial statements). We also used \$7.2 million of cash for principal payments on our notes payable and financing obligation during the first three quarters of fiscal 2024. Partially offsetting these uses of cash were \$1.1 million of proceeds from our Employee Stock Purchase Plan participants to purchase shares of stock during fiscal 2024.

On April 18, 2024, our Board of Directors approved a new plan to purchase up to \$50.0 million of our outstanding common stock. The previously existing common stock purchase plan was canceled, and the new common share purchase plan does not have an expiration date. As of May 31, 2024, we had not purchased any shares under this new plan and had the full \$50.0 million available on the current purchase authorization.

Our uses of financing cash during fiscal 2024 are expected to include required payments on our term loan and financing obligation, and may include purchases of our common stock. However, the timing and amount of common stock purchases is dependent on a number of factors, including available resources, and we are not obligated to make purchases of our common stock during any future period.

### **Sources of Liquidity**

We expect to meet the obligations on our notes payable, service our existing financing obligation, pay for projected capital expenditures, and meet other obligations during the remainder of fiscal 2024 and in fiscal 2025 from current cash balances and future cash flows from operating activities. Going forward, we will continue to incur costs necessary for the day-to-day operation of the business and may use additional credit and other financing alternatives, if necessary, for these expenditures. During fiscal 2023, we entered into the 2023 Credit Agreement which we expect to renew and amend on a regular basis to maintain the long-term borrowing capacity of this credit facility. Additional potential sources of liquidity available to us include factoring receivables, issuance of additional equity, or issuance of debt to 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 the availability of external funds as described above, will be sufficient for us to maintain our operations for at least the upcoming 12 months. 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.

### **Material Uses of Cash and Contractual Obligations**

We do not operate any manufacturing, mining, or other capital-intensive facilities, and 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. However, we have normal ongoing cash expenditures and are subject to various contractual obligations that are required to run our business. Our material cash requirements include the following:

- Associate and Consultant Compensation
- Information Technology Expenditures
- Content Development Costs
- Income Taxes
- Contractual Obligations

These material cash requirements are discussed in more detail in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended August 31, 2023, which was filed with the SEC on November 13, 2023 (our Annual Report). During the first three quarters of fiscal

2024, there have been no material changes to our expected uses of cash and contractual obligations from those discussed in our Annual Report. However, current economic conditions and other forecasts may change and could alter our expected material uses of cash in future periods. For further information on our material uses of cash and contractual obligations, refer to the information included in our Annual Report.

## **CRITICAL ACCOUNTING ESTIMATES**

Our consolidated financial statements were prepared in accordance with GAAP. For information on our critical accounting policies, see “Critical Accounting Estimates” in the Management’s Discussion and Analysis included in Item 7 of the Annual Report on Form 10-K for the fiscal year ended August 31, 2023. Please refer to those disclosures for further information regarding our uses of estimates and critical accounting policies. There have been no significant changes to our previously disclosed estimates or critical accounting policies.

### **Estimates**

Some of the accounting guidance we use requires us to make estimates and assumptions that affect the amounts reported in our consolidated financial statements. We regularly evaluate our estimates and assumptions and base those estimates and assumptions on historical experience, factors that are believed to be reasonable under the circumstances, and requirements under GAAP. Actual results may differ from these estimates under different assumptions or conditions, including changes in economic conditions and other circumstances that are not within our control, but which may have an impact on these estimates and our actual financial results.

## **NEW ACCOUNTING PRONOUNCEMENTS**

Refer to Note 1 to our condensed consolidated financial statements for a description of new accounting pronouncements that may impact us.

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

Certain statements made by the Company 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, among other things, our expectations about future revenue levels and financial results, our financial performance during fiscal 2024, future training and consulting revenue, expected increases in add-on subscription services revenue and delivered training and coaching days, anticipated renewals of subscription offerings, our ability to hire sales professionals, the amount and timing of capital expenditures, anticipated expenses, including SG&A expenses, depreciation, and amortization, future gross margins, the release of new services or products, the adequacy of existing capital resources, our ability to renew or extend our line of credit facility, the amount of cash expected to be paid for income taxes, our ability to maintain adequate capital for our operations for at least the upcoming 12 months, the seasonality of future revenues, future compliance with the terms and conditions of our line of credit, the ability to borrow on our line of credit, expected collection of accounts receivable, 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 our Annual Report on Form 10-K for the fiscal year ended August 31, 2023, entitled “Risk Factors.” In addition, such risks and uncertainties may include unanticipated developments in any one or more of the following areas: cybersecurity risks; inflation and other macroeconomic risks; 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 All Access Pass; competition; the impact of foreign exchange rates; 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; 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 significant 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 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 we do 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 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### **Interest Rate Sensitivity**

At May 31, 2024, our long-term obligations primarily consisted of a long-term lease agreement (financing obligation) on our corporate headquarters facility, a fixed-rate note payable from the purchase of Strive Talent, Inc., a term loan payable, and deferred payments and potential contingent consideration resulting from previous business acquisitions. Since most of our long-term obligations have a fixed interest rate, our overall interest rate sensitivity is primarily influenced by any amounts borrowed on term loans and our revolving line of credit facility, and the prevailing interest rates on these instruments. The effective interest rate on our term loans payable and line of credit facility is variable and was 6.9% at May 31, 2024. If interest rates increase over the remainder of fiscal 2024, we may incur additional expense on our variable-rate loans in future periods. However, a 1% increase in the effective interest rate on our unpaid term loan balance on May 31, 2024, would only add an immaterial amount of additional interest expense to our expected total interest expense over the next 12 months. Our financing obligation has a payment structure equivalent to a long-term leasing arrangement with a fixed interest rate of 7.7%.

There have been no other material changes from the information previously reported under Item 7A of our Annual Report on Form 10-K for the fiscal year ended August 31, 2023. We did not utilize any foreign currency or interest rate derivative instruments during the quarter or three quarters ended May 31, 2024.

### ITEM 4. CONTROLS AND PROCEDURES

#### **Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

We evaluated 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, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q.

There were no changes in our internal controls over financial reporting (as defined in Rule 13a-15(f) or 15d-15(f)) during the most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## PART II. OTHER INFORMATION

### Item 1A. RISK FACTORS

Refer to Item 1A, Risk Factors, of our Form 10-K for the fiscal year ended August 31, 2023 for a detailed description of our significant risk factors. There have been no significant changes to these risk factors during the first three quarters of fiscal 2024.

### Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table summarizes the purchases of our common stock during the fiscal quarter ended May 31, 2024:

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 Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs <sup>(1)</sup> (in thousands)
March 1, 2024 to March 31, 2024	-	\$ -	-	\$ 7,660
April 1, 2024 to April 30, 2024	188,373	\$ 39.45	188,373	\$ 50,000
May 1, 2024 to May 31, 2024	-	\$ -	-	\$ 50,000
<b>Total Common Shares</b>	<b>188,373</b>	<b>\$ 39.45</b>	<b>188,373</b>	<b>\$ 50,000</b>

<sup>(1)</sup> On April 18, 2024, our Board of Directors approved a new plan to purchase up to \$50.0 million of our outstanding common stock. The previously existing common stock purchase plan was canceled, and the new common share purchase plan does not have an expiration date. The actual timing, number, and value of common shares purchased under our board-approved plan will be determined at our discretion and will depend on a number of factors, including, among others, general market and business conditions, the trading price of our common shares, and applicable legal requirements. We have no obligation to purchase any common shares under the authorization, and the purchase plan may be suspended, discontinued, or modified at any time for any reason. All shares purchased during the quarter ended May 31, 2024 were made under the previously existing purchase plan. Amounts shown include the applicable 1% excise tax on purchases of common stock for treasury.

### Item 5. OTHER INFORMATION

During the quarter ended May 31, 2024, none of our directors or executive officers adopted or terminated any “Rule 10b5-1 trading arrangement” or “non-Rule 10b5-1 trading arrangement” (as each item is defined Item 408(a) of Regulation S-K).

Item 6. EXHIBITS

(A) Exhibits:

31.1 [Rule 13a-14\(a\) Certifications of the Chief Executive Officer](#).\*\*

31.2 [Rule 13a-14\(a\) Certifications of the Chief Financial Officer](#).\*\*

32 [Section 1350 Certifications](#).\*\*

101.INS XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.\*\*

101.SCH Inline XBRL Taxonomy Extension Schema Document.\*\*

101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document.\*\*

101.DEF Inline XBRL Taxonomy Definition Linkbase Document.\*\*

101.LAB Inline XBRL Taxonomy Extension Label Linkbase Document.\*\*

101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document.\*\*

104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).\*\*

\*\*Filed herewith.

SIGNATURES

Pursuant to the requirements 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.

FRANKLIN COVEY CO.

Date: July 8, 2024

By: /s/ Paul S. Walker  
Paul S. Walker  
President and Chief Executive Officer  
(Duly Authorized Officer)

Date: July 8, 2024

By: /s/ Stephen D. Young  
Stephen D. Young  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

**SECTION 302 CERTIFICATION**

I, Paul S. Walker, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: July 8, 2024

/s/ Paul S. Walker  
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Paul S. Walker  
Chief Executive Officer

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**SECTION 302 CERTIFICATION**

I, Stephen D. Young, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: July 8, 2024

/s/ Stephen D. Young

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Stephen D. Young  
Chief Financial Officer

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**CERTIFICATION**

In connection with the quarterly report of Franklin Covey Co. (the "Company") on Form 10-Q for the period ended May 31, 2024, as filed with the Securities and Exchange Commission (the "Report"), we, Paul S. Walker, 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/ Paul S. Walker  
Paul S. Walker  
Chief Executive Officer  
Date: July 8, 2024

/s/ Stephen D. Young  
Stephen D. Young  
Chief Financial Officer  
Date: July 8, 2024

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