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

FORM 10-Q

(Mark One)

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

For the quarterly period ended May 31, 2021

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

For the transition period from __________ to __________

Commission file no. 1-11107

FRANKLIN COVEY CO.

(Exact name of registrant as specified in its charter)

Utah (State of incorporation)	87-0401551 (I.R.S. employer identification number)
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:

Title of Each Class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $.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:

14,156,827 shares of Common Stock as of June 30, 2021

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

FRANKLIN COVEY CO.

CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except per-share amounts)

	May 31, 2021	August 31, 2020
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 35,757	$ 27,137
Accounts receivable, less allowance for doubtful accounts of $4,543 and $4,159	44,477	56,407
Inventories	2,652	2,974
Prepaid expenses and other current assets	15,343	15,146
Total current assets	98,229	101,664
Property and equipment, net	12,114	15,723
Intangible assets, net	51,603	47,125
Goodwill	31,220	24,220
Deferred income tax assets	5,316	1,094
Other long-term assets	14,167	15,611
	$ 212,649	**$ 205,437**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of notes payable	$ 5,835	$ 5,000
Current portion of financing obligation	2,813	2,600
Accounts payable	4,655	5,622
Deferred subscription revenue	54,344	59,289
Other deferred revenue	8,984	7,389
Accrued liabilities	28,012	22,628
Total current liabilities	104,643	102,528
Notes payable, less current portion	14,191	15,000
Financing obligation, less current portion	11,913	14,048
Other liabilities	7,570	9,110
Deferred income tax liabilities	-	5,298
Total liabilities	138,317	145,984
Shareholders' equity:		
Common stock, $0.05 par value; 40,000 shares authorized, 27,056 shares issued	1,353	1,353
Additional paid-in capital	211,283	211,920
Retained earnings	61,784	49,968
Accumulated other comprehensive income	764	641
Treasury stock at cost, 12,901 shares and 13,175 shares	(200,852)	(204,429)
Total shareholders' equity	74,332	59,453
	$ 212,649	**$ 205,437**

See notes to condensed consolidated financial statements

FRANKLIN COVEY CO.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands, except per-share amounts)

	Quarter Ended		Three Quarters Ended	
	May 31, 2021	May 31, 2020	May 31, 2021	May 31, 2020
	(unaudited)		(unaudited)	
Net sales	$ 58,736	$ 37,105	$ 155,223	$ 149,463
Cost of sales	12,829	10,284	35,589	41,946
Gross profit	45,907	26,821	119,634	107,517
Selling, general, and administrative	37,762	29,254	102,312	101,231
Stock-based compensation	2,370	(5,104)	5,127	(1,460)
Depreciation	1,423	1,652	4,904	4,925
Amortization	1,238	1,164	3,503	3,504
Income (loss) from operations	3,114	(145)	3,788	(683)
Interest income	16	18	56	36
Interest expense	(525)	(621)	(1,633)	(1,783)
Income (loss) before income taxes	2,605	(748)	2,211	(2,430)
Income tax benefit (provision)	10,149	(10,220)	9,605	(7,985)
Net income (loss)	**$ 12,754**	**$ (10,968)**	**$ 11,816**	**$ (10,415)**
Net income (loss) per share:				
Basic and diluted	$ 0.90	$ (0.79)	$ 0.84	$ (0.75)
Weighted average number of common shares:				
Basic	14,145	13,869	14,068	13,897
Diluted	14,156	13,869	14,133	13,897
COMPREHENSIVE INCOME (LOSS)				
Net income (loss)	$ 12,754	$ (10,968)	$ 11,816	$ (10,415)
Foreign currency translation adjustments, net of income taxes of $0, $0, $0, and $0	(151)	(91)	123	(38)
Comprehensive income (loss)	**$ 12,603**	**$ (11,059)**	**$ 11,939**	**$ (10,453)**

See notes to condensed consolidated financial statements

FRANKLIN COVEY CO.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Three Quarters Ended	
	May 31, 2021	May 31, 2020
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 11,816	$ (10,415)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	8,407	8,429
Amortization of capitalized curriculum costs	2,583	3,042
Stock-based compensation	5,127	(1,460)
Deferred income taxes	(10,521)	7,678
Change in fair value of contingent consideration liabilities	164	(367)
Amortization of right-of-use operating lease assets	758	-
Loss on disposal of assets	-	39
Changes in assets and liabilities, net of effect of acquired business:		
Decrease in accounts receivable, net	12,391	34,692
Decrease in inventories	322	377
Decrease in prepaid expenses and other assets	1,393	1,784
Increase (decrease) in accounts payable and accrued liabilities	4,629	(11,057)
Decrease in deferred revenue	(4,172)	(12,612)
Decrease in income taxes payable/receivable	(653)	(1,415)
Decrease in other long-term liabilities	(1,392)	(6)
Net cash provided by operating activities	30,852	18,709
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(1,185)	(3,336)
Curriculum development costs	(1,827)	(3,436)
Acquisition of business, net of cash acquired	(10,554)	-
Purchase of note receivable from bank	-	(2,600)
Net cash used for investing activities	(13,566)	(9,372)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit borrowings	-	14,870
Proceeds from term notes payable	-	5,000
Principal payments on notes payable	(3,750)	(3,750)
Principal payments on financing obligation	(1,922)	(1,725)
Purchases of common stock for treasury	(2,971)	(13,833)
Payment of contingent consideration liabilities	(899)	(1,167)
Proceeds from sales of common stock held in treasury	783	780
Net cash provided by (used for) financing activities	(8,759)	175
Effect of foreign currency exchange rates on cash and cash equivalents	93	(205)
Net increase in cash and cash equivalents	8,620	9,307
Cash and cash equivalents at the beginning of the period	27,137	27,699
Cash and cash equivalents at the end of the period	**$ 35,757**	**$ 37,006**
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$ 1,454	$ 1,713
Cash paid for interest	1,634	1,751
Non-cash investing and financing activities:		
Purchases of property and equipment financed by accounts payable	$ 105	$ 352
Acquisition of right-of-use operating lease assets for operating lease liabilities	885	-
Use of notes payable to acquire business	3,766	-
Use of notes receivable to modify revenue contract	-	3,246

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 Income	Treasury Stock Shares	Treasury Stock Amount
Balance at August 31, 2020	27,056	$ 1,353	$ 211,920	$ 49,968	$ 641	(13,175)	$ (204,429)
Issuance of common stock from treasury			(3,411)			236	3,668
Purchase of treasury shares						(89)	(1,530)
Stock-based compensation			1,158				
Cumulative translation adjustments					307		
Net loss				(892)			
Balance at November 30, 2020	27,056	1,353	209,667	49,076	948	(13,028)	(202,291)
Issuance of common stock from treasury			(2,014)			143	2,222
Purchase of treasury shares						(58)	(1,441)
Stock-based compensation			1,599				
Restricted stock award			(436)			28	436
Cumulative translation adjustments					(33)		
Net loss				(46)			
Balance at February 28, 2021	27,056	1,353	208,816	49,030	915	(12,915)	(201,074)
Issuance of common stock from treasury			97			14	222
Stock-based compensation			2,370				
Cumulative translation adjustments					(151)		
Net income				12,754			
Balance at May 31, 2021	27,056	$ 1,353	$ 211,283	$ 61,784	$ 764	(12,901)	$ (200,852)

See notes to condensed consolidated financial statements

FRANKLIN COVEY CO.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY – PRIOR FISCAL YEAR
(in thousands and unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock Shares	Treasury Stock Amount
Balance at August 31, 2019	27,056	$ 1,353	$ 215,964	$ 59,403	$ 269	(13,087)	$ (194,975)
Issuance of common stock from treasury			131			9	123
Purchases of common shares for treasury							(3)
Stock-based compensation			1,851				
Cumulative translation adjustments					(37)		
Net loss				(544)			
Balance at November 30, 2019	27,056	1,353	217,946	58,859	232	(13,078)	(194,855)
Issuance of common stock from treasury			(3,361)			241	3,591
Purchases of common shares for treasury						(393)	(13,830)
Stock-based compensation			1,793				
Restricted stock award			(333)			21	333
Cumulative translation adjustments					90		
Net income				1,097			
Balance at February 29, 2020	27,056	1,353	216,045	59,956	322	(13,209)	(204,761)
Issuance of common stock from treasury			126			11	170
Stock-based compensation			(5,104)				
Cumulative translation adjustments					(91)		
Net loss				(10,968)			
Balance at May 31, 2020	27,056	$ 1,353	$ 211,067	$ 48,988	$ 231	(13,198)	$ (204,591)

See notes to condensed consolidated financial statements

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1 – BASIS OF PRESENTATION

General

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, on-site 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 in a centralized location. We believe that our clients are able to utilize our content to create cultures whose hallmarks are high-performing, collaborative individuals, led by effective, trust-building leaders who execute with excellence and deliver measurably improved results for all of their key stakeholders.

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 Execution, Sales Performance, Productivity, Educational Improvement, and Customer Loyalty. Our offerings are described in further detail at 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 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, 2020.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management 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, 2021 are not necessarily indicative of results expected for the entire fiscal year ending August 31, 2021, or for any future periods.

Note on the COVID-19 Pandemic

With the rapid spread of COVID-19 around the world and the continuously evolving responses to the pandemic, we have witnessed the significant adverse impact of COVID-19 on the global economic and operating environment. These conditions have adversely affected our consolidated sales during the quarter and three quarters ended May 31, 2021 as some workplaces and schools remained closed in response to the pandemic. However, during the third quarter of fiscal 2021 we have benefitted from the recovery of certain countries and markets. The recovery from COVID-19 has thus far been uneven as case numbers have fluctuated and increased in certain areas of the world, which has caused continued business, educational, and social disruptions. In light of these events, we have taken measures to reduce our costs and to maintain adequate liquidity. Due to the rapidly changing business and education environment and other circumstances resulting from the COVID-19 pandemic, we are currently unable to fully determine the extent of COVID-19's impact on our business in future periods. Our business in future periods will be heavily influenced by the timing, length, and intensity of the economic recoveries in the United States and in other countries around the world. We continue to monitor evolving economic and general business conditions and the actual and potential impacts on our financial position, results of operations, and cash flows.

Accounting Pronouncements Issued and Adopted

Credit Losses on Financial Instruments

On September 1, 2020, we adopted Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (Topic 326). This new standard is intended to improve financial reporting by requiring more timely recognition of credit losses on trade accounts receivable and requires the measurement of all expected credit losses based on historical experience, current economic conditions, and reasonable and supportable forecasts. The adoption of this ASU did not have a material impact on our condensed consolidated financial statements and disclosures. For further information on our receivables, refer to Note 4, *Receivables*.

Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement

On September 1, 2020, we adopted ASU No. 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* (ASU 2018-15). This guidance clarifies the accounting for implementation costs in a cloud computing arrangement that is a service contract and aligns the requirements for capitalizing those costs with the capitalization requirements for costs incurred to develop or obtain internal-use software. The Company adopted ASU 2018-15 on a prospective basis and the adoption of this new standard did not have a material impact on our condensed consolidated financial statements or disclosures.

Accounting Pronouncements Issued and Not Yet Adopted

In December 2019, the Financial Accounting Standards Board issued ASU No. 2019-12, *Simplifying the Accounting for Income Taxes* (ASU 2019-12), which simplifies the accounting for income taxes, eliminates certain exceptions within ASC 740, *Income Taxes*, and clarifies certain aspects of the current guidance to promote consistency among reporting entities. The guidance in ASU 2019-12 is effective for fiscal years beginning after December 15, 2020, although early adoption is permitted. Most amendments within the standard are required to be applied on a prospective basis, while certain amendments must be applied on a retrospective or modified retrospective basis. We are currently evaluating the impact of the provisions of ASU 2019-12 on our consolidated financial statements.

NOTE 2 – ACQUISITION OF STRIVE TALENT, INC.

On April 26, 2021 (the Closing Date), through our wholly-owned subsidiary Franklin Covey Client Sales, Inc., we purchased all of the issued and outstanding stock of Strive Talent, Inc. (Strive), a San Francisco-based technology company which has developed and markets an innovative learning deployment platform. The Strive platform is expected to enable the seamless integration and deployment of our content, services, technology, and metrics to deliver behavioral impact at scale, primarily through the Company's All Access Pass subscription. The aggregate consideration for the purchase of Strive may total up to $20.0 million and is comprised of the following:

- Approximately $10.6 million paid in cash on the Closing Date of the transaction, including $1.0 million placed in escrow for 18 months from the Closing Date to serve as the first source of funds to satisfy certain indemnification obligations of Strive.
- Approximately $4.2 million payable in equal cash payments on the first five anniversaries of the Closing Date.
- Approximately $1.0 million will be paid 18 months following the Closing Date to stockholders and option holders of Strive who are still employed by the Company or its affiliates as of such 18-month date, subject to certain exceptions. The bonus payments are forfeit by the individuals if they voluntarily terminate their employment with

the Company prior to the 18-month anniversary of the purchase. These payments may be made in either cash or shares of our common stock at our sole discretion.

- A maximum of approximately $4.3 million may be earned by the former principal owner of Strive over a five-year period ending in May 2026. The total value of this consideration is contingent upon sales and growth of the All Access Pass subscription and subscription services revenues during the five-year period measurement ending in May 2026. The contingent earn out payments are conditional upon the continued employment of former principal owner of Strive over the first four years of the measurement period. These payments may be made in either cash or shares of our common stock at our sole discretion.

As described above, included in the purchase agreement for the acquisition of Strive are additional contingent payments of up to $5.3 million subject to continued employment of the primary seller and certain employees. These payments are expensed as earned and may be settled by us, at our sole discretion, in shares of our common stock or cash. Based on the relevant accounting literature for business acquisitions, the initial purchase price of Strive is comprised of the following:

Cash paid at closing	$	10,554
Notes payable		3,766
Total purchase price	$	14,320

We have included the operating results of Strive in our financial statements since the Closing Date. However, the acquisition of Strive had an immaterial impact on our results of operations for the quarter ended May 31, 2021. For the twelve months ended December 31, 2020, Strive had revenues of $1.3 million (unaudited) and an operating loss of $(1.1) million (unaudited). Strive does not meet the definition of a "significant subsidiary" as specified by Regulation S-X of the Securities and Exchange Commission. The major classes of assets and liabilities to which we have preliminarily allocated the purchase price were as follows (in thousands):

Cash acquired	$	345
Accounts receivable		154
Prepaid and other current assets		56
Property and equipment		13
Intangible assets		7,976
Goodwill		7,000
Assets acquired		15,544
Deferred revenue		(52)
Accrued liabilities		(135)
Deferred income tax liability		(1,037)
Notes payable, current portion		(836)
Notes payable, long-term		(2,930)
Liabilities assumed		(4,990)
	$	10,554

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

Description		Amount	Weighted Average Life
Non-compete agreements	$	171	2 years
Content		389	5 years
Customer relationships		764	3 years
Tradename		889	5 years
Internally developed software		5,763	8 years
	$	7,976	

The goodwill generated by the Strive acquisition is primarily attributable to the technology, content, and software development capabilities that complement our existing All Access Pass subscription and has not yet been allocated to our operating segments. None of the goodwill or intangible assets generated by the acquisition of Strive are expected to be deductible for income tax purposes. Acquisition costs totaled approximately $0.3 million and were recorded in selling, general, and administrative expense in the accompanying condensed consolidated statements of operations.

NOTE 3 – 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, 2021	August 31, 2020
Finished goods	$ 2,624	$ 2,947
Raw materials	28	27
	$ 2,652	$ 2,974

NOTE 4 – RECEIVABLES

Our trade accounts receivable are recorded at net realizable value, which includes an allowance for estimated credit losses as described in Note 1, *Basis of Presentation*. Under the guidance found in ASC Topic 326, the “expected credit loss” model replaces the previous “incurred loss” model and requires consideration of a broader range of information to estimate expected credit losses over the lives of our trade accounts receivable. Our prior methodology for estimating credit losses on our trade accounts receivable did not differ significantly from the new requirements of Topic 326.

We maintain an allowance for credit losses related to our trade accounts receivable for future expected credit losses resulting from the inability or unwillingness of our customers to make required payments. We estimate the allowance based upon historical bad debts, current customer receivable balances, age of customer receivable balances, and the customers’ financial condition in relation to a representative pool of assets consisting of customers with similar risk characteristics. The allowance is adjusted as appropriate to reflect differences in current conditions as well as changes in forecasted macroeconomic conditions. Receivables that do not share risk characteristics are evaluated on an individual basis, including those associated with customers that have a higher probability of default. Our estimate of credit losses includes expected current and future economic and market conditions surrounding the COVID-19 pandemic. We do not have a significant amount of notes or other receivables.

The following schedule provides a reconciliation of the activity in our allowance for estimated credit losses during the quarter and three quarters ended May 31, 2021 (in thousands):

Balance at August 31, 2020	$ 4,159
Charged to costs and expenses	247
Amounts written off	(655)
Balance at November 30, 2020	3,751
Charged to costs and expenses	46
Amounts written off	(135)
Balance at February 28, 2021	3,662
Charged to costs and expenses	1,066
Amounts written off	(185)
Balance at May 31, 2021	$ 4,543

No customer represented more than 10 percent of our total trade receivables balance at May 31, 2021 or August 31, 2020. Recoveries of amounts previously written off were immaterial for the periods presented.

NOTE 5 – CONSENT AND SECOND MODIFICATION OF CREDIT AGREEMENT

In connection with the acquisition of Strive as described in Note 2, we entered into a Consent and Second Modification Agreement to our existing secured credit agreement (the 2019 Agreement) with JPMorgan Chase Bank, N.A. (the Lender). The primary purposes of the Consent and Second Modification Agreement are to:

- Consent to the purchase of Strive.
- Reinstate the original debt covenants of the 2019 Agreement which were temporarily replaced by alternate debt covenants in the First Modification Agreement to the 2019 Agreement.
- Reduce the interest rate for borrowings from LIBOR plus 3.0 percent to LIBOR plus 1.85 percent, which was the original rate on the 2019 Agreement. The unused credit commitment fee also returns to the previously established 0.2 percent.

The Consent and Second Modification Agreement did not change any repayment or credit availability terms on the 2019 Agreement. Our reinstated debt covenants consist of the following: (i) a Funded Indebtedness to Adjusted EBITDAR Ratio of less than 3.00 to 1.00; (ii) a Fixed Charge Coverage ratio not less than 1.15 to 1.00; (iii) an annual limit on capital expenditures (excluding capitalized curriculum development costs) of $8.0 million; and (iv) consolidated accounts receivable of not less than 150% of the aggregate amount of the outstanding borrowings on the revolving line of credit, the undrawn amount of outstanding letters of credit, and the amount of unreimbursed letter of credit disbursements.
In the event of noncompliance with these financial covenants and other defined events of default, the lender is entitled to certain remedies, including acceleration of the repayment of any amounts outstanding on the 2019 Agreement. At May 31, 2021, we believe that we were in compliance with the terms and covenants applicable to the 2019 Agreement and subsequent modifications.

NOTE 6 – FAIR VALUE OF FINANCIAL INSTRUMENTS

At May 31, 2021, the carrying value of our financial instruments approximated their fair values. The fair values of our contingent consideration liabilities from previous business acquisitions are considered "Level 3" measurements because we use various estimates in the valuation models to project the timing and amount of future contingent payments. The fair value of the contingent consideration liabilities from the acquisitions of Jhana Education (Jhana) and Robert Gregory Partners (RGP) changed as follows during the quarter and three quarters ended May 31, 2021 (in thousands):

	Jhana	RGP	Total
Balance at August 31, 2020	$ 3,067	$ 816	$ 3,883
Change in fair value	80	(18)	62
Payments	(329)	-	(329)
Balance at November 30, 2020	2,818	798	3,616
Change in fair value	34	(50)	(16)
Payments	(211)	-	(211)
Balance at February 28, 2021	2,641	748	3,389
Change in fair value	34	84	118
Payments	(359)	-	(359)
Balance at May 31, 2021	$ 2,316	$ 832	$ 3,148

At each quarterly reporting date, we typically estimate the fair value of our contingent liabilities from both the Jhana and RGP acquisitions through the use of Monte Carlo simulations. However, the RGP contingent consideration measurement period ended on May 31, 2021 and the fair value of the final contingent payment was measured using the specified performance objectives in the purchase agreement rather than a Monte Carlo simulation. Based on the timing of expected payments, $1.2 million of the Jhana and all of the RGP contingent consideration liabilities were recorded as components of accrued liabilities at May 31, 2021. The remaining $1.1 million of the Jhana contingent consideration liability is reported in other long-term liabilities. Adjustments to the fair value of our contingent consideration liabilities are included in selling, general, and administrative expense in the accompanying condensed consolidated statements of operations and comprehensive income (loss).

NOTE 7 – REVENUE RECOGNITION

Contract Balances

Our deferred revenue totaled $64.8 million at May 31, 2021 and $68.9 million at August 31, 2020, of which $1.5 million and $2.2 million were classified as components of other long-term liabilities at May 31, 2021, and August 31, 2020, respectively. The amount of deferred revenue that was generated from subscription offerings totaled $55.3 million at May 31, 2021 and $60.6 million at August 31, 2020. During the quarter and three quarters ended May 31, 2021, we recognized $25.9 million and $70.5 million of previously deferred subscription revenue.

Remaining Performance Obligations

When possible, we enter into multi-year non-cancellable contracts which are invoiced either upon execution of the contract or at the beginning of each annual contract period. 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 seasonality, the average length of the contract term, and the ability of the Company to continue to enter multi-year non-cancellable contracts. At May 31, 2021, we had $96.6 million of remaining performance obligations, including the amount of deferred revenue related to our subscription offerings. The remaining performance obligation does not include other deferred revenue, as amounts included in other deferred revenue include items such as deposits that are generally refundable at the client's request prior to the satisfaction of the obligation.

Disaggregated Revenue Information

Refer to Note 11, *Segment Information*, to these condensed consolidated financial statements for our disaggregated revenue information.

NOTE 8 – 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, 2021	May 31, 2020	May 31, 2021	May 31, 2020
Long-term incentive awards	$ 2,144	$ (5,326)	$ 4,458	$ (2,124)
Restricted stock awards	175	175	525	525
Employee stock purchase plan	51	47	144	139
	$ 2,370	$ (5,104)	$ 5,127	$ (1,460)

For the quarter and three quarters ended May 31, 2021, we issued 14,242 shares and 421,367 shares, respectively, of our common stock under various stock-based compensation arrangements, including our employee stock purchase plan (ESPP). Our stock-based compensation plans also allow shares to be withheld to cover statutory income taxes if so elected by the award recipient. During the three quarters ended May 31, 2021, we withheld 147,092 shares of our common stock for taxes on stock-based compensation arrangements, which had a total fair value of $3.0 million.

Due to the significant impact of the COVID-19 pandemic on our results of operations in the third quarter of fiscal 2020 and uncertainties surrounding the economic recovery from the pandemic, we determined that the long-term incentive plan (LTIP) award tranches which vest based on qualified adjusted earnings before interest, taxes, depreciation, and amortization (Adjusted EBITDA) for our various LTIP awards would not vest before the end of their respective service periods. On October 2, 2020, the Organization and Compensation Committee (the Compensation Committee) of the Board of Directors modified the terms of our performance-based LTIP award tranches to extend the service period of each tranche by two years and increase each Adjusted EBITDA vesting target by $2.0 million. No time-based vesting LTIP tranches were modified. During the first quarter of fiscal 2021, we reassessed the probability that the modified award tranches would vest and concluded the modified award tranches would vest prior to the end of their respective service periods. We accounted for the modifications in accordance with the applicable accounting guidance and are recognizing compensation cost for awards expected to vest over the remaining service period of each award.

Stock Options

On January 12, 2021, our Chief Executive Officer (CEO) exercised his remaining stock options, which would have expired on January 14, 2021. The following information applies to our stock options through May 31, 2021 (in thousands):

	Number of Stock Options		Weighted Avg. Exercise Price Per Share
Outstanding at August 31, 2020	218,750	$	11.57
Granted	-		-
Exercised	(218,750)		(11.57)
Forfeited	-		-
Outstanding at May 31, 2021	-	$	-
Options vested and exercisable at May 31, 2021	-	$	-

The stock options were exercised on a net basis (no cash was paid to exercise the options) and we withheld 51,738 shares of our common stock with a fair value of $1.3 million for income taxes. The intrinsic value of the exercised options totaled $2.9 million and we recognized an income tax benefit of $0.7 million, of which $0.5 million was recognized upon the exercise of the options.

Fiscal 2021 Restricted Stock Award

Our annual restricted stock award granted to non-employee members of the Board of Directors is administered under the terms of the 2019 Franklin Covey Co. Omnibus Incentive Plan, 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. The annual award is granted in January (following the annual shareholders' meeting) of each year. For the fiscal 2021 award, each eligible director received a whole-share grant equal to $100,000 with a one year vesting period. Our restricted stock award activity during the three quarters ended May 31, 2021 consisted of the following:

	Number of Shares		Weighted-Average Grant Date Fair Value Per Share
Restricted stock awards at August 31, 2020	21,420	$	32.68
Granted	28,049		24.96
Forfeited	-		-
Vested	(21,420)		32.68
Restricted stock awards at May 31, 2021	28,049	$	24.96

At May 31, 2021, there was $0.4 million of unrecognized compensation expense remaining on the fiscal 2021 Board of Director restricted share award.

Fiscal 2021 Long-Term Incentive Plan Award

On October 2, 2020, the Compensation Committee granted a new LTIP award to our executive officers and members of senior management. The fiscal 2021 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 2021 LTIP award shares vest to participants on August 31, 2023. The number of shares that may be earned by participants at the end of the service period totals 52,696 shares. The number of shares awarded in this tranche does not fluctuate based on the achievement of financial measures.

- **Performance-Based Award Shares –** The other tranche of the fiscal 2021 LTIP award is based on the highest rolling four-quarter level of qualified Adjusted EBITDA in the three-year period ending August 31, 2023. The number of shares that will vest to participants for this tranche is variable and may be 50 percent of the award (minimum award threshold) or up to 200 percent 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 percent of the performance-based objective totals 158,088 shares. The maximum number of shares that may be awarded in connection with the performance-based tranche of the 2021 LTIP totals 316,176 shares.

Employee Stock Purchase Plan

We have an employee stock purchase plan that offers qualified employees the opportunity to purchase shares of our common stock at a price equal to 85 percent of the average fair market value of our common stock on the last trading day of each fiscal quarter. During the quarter and three quarters ended May 31, 2021, we issued 14,242 shares and 40,384 shares of our common stock to participants in the ESPP.

NOTE 9 – INCOME TAXES

For the three quarters ended May 31, 2021, we recorded an income tax benefit of $9.6 million on pre-tax income of $2.2 million, which resulted in an effective tax benefit rate of approximately 434 percent for the first three quarters of fiscal 2021. We computed income taxes by applying an estimated annual effective income tax rate to the consolidated pre-tax income for the period, adjusting for discrete items arising during the period, including a $10.9 million tax benefit from a decrease in the valuation allowance against our deferred income tax assets and a $0.5 million tax benefit from the exercise of stock options (Note 8).

The decrease in our deferred tax asset valuation allowance resulted in a net income tax benefit of $10.9 million for the first three quarters of fiscal 2021. To determine the necessity and amount of the required valuation allowance, we applied relevant accounting guidance, considering both positive and negative evidence in determining whether it is more likely than not that some portion or all of our deferred tax assets will be realized. Because of cumulative pre-tax income over the past three fiscal years, combined with the Company's better-than-anticipated performance during the COVID-19 pandemic and expected strong continuing performance, we determined that it is more-likely-than-not that sufficient taxable income will be available to realize all of our deferred tax assets before they expire, except for net operating loss carryforwards in certain foreign jurisdictions. Accordingly, we decreased the valuation allowance against our deferred tax assets at May 31, 2021.

NOTE 10 – INCOME (LOSS) PER SHARE

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

	Quarter Ended		Three Quarters Ended	
	May 31, 2021	May 31, 2020	May 31, 2021	May 31, 2020
Numerator for basic and diluted loss per share:				
Net income (loss)	$ 12,754	$ (10,968)	$ 11,816	$ (10,415)
Denominator for basic and diluted loss per share:				
Basic weighted average shares outstanding	14,145	13,869	14,068	13,897
Effect of dilutive securities:				
Stock options and other stock-based awards	11	-	65	-
Diluted weighted average shares outstanding	14,156	13,869	14,133	13,897
EPS Calculations:				
Net income (loss) per share:				
Basic and diluted	$ 0.90	$ (0.79)	$ 0.84	$ (0.75)

NOTE 11 – 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 are comprised 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 sales offices located in Japan, China, the United Kingdom, Australia, Germany, Switzerland, and Austria; 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 results 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 certain corporate administrative functions.

We have determined that the Company's chief operating decision maker is the CEO, and the primary measurement tool used in business unit performance analysis is Adjusted EBITDA, which may not be calculated as similarly titled amounts 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 (loss) excluding interest expense, income taxes, depreciation expense, amortization expense, stock-based compensation, and certain other charges such as adjustments for changes in the fair value of contingent liabilities arising from business acquisitions. 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).

Quarter Ended May 31, 2021	Sales to External Customers	Gross Profit	Adjusted EBITDA
Enterprise Division:			
Direct offices	$ 42,704	$ 34,678	$ 8,894
International licensees	2,395	2,069	821
	45,099	36,747	9,715
Education practice	11,899	8,179	1,132
Corporate and eliminations	1,738	981	(2,284)
Consolidated	$ 58,736	$ 45,907	$ 8,563
Quarter Ended May 31, 2020			
Enterprise Division:			
Direct offices	$ 26,760	$ 21,108	$ 352
International licensees	708	339	(724)
	27,468	21,447	(372)
Education practice	8,216	4,711	(1,536)
Corporate and eliminations	1,421	663	(1,734)
Consolidated	$ 37,105	$ 26,821	$ (3,642)
Three Quarters Ended May 31, 2021			
Enterprise Division:			
Direct offices	$ 115,185	$ 93,201	$ 21,729
International licensees	7,421	6,454	3,608
	122,606	99,655	25,337
Education practice	27,874	17,510	(2,010)
Corporate and eliminations	4,743	2,469	(5,925)
Consolidated	$ 155,223	$ 119,634	$ 17,402
Three Quarters Ended May 31, 2020			
Enterprise Division:			
Direct offices	$ 106,844	$ 81,221	$ 10,796
International licensees	7,120	5,696	2,696
	113,964	86,917	13,492
Education practice	30,190	17,828	(3,707)
Corporate and eliminations	5,309	2,772	(4,410)
Consolidated	$ 149,463	$ 107,517	$ 5,375

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

	Quarter Ended		Three Quarters Ended	
	May 31, 2021	May 31, 2020	May 31, 2021	May 31, 2020
Segment Adjusted EBITDA	$ 10,847	$ (1,908)	$ 23,327	$ 9,785
Corporate expenses	(2,284)	(1,734)	(5,925)	(4,410)
Consolidated Adjusted EBITDA	8,563	(3,642)	17,402	5,375
Stock-based compensation	(2,370)	5,104	(5,127)	1,460
Business acquisition costs	(300)	-	(300)	-
Decrease (increase) in the fair value of contingent consideration liabilities	(118)	276	(164)	367
Government COVID-19 assistance	-	-	234	-
Knowledge Capital wind-down costs	-	-	-	(389)
Gain from insurance settlement	-	933	150	933
Depreciation	(1,423)	(1,652)	(4,904)	(4,925)
Amortization	(1,238)	(1,164)	(3,503)	(3,504)
Income (loss) from operations	3,114	(145)	3,788	(683)
Interest income	16	18	56	36
Interest expense	(525)	(621)	(1,633)	(1,783)
Income (loss) before income taxes	2,605	(748)	2,211	(2,430)
Income tax benefit (provision)	10,149	(10,220)	9,605	(7,985)
Net income (loss)	$ 12,754	$ (10,968)	$ 11,816	$ (10,415)

Revenue by Category

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

	Quarter Ended		Three Quarters Ended	
	May 31, 2021	May 31, 2020	May 31, 2021	May 31, 2020
Americas	$ 47,524	$ 32,788	$ 124,679	$ 119,545
Asia Pacific	7,922	2,759	21,351	19,987
Europe/Middle East/Africa	3,290	1,558	9,193	9,931
	$ 58,736	$ 37,105	$ 155,223	$ 149,463

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

Quarter Ended May 31, 2021		Services and Products	Subscriptions	Royalties	Leases and Other	Consolidated
Enterprise Division:						
Direct offices	$	23,266	$ 18,752	$ 686	$ -	$ 42,704
International licensees		412	-	1,983	-	2,395
		23,678	18,752	2,669	-	45,099
Education practice		4,298	7,171	430	-	11,899
Corporate and eliminations		-	-	345	1,393	1,738
Consolidated	$	27,976	$ 25,923	$ 3,444	$ 1,393	$ 58,736
Quarter Ended May 31, 2020						
Enterprise Division:						
Direct offices	$	10,051	$ 15,965	$ 744	$ -	$ 26,760
International licensees		191	-	517	-	708
		10,242	15,965	1,261	-	27,468
Education practice		1,373	6,286	557	-	8,216
Corporate and eliminations		-	-	334	1,087	1,421
Consolidated	$	11,615	$ 22,251	$ 2,152	$ 1,087	$ 37,105
Three Quarters Ended May 31, 2021						
Enterprise Division:						
Direct offices	$	60,589	$ 52,499	$ 2,097	$ -	$ 115,185
International licensees		1,267	-	6,154	-	7,421
		61,856	52,499	8,251	-	122,606
Education practice		8,018	17,977	1,879	-	27,874
Corporate and eliminations		-	-	1,053	3,690	4,743
Consolidated	$	69,874	$ 70,476	$ 11,183	$ 3,690	$ 155,223
Three Quarters Ended May 31, 2020						
Enterprise Division:						
Direct offices	$	58,946	$ 45,425	$ 2,473	$ -	$ 106,844
International licensees		1,191	-	5,929	-	7,120
		60,137	45,425	8,402	-	113,964
Education practice		7,908	19,296	2,986	-	30,190
Corporate and eliminations		-	-	1,649	3,660	5,309
Consolidated	$	68,045	$ 64,721	$ 13,037	$ 3,660	$ 149,463

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, 2020.

RESULTS OF OPERATIONS

Overview

Franklin Covey Co. is a global company focused on individual and organizational performance improvement. 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. Franklin Covey offerings delivered through the Enterprise Division are designed to help organizations and individuals achieve their own great results. Our Education Division is centered around the principles found in *The Leader in Me* and is dedicated to helping educational institutions build cultures that will produce great results, including increased student performance, improved school culture, and increased parental and teacher involvement.

Our financial results for the quarter ended May 31, 2021 represent the best third quarter results since the sale of our consumer solutions business unit in 2008. Our consolidated sales for the third quarter of fiscal 2021 totaled $58.7 million compared with $37.1 million in fiscal 2020 and $56.0 million in the pre-pandemic third quarter of fiscal 2019. On the strength of increased sales and improved gross margins, our gross profit for the third quarter increased to $45.9 million in 2021, $26.8 million in 2020, and $39.7 million in fiscal 2019. Although our selling, general, and administrative (SG&A) expenses (excluding stock-based compensation) have increased over the prior year, as a percent of sales our SG&A expenses were 64.3 percent in 2021 compared with 78.8 percent in fiscal 2020, and 67.2 percent in the third quarter of fiscal 2019. As a result of these factors, our pre-tax income improved to $2.6 million in fiscal 2021 compared with a loss of $(0.7) million in 2020, and a loss of $(2.4) million in fiscal 2019.

Our strong performance during the third quarter of fiscal 2021 reflects the continuation of four key trends that have been evident throughout the ongoing COVID-19 pandemic. These trends include:

- Strong growth of All Access Pass. All Access Pass subscription sales increased 17 percent in the third quarter of fiscal 2021, 15 percent in the first three quarters of fiscal 2021, and 14 percent over the four quarters ended May 31, 2021 when compared with the corresponding periods of fiscal 2020.

- Growth of All Access Pass subscription services. Sales of All Access Pass subscription services continued to strengthen in the third quarter, reflecting strong bookings of subscription services in prior quarters, and the Company's capabilities to deliver services live-online and digitally.

- International sales are improving. Sales in our international direct offices and through many of our international licensee partners continued to strengthen in the third quarter.

- Education Division performance is expected to improve. Despite the challenging environment for education, booking and delivery trends in the Education Division strengthened in the third quarter, and Education Division performance is expected to continue to improve in the fourth quarter of fiscal 2021.

As areas of our operations continue to recover and grow, we believe the strength of our subscription-based offerings and services led the Company to higher levels of profitability and cash flows than in fiscal 2020, including the pre-pandemic first half of fiscal 2020. We believe these trends will continue through the fourth quarter of fiscal 2021 and will continue to produce improved earnings and cash flows compared with the prior year.

The third quarter of fiscal 2020 included the onset of the pandemic in the United States, Canada, and many other countries throughout the world, which had a significantly adverse impact on our financial results during that quarter. Comparisons to the prior year reflect those conditions and the strengthening of our operations over the course of the pandemic. The following is a summary of financial highlights for the third quarter of fiscal 2021:

- ***Sales –*** Our consolidated sales for the quarter ending May 31, 2021 totaled $58.7 million, compared with $37.1 million in the third quarter of fiscal 2020. We were pleased with the continued strength of our All Access Pass and *Leader in Me* subscription-based services in the third quarter and believe the electronic delivery capabilities of these offerings have been key to our business performance during the pandemic. During the third quarter of fiscal 2021, AAP sales increased 17 percent compared with the third quarter of the prior year and annual revenue retention remained strong at greater than 90 percent. During the third quarter of fiscal 2021 we saw signs of economic recovery in the United States and many of the other countries in which we operate as companies, schools, and individuals are adapting, and the positive effect of vaccinations is enabling certain economies to open and recover. As a result, sales improved in each of our segments compared with the third quarter of fiscal 2020. We remain optimistic about the future and look forward to continued recovery from the pandemic during the fourth quarter of fiscal 2021.

   At May 31, 2021, we had $55.3 million of deferred subscription revenue on our balance sheet, a 26 percent, or $11.4 million, increase compared with deferred subscription revenue on our balance sheet at May 31, 2020. At May 31, 2021, we had $41.3 million of unbilled deferred revenue compared with $33.4 million of unbilled deferred revenue at May 31, 2020. Unbilled deferred revenue represents business that is contracted but unbilled (primarily from multiyear contracts), and excluded from our balance sheet.

- ***Cost of Sales/Gross Profit –*** Our cost of sales totaled $12.8 million for the quarter ended May 31, 2021, compared with $10.3 million in the third quarter of the prior year. Gross profit for the third quarter of fiscal 2021 was $45.9 million compared with $26.8 million in fiscal 2020. Our gross margin for the quarter ended May 31, 2021 improved 587 basis points to 78.2 percent of sales compared with 72.3 percent in the third quarter of fiscal 2020, reflecting the continued increase in subscription revenues in the mix of overall sales and the impact of increased sales on fixed cost of sale elements such as salaried Education Division coaches and capitalized curriculum amortization expense. Gross profit increased due to improved sales as described above.

- ***Operating Expenses*** – Our operating expenses for the quarter ended May 31, 2021 increased $15.8 million compared with the third quarter of fiscal 2020, which was primarily due to an $8.5 million increase in SG&A expenses and a $7.5 million increase in stock-based compensation expense. Despite the increase in SG&A expenses, as a percent of sales our SG&A expenses in fiscal 2021 decreased to 64.3 percent compared with 78.8 percent in fiscal 2020. Our SG&A expenses increased primarily due to increased commissions on improved sales, increased associate costs resulting from bonuses and incentives on improved operations, and increased content development expense. Due to uncertainties related to the COVID-19 pandemic and recovery from the pandemic, we determined that our stock-based compensation awards related to Adjusted EBITDA would not vest before they expired and we reversed the previously recognized compensation expense from these awards in the third quarter of fiscal 2020. Our Compensation Committee modified these awards in the first quarter of fiscal 2021 and accordingly, we recognized stock-based compensation expense in the third quarter of fiscal 2021. Increased SG&A and stock-based compensation expenses were partially offset by cost savings from the successful implementation of expense reduction initiatives in various areas of the Company’s operations during the pandemic.

- ***Income Taxes –*** Our income tax benefit for the quarter ended May 31, 2021 was $10.1 million, compared with income tax expense of $10.2 million in the third quarter of fiscal 2020. Our income tax expense in fiscal 2020 was primarily the result of increasing our valuation allowance against deferred income tax assets due to three-year cumulative pre-tax losses combined with expected disruptions and negative impacts to our business resulting from the COVID-19 pandemic and uncertainties related to recovery from the pandemic. However, during fiscal 2021 the Company’s performance exceeded expectations, which returned us to three-year cumulative pre-tax income, and we expect continued strong performance in future periods. After consideration of these circumstances and the relevant accounting literature, we reduced the valuation allowance against our deferred tax assets, which primarily accounts for the income tax benefit we recorded for the quarter ended May 31, 2021.

- ***Operating Income and Net Loss –*** As a result of increased sales and improved gross margins, our income from operations for the quarter ended May 31, 2021 improved to $3.1 million compared with a loss of $(0.1) million in the third quarter of fiscal 2020. Combined with the income tax benefit described above, our third quarter fiscal 2021 net income was $12.8 million, or $0.90 per diluted share, compared with a net loss of $(11.0) million, or $(0.79) per share, in the third quarter of the prior year, which included the adverse impact of an increased valuation allowance on deferred tax assets.

- ***Cash Flows from Operating Activities –*** Our cash flows from operating activities increased 65 percent to $30.9 million for the three quarters ended May 31, 2021, compared with $18.7 million in the first three quarters of fiscal 2020. At May 31, 2021, we had $35.8 million of cash with no borrowings on our $15.0 million secured line of credit facility.

- ***Purchase of Strive Talent, Inc.*** – During the third quarter of fiscal 2021, we purchased Strive (Note 2), a San Francisco-based technology company which has developed and markets an innovative learning deployment platform. While the purchase of Strive did not materially impact our results of operations during the third quarter, we are excited to add the capabilities of this platform to our All Access Pass subscription. Once integrated into the AAP, the Strive platform is expected to enable the seamless integration and deployment of our content, services, technology, and metrics to deliver behavioral impact at scale to our clients. We believe the acquired technology from Strive will be a key element of our future business model and strategy.

Further details regarding our results for the quarter and three quarters ended May 31, 2021 are provided throughout the following management’s discussion and analysis.

Quarter Ended May 31, 2021 Compared with the Quarter Ended May 31, 2020

Enterprise Division

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

	Quarter Ended May 31, 2021	% of Sales	Quarter Ended May 31, 2020	% of Sales	Change
Sales	$ 42,704	100.0	$ 26,760	100.0	$ 15,944
Cost of sales	8,026	18.8	5,652	21.1	2,374
Gross profit	34,678	81.2	21,108	78.9	13,570
SG&A expenses	25,784	60.4	20,756	77.6	5,028
Adjusted EBITDA	$ 8,894	20.8	$ 352	1.3	$ 8,542

During the third quarter of fiscal 2021 our All Access Pass subscription revenues remained strong and increased 17 percent over the third quarter of fiscal 2020, while annual AAP revenue retention remained above 90 percent. Our invoiced AAP amounts increased 43 percent compared with the third quarter of fiscal 2020 and we believe the continued increase in invoiced AAP sales, which are initially recognized on the balance sheet, provide a solid base for continued revenue growth in future periods. In addition to the increase in invoiced AAP sales, the number of multi-year contracts is increasing as well. As of May 31, 2021, 40 percent of all AAP contracts are now multi-year contracts. We continue to be encouraged by the durability of AAP sales as clients have transitioned to and effectively utilized the digital delivery options available through the All Access Pass. As a result of this successful transition, our invoiced subscription services are recovering and were strong in the third quarter. We are also encouraged by the recovery of other areas of our direct office operations, such as our facilitator and custom materials channels, which grew $1.3 million compared with the third quarter of the prior year.

Our foreign direct offices continue to be impacted by the COVID-19 pandemic as governmental mandates limited gatherings, business activity, and training opportunities during fiscal 2021. However, these operations have been steadily improving since the third quarter of fiscal 2020 and each of our international direct offices had increased sales compared with the prior year. Overall international direct office sales increased $5.4 million or 161 percent, compared with the third quarter of fiscal 2020. We remain confident that our international direct offices will continue to recover during the remainder of fiscal 2021 and will strengthen in future periods. Foreign exchange rates had a $0.6 million favorable impact on our Direct Office sales and a $0.1 million favorable impact on operating income during the third quarter of fiscal 2021. As a result of the COVID-19 pandemic, we expect that our foreign Direct Offices will accelerate their transition to the All Access Pass in future periods, especially in China and Japan. While we are optimistic about the future of our direct office channel and AAP revenues, our future Direct Office financial performance is highly dependent upon economic recovery from the pandemic, including the opening of national and regional economies and other factors which may not be within in our control.

Gross Profit. Gross profit increased primarily due to increased recognition of previously deferred subscription revenues in the mix of overall sales, which also increased Direct Office gross margin percentage when compared with the prior year.

SG&A Expense. Increased Direct Office SG&A expense was primarily due to associate costs from increased commissions on improved sales, increased bonus and incentive pay on improved operating results, and increased headcount. These increases were partially offset by reduced travel and entertainment expense and cost savings from initiatives which were implemented as a result of the pandemic.

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 for the periods indicated (in thousands):

	Quarter Ended May 31, 2021	% of Sales	Quarter Ended May 31, 2020	% of Sales	Change
Sales	$ 2,395	100.0	$ 708	100.0	$ 1,687
Cost of sales	326	13.6	369	52.1	(43)
Gross profit	2,069	86.4	339	47.9	1,730
SG&A expenses	1,248	52.1	1,063	150.1	185
Adjusted EBITDA	$ 821	34.3	$ (724)	(102.3)	$ 1,545

Sales. International licensee revenues are primarily comprised of royalty revenues. Our licensee revenues increased significantly compared with the prior year primarily due to the recovery of economies in many of the countries where our licensees operate. The recovery led to significantly improved licensee royalty revenues and continued increases in AAP sales. During the third quarter of fiscal 2021, our royalty revenues increased 283 percent and our share of AAP revenues increased by 127 percent compared with the prior year. We receive additional revenue from the international licensees for AAP sales to cover a portion of the costs of operating the AAP portal. Partially offsetting these increases were decreased product sales to the licensees. Despite the ongoing difficulties associated with the pandemic and the varying impacts on each country’s business environment, we continue to be encouraged by the recovery of our licensee operations as they are adapting to conditions, improving digital delivery capabilities, and increasing sales of the All Access Pass subscription. The continued recovery of our licensee segment is highly dependent upon the re-opening of foreign economies, the ability or willingness of people to travel and meet together in groups, and increasing AAP sales to clients. We have translated AAP content into multiple languages and we believe the electronic availability of our offerings through this platform may accelerate the recovery of licensee operations if they can effectively market, adapt, and sell this online technology to their clients. Foreign exchange rates had an immaterial impact on international licensee sales and operating results during the quarter ended May 31, 2021.

Gross Profit. Gross profit increased due to increased sales as previously described. Gross margin improved primarily due to the mix of revenue recognized during the quarter, which included significantly more royalty revenues than in the prior year.

SG&A Expense. International licensee SG&A expenses increased primarily due to increased associate costs resulting from higher revenues and the normalization of certain operating costs compared with operations in the early months of the pandemic. However, as a percent of sales, licensee SG&A expenses decreased compared with the prior year due to increased revenues.

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 designed for students primarily in K-6 elementary schools. The following comparative information is for our Education Division in the periods indicated (in thousands):

	Quarter Ended May 31, 2021	% of Sales	Quarter Ended May 31, 2020	% of Sales	Change
Sales	$ 11,899	100.0	$ 8,216	100.0	$ 3,683
Cost of sales	3,720	31.3	3,505	42.7	215
Gross profit	8,179	68.7	4,711	57.3	3,468
SG&A expenses	7,047	59.2	6,247	76.0	800
Adjusted EBITDA	$ 1,132	9.5	$ (1,536)	(18.7)	$ 2,668

Sales. Education Division sales for the quarter ended May 31, 2021 grew primarily due to increased consulting, coaching, and training days delivered during the quarter, and increased training material sales when compared with the prior year. Despite an educational environment which has continued to be very challenging, we have seen strengthening trends in our Education business during the third quarter and throughout fiscal 2021. We are encouraged by signs of recovery in fiscal 2021 as renewal trends are improving, new schools continue to be added, and stimulus funds may be available to schools during the fourth quarter of fiscal 2021 and in early fiscal 2022. As of May 31, 2021, the *Leader in Me* program is used in over 4,300 schools in more than 50 countries.

Gross Profit. Education Division gross profit increased primarily due to increased sales as previously described. Education segment gross margin improved compared with the prior year primarily due to increased coaching and consulting sales with little variable cost increase resulting from the fixed cost of salaried coaches. This led to improved coaching margins on days delivered during the quarter.

SG&A Expenses. Education SG&A expenses increased primarily due to increased associate costs from increased sales and additional headcount compared with the prior year. These increases were partially offset by cost cutting initiatives implemented in the Education Division.

Other Operating Expense Items

***Depreciation* –** Depreciation expense decreased $0.2 million compared with the third quarter of fiscal 2020 primarily due to the full depreciation of certain assets during the quarter. We currently expect depreciation expense will total approximately $6.4 million in fiscal 2021.

***Amortization* –** Amortization expense increased $0.1 million compared with the third quarter of the prior year primarily due to the acquisition of Strive Talent, Inc. (Note 2). We now expect amortization expense will total $4.9 million during fiscal 2021.

Income Taxes

Our income tax benefit for the quarter ended May 31, 2021 was $10.1 million, compared with income tax expense of $10.2 million in the third quarter of the prior year. The income tax expense in fiscal 2020 resulted primarily from increasing our valuation allowance against deferred income tax assets due to three-year cumulative pre-tax losses, combined with the expected continued disruptions and negative impact to our business resulting from uncertainties related to the recovery from the COVID-19 pandemic. However, during fiscal 2021 the Company's performance exceeded expectations, which returned us to three-year cumulative pre-tax income, and we expect continued strong performance in future periods. After consideration of the relevant accounting literature, we reduced our valuation allowance against deferred tax assets, which primarily accounts for the income tax benefit we recorded for the quarter ended May 31, 2021.

Three Quarters Ended May 31, 2021 Compared with the Three Quarters Ended May 31, 2020

Enterprise Division

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

	Three Quarters Ended May 31, 2021	% of Sales	Three Quarters Ended May 31, 2020	% of Sales	Change
Sales	$ 115,185	100.0	$ 106,844	100.0	$ 8,341
Cost of sales	21,984	19.1	25,623	24.0	(3,639)
Gross profit	93,201	80.9	81,221	76.0	11,980
SG&A expenses	71,472	62.0	70,425	65.9	1,047
Adjusted EBITDA	$ 21,729	18.9	$ 10,796	10.1	$ 10,933

Sales. During the first three quarters of fiscal 2021 our All Access Pass subscription revenues remained strong and increased 15 percent over the same period of fiscal 2020. We continue to be encouraged by the durability of AAP subscription sales as clients transitioned to and effectively utilized the digital delivery options available through the All Access Pass throughout fiscal 2021. Increased subscription and subscription service revenues were partially offset by a $3.4 million decrease in facilitator material sales compared with the first three quarters of fiscal 2020.

As previously mentioned, our foreign direct offices have been impacted by the COVID-19 pandemic throughout fiscal 2021 as governmental mandates limited gatherings, business activity, and training opportunities. However, international direct office sales have steadily strengthened during fiscal 2021 and, despite a difficult start, have increased $0.5 million or 2 percent, compared with the prior year. We believe these offices will continue to recover during the remainder of fiscal 2021 and in future periods. Foreign exchange rates had a $1.4 million favorable impact on our Direct Office sales and a $0.2 million favorable impact on operating income during the first three quarters of fiscal 2021. While we are optimistic about the future of our direct office channel, our future financial performance is highly dependent upon economic recovery from the pandemic, including the opening of national and regional economies and other factors which may not be within our control.

Gross Profit. Gross profit increased due to increased sales in the first three quarters of fiscal 2021 as described above. Direct Office gross margin increased due to increased subscription sales in the mix of services and products sold during the first three quarters of fiscal 2021.

SG&A Expense. Increased Direct Office SG&A expense was primarily due to increased associate expenses from higher commissions on improved sales, increased bonus expense, and increased headcount. These increases were partially offset by reduced travel and entertainment expense; decreased marketing expense; and cost savings initiatives which were successfully implemented to save cash and preserve liquidity.

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

	Three Quarters Ended May 31, 2021	% of Sales	Three Quarters Ended May 31, 2020	% of Sales	Change
Sales	$ 7,421	100.0	$ 7,120	100.0	$ 301
Cost of sales	967	13.0	1,424	20.0	(457)
Gross profit	6,454	87.0	5,696	80.0	758
SG&A expenses	2,846	38.4	3,000	42.1	(154)
Adjusted EBITDA	$ 3,608	48.6	$ 2,696	37.9	$ 912

Sales. International licensee revenues are primarily comprised of royalty revenues, which decreased significantly with the onset of COVID-19 in the third quarter of fiscal 2020 and the elimination of nearly all in-person training events. At the beginning of the pandemic our licensee operations had not established strong subscription businesses and were heavily reliant on live, onsite presentations. We are encouraged by the recovery of our licensee operations as they are adapting to conditions, improving digital delivery capabilities, and increasing sales of the All Access Pass. Due to strengthening economies during the first three quarters of fiscal 2021, our royalty revenues have increased four percent compared with the prior year and our share of revenues from sales of the All Access Pass have increased 51 percent. We have translated AAP content into multiple languages to provide content to various international and multi-national entities, including our international licensees. Foreign exchange rates had an immaterial impact on international licensee sales and operating results during the three quarters ending May 31, 2021.

Gross Profit. Gross profit increased due to improved sales as previously described. Gross margin improved primarily due to the mix of revenue recognized during the quarter, which included less materials sales than in the prior year.

SG&A Expense. International licensee SG&A expenses decreased primarily due to cost reduction initiatives implemented in response to lower revenues, especially in the first half of fiscal 2021.

Education Division

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

	Three Quarters Ended May 31, 2021	% of Sales	Three Quarters Ended May 31, 2020	% of Sales	Change
Sales	$ 27,874	100.0	$ 30,190	100.0	$ (2,316)
Cost of sales	10,364	37.2	12,362	40.9	(1,998)
Gross profit	17,510	62.8	17,828	59.1	(318)
SG&A expenses	19,520	70.0	21,535	71.3	(2,015)
Adjusted EBITDA	$ (2,010)	(7.2)	$ (3,707)	(12.3)	$ 1,697

Sales. Education Division sales for the three quarters ended May 31, 2021 decreased primarily due to fewer consulting, coaching, and training days delivered and the cancelation of Symposium conference events. Due to disruptions from the COVID-19 pandemic, especially in the first half of fiscal 2021, many training programs were postponed, canceled, or delayed, which reduced consulting, coaching, and training days delivered as educators continue to deal with ongoing education challenges and uncertainties caused by the pandemic. A significant number of the coaching and consulting days that were not able to be delivered during the first two quarters of fiscal 2021 are contractual and are expected to be delivered and recognized during the second half of fiscal 2021, including the increased days delivered during the third quarter. As trends continue to strengthen, we are optimistic that the fourth quarter will provide a strong conclusion to fiscal 2021 in the Education Division.

Gross Profit. Education Division gross profit decreased primarily due to decreased sales as previously described. Education segment gross margin improved compared with the prior year primarily due to the mix of services sold, the cancelation of Symposium conferences and their associated costs, and reduced travel expenses for coaches and consultants.

SG&A Expenses. Education SG&A expense decreased primarily due to reduced sales associate travel expenses, reduced variable associate costs resulting from decreased sales primarily in the first two quarters of fiscal 2021, and cost savings from initiatives implemented in response to the pandemic.

Income Taxes

Our effective income tax benefit rate for the three quarters ended May 31, 2021 was approximately 434 percent, compared with an income tax expense rate of approximately 329 percent in the first three quarters of fiscal 2020. The income tax benefit for the first three quarters of fiscal 2021 was primarily due to a $10.9 million decrease in the valuation allowance against our deferred income tax assets and a $0.5 million tax benefit from the exercise of stock options (Note 8). The income tax expense for the first three quarters of fiscal 2020 was primarily due to a $10.2 million increase in the valuation allowance against our deferred income tax assets which was partially offset by a $1.8 million income tax benefit from the exercise of stock options in fiscal 2020.

We paid $1.5 million in cash for income taxes during the first three quarters of fiscal 2021. We anticipate that our total cash paid for income taxes over the coming three to five years will be less than our total income tax provision to the extent we are able to utilize net operating loss carryforwards, foreign tax credit carryforwards, and other deferred income tax assets.

LIQUIDITY AND CAPITAL RESOURCES

Introduction

In the current economic environment of COVID-19 and the uncertain path to economic recovery, a major priority of ours has been the continued maintenance and preservation of liquidity. We believe our expense reduction efforts during late fiscal 2020 and the first half of fiscal 2021 were successful and provided the ability to maintain operations and make a strategic investment through the acquisition of Strive Talent, Inc. during the third quarter. Our cash and cash equivalents at May 31, 2021 remained strong and totaled $35.8 million, with no borrowings on our $15.0 million revolving credit facility. Of our $35.8 million in cash at May 31, 2021, $13.7 million 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, debt payments, business acquisitions, capital expenditures (including curriculum development), contingent payments from the acquisition of businesses, working capital expansion, and purchases of our common stock.

In anticipation of potential covenant compliance issues associated with the COVID-19 pandemic and uncertainties associated with the economic recovery, on July 8, 2020, we entered into the First Modification Agreement to our 2019 Credit Agreement (the 2019 Agreement). The primary purpose of the First Modification Agreement was to provide temporary alternative borrowing covenants for the fiscal quarters ending August 31, 2020 through May 31, 2021. In connection with the acquisition of Strive (Note 2), we entered into a Consent and Second Modification Agreement to the 2019 Agreement. The primary purposes of the Consent and Second Modification Agreement are to:

- Consent to the purchase of Strive.
- Reinstate the original debt covenants of the 2019 Agreement which were temporarily replaced by alternate debt covenants in the First Modification Agreement to the 2019 Agreement.
- Reduce the interest rate for borrowings from LIBOR plus 3.0 percent to LIBOR plus 1.85 percent, which was the original rate on the 2019 Agreement. The unused credit commitment fee also returns to the previously established 0.2 percent.

The Consent and Second Modification Agreement did not change any repayment or credit availability terms on the 2019 Agreement.

At May 31, 2021, our reinstated debt covenants consist of the following: (i) a Funded Indebtedness to Adjusted EBITDAR Ratio of less than 3.00 to 1.00; (ii) a Fixed Charge Coverage ratio not less than 1.15 to 1.00; (iii) an annual limit on capital expenditures (excluding capitalized curriculum development costs) of $8.0 million; and (iv) consolidated accounts receivable of not less than 150% of the aggregate amount of the outstanding borrowings on the revolving line of credit, the undrawn amount of outstanding letters of credit, and the amount of unreimbursed letter of credit disbursements.
In the event of noncompliance with these financial covenants and other defined events of default, the lender is entitled to certain remedies, including acceleration of the repayment of any amounts outstanding on the 2019 Credit Agreement. At May 31, 2021, we believe that we were in compliance with the terms and covenants applicable to the 2019 Credit Agreement and subsequent modifications.

In addition to our term-loan obligation and borrowings on our revolving line of credit, 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, 2021.

Cash Flows From 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 selling, general, and administrative expenses, payments for direct costs necessary to conduct training programs, payments to suppliers for materials used in training manuals sold, and to fund working capital needs. Despite the operating difficulties resulting from the COVID-19 pandemic in the first three quarters of fiscal 2021, our cash provided by operating activities increased 65 percent to $30.9 million compared with $18.7 million in the first three quarters of fiscal 2020. The increase was primarily due to increased income from operations and favorable changes in working capital during the first three quarters of fiscal 2021. Despite pandemic conditions, our collection of accounts receivable remained strong during the first three quarters of fiscal 2021 and provided the necessary cash to support our operations, pay our obligations, and make critical investments.

Cash Flows Used For Investing Activities and Capital Expenditures

Through May 31, 2021, our cash used for investing activities totaled $13.6 million. The primary uses of cash for investing activities included the purchase of Strive Talent, Inc. (Note 2) for $10.6 million in cash, and additional investments in the development of our offerings and purchases of property and equipment in the normal course of business.

We spent $1.8 million during the first three quarters of fiscal 2021 on the development of various content and offerings. Our previous and ongoing investments in content and digital delivery capabilities have proved to be valuable during the ongoing pandemic as we were able to quickly transition our onsite presentations to “live online” presentations. We believe continued investment in our offerings and delivery capabilities is critical to our future success and we anticipate that our capital spending for curriculum development will total $3.5 million during fiscal 2021.

Our purchases of property and equipment during the first three quarters of fiscal 2021 consisted primarily of computer software and hardware. We expect to continue our investing in our content and delivery modalities, including the AAP and *Leader in Me* subscription services, and currently anticipate that our purchases of property and equipment will total approximately $2.2 million in fiscal 2021.

Cash Flows Used For Financing Activities

During the first three quarters of fiscal 2021, our net cash used for financing activities totaled $8.8 million. Our primary uses of financing cash included $5.7 million used for principal payments on our term loans and financing obligation, $3.0 million for purchases of our common stock for treasury, and $0.9 million of cash used to pay contingent consideration liabilities from previous business acquisitions. Our purchases of common stock during fiscal 2021 were solely for shares withheld to pay statutory income taxes on stock-based compensation awards which were distributed in the first three quarters of fiscal 2021. Partially offsetting these uses of cash were $0.8 million of proceeds from ESPP participants to purchase shares of stock during fiscal 2021.

On November 15, 2019, our Board of Directors approved a new plan to repurchase up to $40.0 million of the Company's outstanding common stock. The previously existing common stock repurchase plan was canceled and the new common share repurchase plan does not have an expiration date. Our uses of financing cash during the remainder of fiscal 2021 are expected to include required payments on our term loans and financing obligation, contingent consideration payments from previous business acquisitions, and may include purchases of our common stock for treasury. 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 our obligations on the 2019 Credit Agreement, service our existing financing obligation, pay for projected capital expenditures, and meet other working capital requirements during fiscal 2021 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. Our 2019 Credit Agreement expires in August 2024 and we expect to renew and amend the 2019 Credit Agreement on a regular basis to maintain the long-term borrowing capacity of this credit facility. 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, the length and severity of business disruptions associated with the COVID-19 pandemic, our ability to contain costs, levels of capital expenditures, collection of accounts receivable, and other factors. Some of the factors that influence our operations are not within our control, such as general economic conditions and the introduction of new offerings or technology by our competitors. We will continue to monitor our liquidity position and may pursue additional financing alternatives, as described above, to maintain sufficient resources for future growth and capital requirements. However, there can be no assurance such financing alternatives will be available to us on acceptable terms, or at all.

Contractual Obligations

We have not structured any special purpose entities, or participated in any commodity trading activities, which would expose us to potential undisclosed liabilities or create adverse consequences to our liquidity. Required contractual payments primarily consist of the repayment of term loan obligations; rental payments resulting from the sale of our corporate campus (financing obligation); payments on notes payable from the fiscal 2021 purchase of Strive; expected contingent consideration payments from business acquisitions; short-term purchase obligations for inventory items and other products and services used in the ordinary course of business; operating lease payments; and payments for outsourced warehousing and distribution service charges. For further information on our contractual obligations, refer to the table included in our annual report on Form 10-K for the fiscal year ended August 31, 2020, which was filed with the SEC on November 16, 2020.

ACCOUNTING PRONOUNCEMENTS ISSUED NOT YET ADOPTED

Refer to the discussion of new accounting pronouncements as found in Note 1 to the financial statements as presented within this report.

USE OF ESTIMATES AND CRITICAL ACCOUNTING POLICIES

Our consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America. The significant accounting policies used to prepare our consolidated financial statements, including our revenue recognition policy, are outlined primarily in Note 1 to the consolidated financial statements presented in Part II, Item 8 of our annual report on Form 10-K for the fiscal year ended August 31, 2020. Please refer to these 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 accounting principles generally accepted in the United States of America. Actual results may differ from these estimates under different assumptions or conditions, including changes in economic conditions and other circumstances that are not within our control, but which may have an impact on these estimates and our actual financial results.

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 sales levels and financial results, our financial performance during fiscal 2021, expected effects from the COVID-19 pandemic, including effects on how we conduct our business and our results of operations, the timing and duration of the recovery from the COVID-19 pandemic, future training and consulting sales activity, expected benefits from the All Access Pass and the electronic delivery of our content, anticipated renewals of subscription offerings, the impact of new accounting standards on our financial condition and results of operations, 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 sales, 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, 2020, entitled “Risk Factors.” In addition, such risks and uncertainties may include unanticipated developments in any one or more of the following areas: cybersecurity 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 increased volatility. Factors such as quarter-to-quarter variations in revenues and earnings or losses and our failure to meet expectations could have a significant impact on the market price of our common stock. In addition, the price of our common stock can change for reasons unrelated to our performance. Due to our 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, 2021, our long-term obligations primarily consisted of term loans payable, a long-term lease agreement (financing obligation) on our corporate headquarters facility, fixed-rate notes payable from the purchase of Strive, and deferred payments and potential contingent consideration resulting from previous business acquisitions. 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 2.4 percent at May 31, 2021. Accordingly, we may incur additional expense if interest rates increase in future periods. For example, a one percent increase in the effective interest rate on our term loans outstanding at May 31, 2021 would result in approximately $0.1 million of additional 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 percent, and our contingent consideration liabilities are not subject to interest rate fluctuations.

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, 2020. We did not utilize any foreign currency or interest rate derivative instruments during the quarter or three quarters ended May 31, 2021.

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 Securities and Exchange Commission'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

Except as discussed below, there have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on November 16, 2020.

Our results of operations have been adversely affected and could be materially impacted in the future by the COVID-19 (coronavirus) pandemic.

The global spread of COVID-19 has created significant volatility, uncertainty, and economic disruption during late fiscal 2020 and during fiscal 2021. The extent to which the COVID-19 pandemic impacts our business, operations, and financial results will depend on numerous evolving factors that we may not be able to accurately predict, including: the duration, scope, and severity of the pandemic; governmental, business, and individuals' actions that have been taken, and continue to be taken, in response to the pandemic; the impact of the pandemic on worldwide economic activity and actions taken in response; the effect on our clients, including educational institutions, and client demand for our services; our ability to sell and provide our services and solutions, including the impact of travel restrictions and from people working from home; the ability of our clients to pay for our services on a timely basis or at all; the ability to maintain sufficient liquidity; and any closure of our offices. Any of these events, or related conditions, could cause or contribute to the risks and uncertainties described in our Annual Report and could materially adversely affect our business, financial condition, results of operations, cash flows, and stock price.

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, 2021:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs[1] (in thousands)
March 1, 2020 to March 31, 2021	-	$ -	-	$ 39,824
April 1, 2021 to April 30, 2021	-	$ -	-	$ 39,824
May 1, 2021 to May 31, 2021	-	$ -	-	$ 39,824
Total Common Shares	-	$ -	-	

(1) On November 15, 2019, our Board of Directors approved a new plan to repurchase up to $40.0 million of our outstanding common stock. The previously existing common stock repurchase plan was canceled and the new common share repurchase plan does not have an expiration date. We did not purchase any shares of our common stock during the quarter ended May 31, 2021 under the terms of this Board approved plan.

The actual timing, number, and value of common shares repurchased 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 common shares, and applicable legal requirements. We have no obligation to repurchase any common shares under the authorization, and the repurchase plan may be suspended, discontinued, or modified at any time for any reason.

Item 6. EXHIBITS

(A) Exhibits:

2.1	Stock Purchase Agreement by and among the stockholders of Strive Talent, Inc., William James Houghteling, as the Stockholder Representative, and Franklin Covey Client Sales, dated as of April 26, 2021 (filed as Exhibit 2.1 to a Current Report on Form 8-K filed with the Commission on April 29, 2021 and incorporated herein by reference).
10.1	Consent and Second Modification Agreement by and among JPMorgan Chase Bank, N.A., Franklin Covey Co., and the subsidiary guarantors signatory thereto, dated April 26, 2021 (filed as Exhibit 10.1 to a Current Report on Form 8-K filed with the Commission on April 29, 2021 and incorporated herein by reference).
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, 2021	By: /s/ Robert A. Whitman Robert A. Whitman Chief Executive Officer (Duly Authorized Officer)
Date: July 8, 2021	By: /s/ Stephen D. Young Stephen D. Young Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 31.1

SECTION 302 CERTIFICATION

I, Robert A. Whitman, 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, 2021

/s/ Robert A. Whitman
Robert A. Whitman
Chief Executive Officer

Exhibit 31.2

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, 2021	/s/ Stephen D. Young
	Stephen D. Young Chief Financial Officer

Exhibit 32

CERTIFICATION

In connection with the quarterly report of Franklin Covey Co. (the “Company”) on Form 10-Q for the period ended May 31, 2021, as filed with the Securities and Exchange Commission (the “Report”), we, Robert A. Whitman, President and Chief Executive Officer of the Company, and Stephen D. Young, Chief Financial Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of our knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

This Certification has not been, and shall not be deemed, “filed” with the Securities and Exchange Commission.

/s/ Robert A. Whitman	/s/ Stephen D. Young
Robert A. Whitman	Stephen D. Young
Chief Executive Officer	Chief Financial Officer
Date: July 8, 2021	Date: July 8, 2021