FranklinCovey
ALL ACCESS PASS®

2017 ANNUAL REPORT

2017 Annual Report

FranklinCovey®
THE ULTIMATE COMPETITIVE ADVANTAGE

FranklinCovey®
THE ULTIMATE COMPETITIVE ADVANTAGE

Mission Statement

We enable greatness in people and organizations everywhere.

Vision

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

Foundational Beliefs

We believe:

1. People are inherently capable, aspire to greatness, and have the power to choose.

2. Principles are timeless and universal and the foundation for lasting effectiveness.

3. Leadership is a choice, built inside out on a foundation of character. Great leaders unleash the collective talent and passion of people toward the right goal.

4. Habits of effectiveness come only from the committed use of integrated processes and tools.

5. Sustained superior performance requires P/PC Balance—a focus on achieving results and building capability.

Values

1. Commitment to Principles
   We are passionate about our content and strive to be models of the principles and practices we teach.

2. Lasting Customer Impact
   We are relentless about delivering on our promise to our customers. Our success comes only with their success.

3. Respect for the Whole Person
   We value each other and treat each person with whom we work as a true partner.

4. Profitable Growth
   We embrace profitability and growth as the lifeblood of our organization; they give us the freedom to fulfill our mission and vision.

Front cover artwork: Based on FranklinCovey's All Access Pass.

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Fellow Shareholders,

As you know, Franklin Covey is fundamentally a content and solutions company. Over the years we have created some of the world's best content and solutions for helping our clients address challenges which require large-scale and lasting changes in human behavior. These solutions include executing on major strategic priorities, developing leaders who get results, building a culture of trust, achieving customer delight, and transforming sales performance.

Historically, we've sold our content and solutions one course, or one solution at-a-time, and often to one team at-a-time. Two years ago, we determined that the breadth and depth of our customer impact could be increased even further, and the lifetime value of our customers could increase substantially, if we converted to a Subscription-as-a-Service ("SaaS") model. Under our new *All Access Pass* SaaS model, our customers receive: (1) unlimited access to our entire collection of our best-in-class content and solutions; (2) the ability to assemble, integrate and deliver this content through an almost limitless combination of delivery modalities in sixteen languages worldwide; (3) the services of an implementation specialist to help curate and organize the content and solutions in the All Access Pass to exactly meet their needs; (4) a cost per population trained which is less than or equal to that offered by other providers for just a single course through a single delivery modality; and (5) an array of affordable add-on implementation services to help them accomplish their key "jobs-to-be-done."

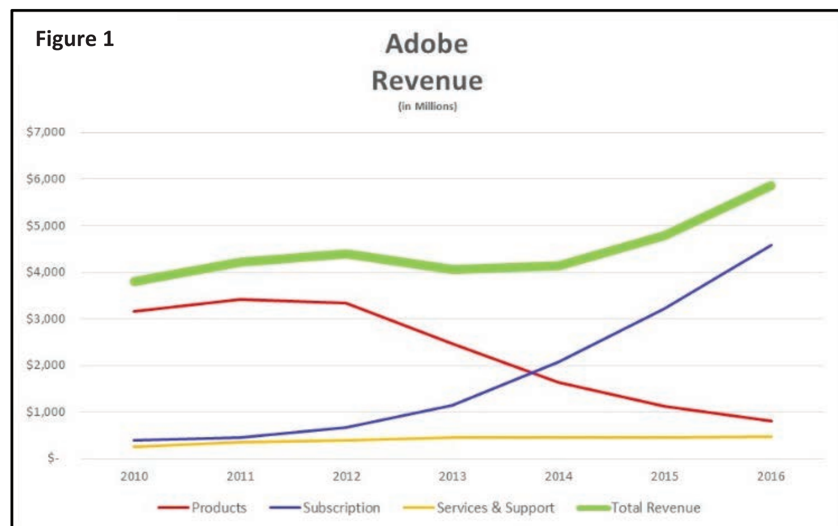
We expected that All Access Pass' value proposition would be extremely compelling for our customers, would have the potential to change the basis for competition in our industry, and would ultimately create substantial value for our shareholders.

We also recognized that transitioning to this new SaaS business model would be disruptive, both to our financial reporting (since it would result in subscription accounting treatment which spreads the recognition of contracted revenue over the term of the contract), and to our existing business model. We faced the dilemma posed by Dr. Clayton Christensen (one of Franklin Covey's directors) in his best-selling book, *The Innovator's Dilemma*, "Do we choose to introduce an innovation that has the potential to significantly strengthen our strategic position in our industry and with our customers, if doing so will also disrupt our existing business, or do we keep running our existing business model?" We chose to aggressively pursue our new SaaS business model, believing strongly that it would ultimately provide quantum benefits to our clients, our teams, and our shareholders.

The Bad News is that, as expected, our SaaS offerings, including the *All Access Pass* in our Enterprise business, and the *Leader in Me Membership* offering in our Education business *have* been disruptive to our accounting. Over the last two years, the portion of a given contract's value that we are able to recognize up-front, at the time of sale, has declined significantly, while almost all of the costs associated with generating that contract are recognized up-front. Conversely, the portion of a contract's revenue that is recognized over time as deferred revenue (billed and unbilled) has increased significantly. This shift in accounting treatment resulted in a significant decline in our *reported* revenue and profit during fiscal 2017, at the same time we were building up a more than $50 million balance of very high margin deferred revenue almost all of which will be recognized in fiscal 2018 and 2019. We believe that we are now at an inflection point where this large balance of deferred revenue will reverse and be recognized as revenue, driving strong reported and economic growth in fiscal 2018 and beyond.

As expected, the strength of our new SaaS business model and our single-minded focus on it, has also disrupted our traditional facilitator and onsite sales.

We are not alone in going through such a SaaS business model transition. Dozens of companies have undertaken a similar effort. For example, in 2011, Adobe Systems announced its decision to transition its business from a unit-by-unit boxed software model to a SaaS model, and went through a similar business model transition from 2012-2016. As shown in Figure 1, during its multiyear business model transition, traditional boxed software business declined from more than 83% of its total revenue in 2011, to only 14% of total revenue in 2016. During this same period, Adobe's subscription revenue increased from 11% to more than 78% of total revenue. Despite the dramatic growth in its new subscription business, during the middle three years of its transition, 2012, 2013, and 2014, its overall revenue was basically flat. The dramatic growth of its subscription business was almost entirely offset by the decline in its traditional boxed software business. In 2015, however, the continued strong growth in its subscription business more than overcame the continued declines in its (by then) much smaller historical boxed software business, and its total revenue hit an inflection point and began to grow rapidly.



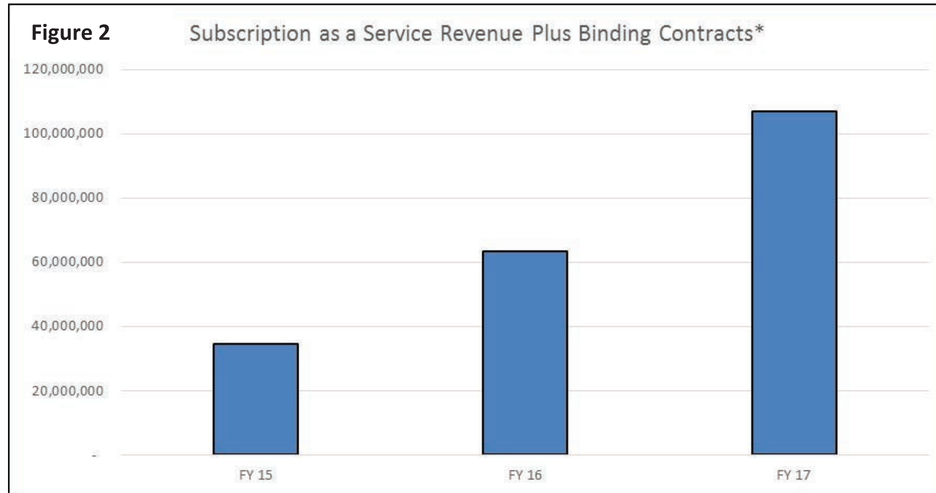
While we don't claim to be anywhere close to Adobe's stature, we've experienced similar dynamics during the past two years, where the dramatic growth of our subscription business has been substantially offset by commensurate declines in our traditional facilitator and onsite business.

The Good News is that the transition to our new SaaS model is working!

- *In our Enterprise business:* In fiscal 2017, All Access Pass and pass-related revenue grew 170%, and accounted for more than 70% of the total revenue contracted in our Enterprise business in the U.S., Canada, the U.K. and Australia. We expect All Access Pass and pass-related revenue to increase to approximately 80% to 85% of total revenues in these offices in the coming years. In addition, we will be launching All Access Pass in our offices in China and Japan later this year, which we expect to further accelerate our overall SaaS growth.

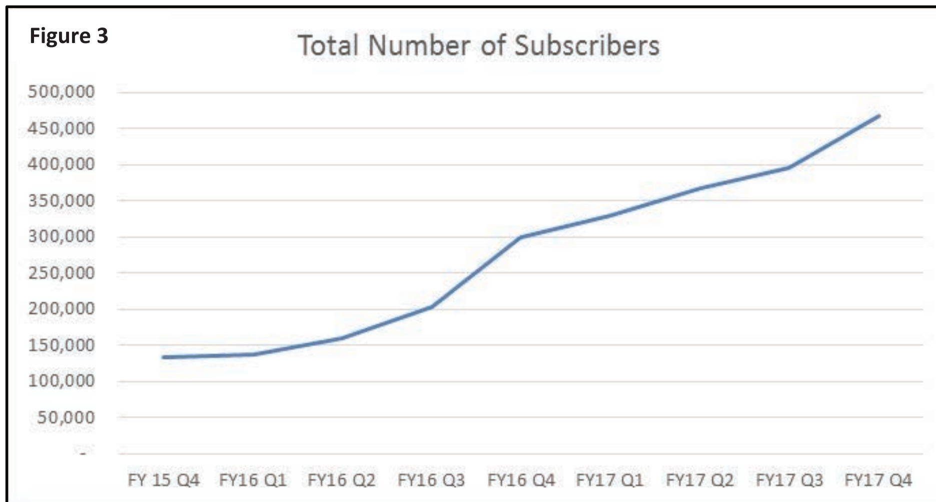
- *In our Education business:* The vast majority of Leader-in-Me schools have a Leader-in-Me Membership (which includes Leader-in-Me Online, coaching, and some delivery services). As a result, most of our onsite delivery services in Education represent add-on revenue to the membership offering. More than 80% of our total education revenue comes from schools that have a binding subscription to which they are purchasing additional services.

Our business is well on the way to becoming primarily subscription-based. As shown in Figure 2, in fiscal 2017, the sum of our subscription and subscription-related revenue plus deferred revenue (billed and unbilled) exceeded $100 million.



*This amount contains amounts recognized as revenue, plus the increase in Deferred Revenue (billed and unbilled).

Also, as shown in Figure 3, as of the end of fiscal 2017, we had more than 450,000 active paying subscribers to our SaaS offerings in our Enterprise and Education businesses.



We believe we are now reaching the inflection point where the significant growth rate of our subscription business will increasingly outpace any ongoing declines in our now much smaller legacy onsite and facilitator channels. As a result, we expect to achieve double digit growth in our reported revenue in fiscal 2018, and to have continued strong growth in fiscal 2019 and beyond.

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

Sincerely,

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

Financial Highlights

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

Common Stock Price Range:	**FIRST QUARTER**	**SECOND QUARTER**	**THIRD QUARTER**	**FOURTH QUARTER**
Fiscal Year Ended August 31, 2017:				
High	$ 22.45	$ 21.45	$ 22.30	$ 21.10
Low	15.44	16.95	15.20	17.35
Fiscal Year Ended August 31, 2016:				
High	$ 17.81	$ 18.28	$ 18.14	$ 17.53
Low	13.77	14.36	13.83	13.45

Proxy Statement

Notice Of Annual Meeting Of Shareholders

To Be Held January 26, 2018

Franklin Covey Co.

You are cordially invited to attend the Annual Meeting of Shareholders of Franklin Covey Co. (the Company), which will be held on Friday, January 26, 2018 at 8:30 a.m., in the Hyrum W. Smith Auditorium, 2200 West Parkway Boulevard, Salt Lake City, Utah 84119-2331 (the Annual Meeting), for the following purposes:

(i) To elect eight directors to serve until the 2019 annual meeting of shareholders;

(ii) To hold an advisory vote on executive compensation;

(iii) To hold an advisory vote on the frequency of the advisory vote on executive compensation;

(iv) To approve the Franklin Covey Co. 2017 Employee Stock Purchase Plan;

(v) To ratify the appointment of Deloitte & Touche, LLP as the Company's independent registered public accountants for fiscal 2018; and

(vi) To transact such other business as may properly come before the Annual Meeting or at any adjournment or postponement thereof.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting to be Held on January 26, 2018. The proxy statement and annual report to shareholders are available at http://www.viewproxy.com/FranklinCovey/2018.

The Board of Directors has fixed the close of business on Thursday, November 30, 2017 as the record date for the determination of shareholders entitled to receive notice of and to vote at the Annual Meeting and at any adjournment or postponement thereof.

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

By Order of the Board of Directors,

Robert A. Whitman
Chairman of the Board of Directors
December 22, 2017

IMPORTANT

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

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

PROXY STATEMENT

Annual Meeting of Shareholders
January 26, 2018

SOLICITATION OF PROXIES

This Proxy Statement is being made available to the shareholders of Franklin Covey Co., a Utah corporation (us, our, we, FranklinCovey, or the Company), in connection with the solicitation by the board of directors (the Board or Board of Directors) of the Company of proxies from holders of outstanding shares of our Common Stock, $0.05 par value per share (the Common Stock), for use at our Annual Meeting of Shareholders to be held on Friday, January 26, 2018, at 8:30 a.m., at the Hyrum W. Smith Auditorium, 2200 West Parkway Boulevard, Salt Lake City, Utah 84119-2331, and at any adjournment or postponement thereof. This Proxy Statement, the Notice of Annual Meeting of Shareholders, and the accompanying form of proxy are first being mailed to shareholders of the Company on or about December 22, 2017.

PURPOSE OF THE ANNUAL MEETING

Shareholders of the Company will consider and vote on the following proposals: (i) to elect eight directors to serve until the next annual meeting; (ii) to hold an advisory vote on executive compensation; (iii) to hold an advisory vote on the frequency of the advisory vote on executive compensation; (iv) to approve the 2017 Franklin Covey Co. Employee Stock Purchase Plan (the Plan); (v) to ratify the appointment of Deloitte & Touche, LLP (Deloitte) as our independent registered public accountants for the fiscal year ending August 31, 2018; and (vi) to transact such other business as may properly come before the Annual Meeting or at any adjournment or postponement thereof.

COSTS OF SOLICITATION

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

INFORMATION ABOUT VOTING

Who can vote?

The only voting securities that we have outstanding are shares of our Common Stock. Our Board of Directors has fixed the close of business on Thursday, November 30, 2017 as the record date for determination of shareholders entitled to notice of, and to vote at, the Annual Meeting (the Record Date). Only shareholders of record at the close of business on the Record Date are entitled to vote at the Annual Meeting. As of the Record Date, there were 13,842,505 shares of our Common Stock issued and outstanding. The holders of record of the shares of our Common Stock on the Record Date are entitled to cast one vote per share on each matter submitted to a vote at the Annual Meeting.

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

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

How can you vote?

You may submit your proxy by mail, telephone, or the Internet. If you are submitting your proxy by mail, you should complete, sign, and date your proxy card and return it in the envelope provided. Sign your name exactly as it appears on the proxy card. If you plan to vote by telephone or the Internet, voting instructions are printed on your proxy card. If you hold your shares through an account with a brokerage firm, bank, or other nominee, please follow the instructions you receive from them to vote your shares. If you provide specific voting instructions, your shares will be voted as you have instructed. Proxy cards submitted by mail must be received by our voting tabulator no later than January 25, 2018 to be voted at the Annual Meeting. You may also vote in person at the Annual Meeting.

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

Shares of Common Stock which are entitled to be voted at the Annual Meeting and which are represented by properly executed proxies will be voted in accordance with the instructions indicated on such proxies. If no instructions are indicated, such shares will be voted (i) **FOR** the election of each of the eight director nominees (Proposal No. 1); (ii) **FOR** the proposal regarding an advisory vote on executive compensation (Proposal No. 2); (iii) **ONE YEAR** for the proposal regarding an advisory vote on the frequency of the advisory vote on executive compensation (Proposal No. 3); (iv) **FOR** the approval of the 2017 Franklin Covey Co. Employee Stock Purchase Plan (Proposal No. 4); (v) **FOR** the ratification of the appointment of Deloitte as our independent registered public accountants for the fiscal year ending August 31, 2018 (Proposal No. 5); and in the discretion of the proxy holders as to any other matters as may properly come before the Annual Meeting or at any adjournment or postponement thereof. It is not currently anticipated that any other matters will be presented at the Annual Meeting.

How do I vote at the Annual Meeting?

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

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

No. If you hold your shares in street name and do not give voting instructions to your broker, bank, or other nominee, then your broker, bank, or other nominee may only vote your shares with respect to "discretionary" matters, but may not vote your shares with respect to "non-discretionary" matters. Each of our proposals, except for Proposal No. 5, the ratification of the appointment of our independent registered public accounting firm, are considered "non-discretionary" matters. As a result, if you hold your shares in street name, your broker, bank, or other nominee will not have discretion to vote your shares at the Annual Meeting if you do not provide voting instructions. Accordingly, it is important that street name holders give instructions to their broker, bank, or other nominee by following the voting instructions received from their broker, banker, or other nominee.

May I revoke my vote prior to the Annual Meeting?

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

What is a Quorum?

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

What Vote is Required for a Proposal to be Approved?

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

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

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

The option of "one year," "two years," or "three years" which receives the highest number of votes will be the option recommended by the shareholders for Proposal No. 3. Abstentions and broker non-votes will not have any effect on the outcome of Proposal No. 3.

Approval of the 2017 Franklin Covey Co. Employee Stock Purchase Plan, which is proposal No. 4, requires the number of votes cast in favor of the Plan to exceed the number of votes cast against this proposal. Abstentions with respect to this proposal will have the same effect as votes against the proposal. Broker non-votes will not have any effect on the outcome of this proposal.

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

What are the Board's voting recommendations?

The Board of Directors recommends that you vote **"FOR"** proposal nos. 1, 2, 4 and 5, and **"ONE YEAR"** for proposal no. 3, as described in this Proxy Statement.

What are broker non-votes?

When a broker, bank, or other nominee has discretion to vote on one or more proposals at a meeting but does not have discretion to vote on other matters at the meeting, the broker, bank, or other nominee will inform the inspector of election that it does not have the authority to vote on the "non-discretionary" matters with respect to shares held for beneficial owners which did not provide voting instructions with respect to the "non-discretionary" matters. This situation is commonly referred to as a "broker non-vote."

The Company's Principal Office and Main Telephone Number

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

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE

Nominees for Election to the Board of Directors

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

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

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

Anne H. Chow, 51

Independent Director
Director Since: March 2016
Committees: Member of all standing committees
Other Directorships: None

Ms. Chow is currently the President of National Business at AT&T Business. As President of National Business, Anne leads a team of over 11,000 industry professionals around the country who are responsible for developing integrated solutions for AT&T's largest multinational business customers as a direct channel as well as through strategic alliances. The global scope of her responsibilities include sales and end-to-end relationship management for both Systems Integrator Solutions and Energy Solutions verticals, multi-billion dollar income statement ownership for these segments as well as for AT&T's sourcing business, and customer service operations for complex managed services across AT&T Business. Since 2000, Ms. Chow has held a variety of leadership positions at AT&T, including Senior Vice President – Global Solutions and Sales Operations and Senior Vice President – Premier Client Group.

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

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

Director Qualifications: Ms. Chow was appointed to the Company's Board in March 2016. The Company believes that Ms. Chow's strong sales and relationship

management background as well as her extensive distribution and global leadership experience provide valuable insight and skills to our Board of Directors. Ms. Chow's significant involvement with various other entities throughout her career provides her with wide-ranging perspective and experience in the areas of management, operations, and marketing.

Clayton M. Christensen, 65

Independent Director
Director Since: March 2004
Committees: None
Other Directorships: Tata Consultancy Services (NYSE) and Amdocs (NASDAQ)

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

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

Michael Fung, 67

Independent Director
Director Since: July 2012
Committees: Chair of the Audit Committee and a member of all other standing committees
Other Directorships: 99 Cents Only Stores, LLC, and Floor and Décor

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

Director Qualifications: Mr. Fung's extensive financial background and expertise, as well as international leadership experience, provides him with wide-ranging knowledge and

experience. His professional involvement in various capacities during his career enabled Mr. Fung to gain experience in many areas including auditing, internal control, financial planning, organizational development, strategic planning, and corporate governance. Mr. Fung's substantial financial knowledge and leadership experience qualify him to be an audit committee financial expert and enable him to make valuable contributions to our Board of Directors and on the Audit Committee.

Dennis G. Heiner, 74

Lead Independent Director
Director Since: January 1997
Committees: Chair of the Nominating Committee and member of all other standing committees
Other Directorships: None

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

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

Donald J. McNamara, 64

Independent Director
Director Since: June 1999
Committees: None
Other Directorships: Crow Holdings and Enlivant

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

Director Qualifications: Mr. McNamara's experience in private equity provides him with considerable expertise in financial and strategic matters. This expertise enables him to make valuable contributions to the Company in the areas of raising capital, capital deployment, acquisitions and dispositions, and other major financial decisions. Mr. McNamara's involvement with other entities throughout his career provides him with wide-ranging perspective and experience in the areas of management, operations, and strategy. In addition, Mr. McNamara has a meaningful understanding of our operations having served on our Board of Directors for more than 15 years, enabling him to make contributions to our strategy, innovation, and long-range plans.

Joel C. Peterson, 70

Director
Director Since: May 1997
Committees: None
Other Directorships: Chairman of the Board at JetBlue Airways (NASDAQ), and Director at Packsize

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

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

E. Kay Stepp, 72

Independent Director
Director Since: May 1997
Committees: Chair of the Organization and Compensation Committee and member of all other standing committees
Other Directorships: None

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

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

Robert A. Whitman, 64

Chairman of the Board and Chief Executive Officer
Director Since: May 1997
Committees: None
Other Directorships: Charles River Associates (NASDAQ), and Greystar Real Estate

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

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

Corporate Governance

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

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

Board Oversight

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

Affirmative Determination Regarding Board Independence

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

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

Board Leadership Structure

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

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

As CEO, Mr. Whitman is directly accountable to our Board and, through our Board, to our shareholders. His role as Chairman is both counterbalanced and enhanced by the overall independence of the Board and independent leadership

provided by our Lead Independent Director, Mr. Heiner. Mr. Heiner, as Chairman of our Nominating and Governance Committee, was designated as the Lead Independent Director by our Board. Our independent directors may elect another independent director as Lead Independent Director at any time. Mr. Whitman and Mr. Heiner meet and speak frequently regarding our Board and our Company.

The Board of Director's Role in Risk Management Oversight

The Audit Committee of our Board of Directors has responsibility for the oversight of risk management, while our management team is responsible for the day-to-day risk management process. With the oversight of the Board of Directors, management has developed an enterprise risk management strategy, whereby management identifies the top individual risks that we face with respect to our business, operations, strategy, and other factors that were recognized after discussions with key business and functional leaders and reviews of external information. In addition to evaluating various key risks, management identifies ways to manage and mitigate such risks. During fiscal 2016, management met with the Audit Committee to discuss the identified risks and the efforts that are designed to mitigate and manage these risks. These risks are allocated to the various committees of the Board of Directors to allow the committees to examine a particular risk in detail and assess its potential impact to our operations. For example, the Audit Committee reviews compliance and risk management processes and practices related to accounting and financial reporting matters; the Nominating Committee reviews the risks related to succession planning and the independence of the Board of Directors; and the Organization and Compensation Committee (the Compensation Committee) reviews the risks related to our various compensation plans. In the event that a committee is allocated responsibility for examining and analyzing a specific risk, such committee reports on the relevant risk exposure during its regular reports to the entire Board of Directors.

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

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

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

BOARD OF DIRECTOR MEETINGS AND COMMITTEES

Overview

During the fiscal year ended August 31, 2017, there were four meetings held by our Board of Directors. All of the members of our Board of Directors were able to attend at least 75 percent of the Board and committee meetings for which they were entitled to participate. Although we encourage Board members to attend our Annual Meeting, we do not have a formal policy regarding director attendance at our annual shareholder meetings. Seven members of our Board of Directors attended our most recent annual meeting of shareholders, which was held in January 2017.

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

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

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

Committee Chairperson
Committee Member

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

The Audit Committee

The Audit Committee functions on behalf of the Board of Directors in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the Exchange Act), and met eight times during fiscal 2017. The Audit Committee's primary functions are to:

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

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

The Nominating Committee

The Corporate Governance and Nominating Committee (the Nominating Committee) is chaired by Mr. Heiner and met four times during the fiscal year ended August 31, 2017. The primary purposes of the Nominating Committee are to:

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

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

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

The Organization and Compensation Committee

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

The Compensation Committee is chaired by Ms. Stepp and regularly met without any employees present to discuss executive compensation matters, including Mr. Whitman's compensation package, during fiscal 2017. The primary functions of the Compensation Committee are to:

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

The Compensation Committee met six times during fiscal 2017. All of the Compensation Committee members are "independent" as defined under the NYSE enhanced independence standards. As described below in "Compensation Committee Interlocks and Insider Participation" and "Certain Relationships and Related Transactions," none of the Compensation Committee members had any material business relationships with the Company.

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

Compensation Consultants

Within its charter, the Compensation Committee has the authority to engage the services of outside advisors, experts, and others to assist the committee. During fiscal 2017, the Compensation Committee engaged Mercer as compensation consultants. These compensation consultants provided information to the Compensation Committee regarding stock-based compensation plans, executive compensation, and director compensation that were used as components of the overall mix of information used to evaluate our compensation plans. The Compensation Committee reviewed its relationship with Mercer and has determined that its work has not raised any conflicts of interest. Further information regarding the role of these compensation consultants can be found in the Compensation Discussion and Analysis.

Compensation Committee Interlocks and Insider Participation

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

Director Nomination Process

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

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

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

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

Shareholder Nominations

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

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

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

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

Contractual Rights of Knowledge Capital to Designate Nominees

Under the Amended and Restated Shareholders Agreement dated March 8, 2005, between Knowledge Capital and the Company, we are obligated to nominate one designee of Knowledge Capital for election to the Board of Directors. Donald J. McNamara, a current member of our Board of Directors, is the designee of Knowledge Capital pursuant to this

agreement. Upon the mutual agreement of the Company and Knowledge Capital, Robert A. Whitman, the Chairman of the Board of Directors, does not currently serve as a designee of Knowledge Capital. To the extent requested by Knowledge Capital, we are obligated at each meeting of our shareholders at which directors are elected to cause the Knowledge Capital designee to be nominated for election and will solicit proxies in favor of such nominee and vote all management proxies in favor of such nominee except for proxies that specifically are voted to the contrary.

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

Communications with Directors

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

Fiscal 2017 Director Compensation

Director compensation is set by the Organization and Compensation Committee and approved by the Board of Directors. The Company's management does not play a role in setting Board Compensation. We compensate members of the Board of Directors using a combination of cash and equity-based compensation. Robert A. Whitman, our Chairman of the Board of Directors and CEO, does not currently receive compensation for his service as a director. The compensation received by Mr. Whitman for his role as Chairman and CEO is shown in the Fiscal 2017 Summary Compensation Table, contained in the Executive Compensation section of this proxy statement.

In fiscal 2017, the other directors were paid the following amounts for services provided:

Compensation Element	Amount
Annual restricted stock award	$75,000
Annual cash retainer	40,000
Committee retainer, paid for service on each committee	10,000
Lead independent director annual retainer	30,000
Audit committee chairperson annual retainer	10,000
Compensation committee chairperson annual retainer	10,000
Nominating committee chairperson annual retainer	5,000

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

Fiscal 2017 Director Compensation Table

A	B	C	D	E	F	G	H
Name	Fees earned or paid in cash ($)	Stock awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in pension value and nonqualified deferred compensation earnings ($)	All other Comp ($)	Total ($)
Anne H. Chow	70,000	75,000	—	—	—	—	145,000
Clayton M. Christensen	40,000	75,000	—	—	—	—	115,000
Michael Fung	80,000	75,000	—	—	—	—	155,000
Dennis G. Heiner	105,000	75,000	—	—	—	—	180,000
Joel C. Peterson	40,000	75,000	—	—	—	—	115,000
E. Kay Stepp	80,000	75,000	—	—	—	—	155,000
Donald J. McNamara	40,000	75,000	—	—	—	—	115,000

Amounts reported in column C represent the fair value of stock-based compensation granted to each non-employee member of the Board of Directors. All Board of Director restricted stock awards are made annually in January following the Annual Meeting, and have one-year vesting terms. In January 2017, each non-employee member of the Board received a restricted share award of 4,262 shares that had a fair value of $75,000. The fair value of the stock awards presented in column C was based on a share price of $17.60 per share, which was the closing price of our common stock on the date that the award was granted. At August 31, 2017, the directors held a total of 29,834 shares of restricted stock. For further information on the calculation used to value the stock awards presented in Column C, refer to Note 11 to our Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended August 31, 2017 as filed with the SEC on November 14, 2017.

Fiscal 2018 Director Compensation

Based on information and recommendations from our compensation consultants, the following Director compensation changes were approved by the Board for fiscal 2018:

- The annual restricted stock award will be increased to $100,000 per year. The restricted shares will continue to vest after one year of service.
- The retainer for the Audit Committee Chairperson will increase to $15,000 per year.

All other Director compensation retainers and amounts will remain the same as in fiscal 2017.

PRINCIPAL HOLDERS OF VOTING SECURITIES

The following table sets forth information as of October 31, 2017, with respect to the beneficial ownership of shares of Common Stock by each person known by us to be the beneficial owner of more than five percent of our Common Stock, by each director, by the Named Executive Officers, and by all directors and officers as a group. Unless noted otherwise, each person named has sole voting and investment power with respect to the shares indicated. In computing the number of shares of Common Stock beneficially owned by a person or entity and the percentage ownership of that person or entity, we deemed outstanding shares of Common Stock subject to options held by that person or entity that are currently exercisable or exercisable within 60 days of October 31, 2017. We did not deem these shares outstanding, however, for the purpose of computing the percentage ownership of any other person or entity. The percentages set forth below have been computed without taking into account treasury shares held by us and are based on 13,702,759 shares of Common Stock outstanding as of October 31, 2017. At the date of this report, there were no shares of Series A or B Preferred Stock outstanding.

BENEFICIAL OWNERSHIP

As of October 31, 2017	Number of Common Shares	Percentage of Class
Donald J. McNamara[(1)(2)(4)] c/o Franklin Covey Co. 2200 West Parkway Blvd. Salt Lake City, UT 84119-2331	3,217,483	23.5%
Knowledge Capital Investment Group[(1)] 3899 Maple Ave., Suite 300 Dallas, TX 75219	2,812,805	20.5%
Dimensional Fund Advisors, Inc.[(3)] 1299 Ocean Avenue Santa Monica, CA 90401	1,062,480	7.8%
Pembroke Management, LTD[(3)] 1002 Sherbrooke Street West Suite 1700 Montreal, Canada A8 H3A 354	963,872	7.0%
Blackrock, Inc.[(3)] 55 East 52nd Street New York, NY 10055	782,005	5.7%
Robert A. Whitman[(5)]	662,198	4.6%
Stephen D. Young[(5)]	274,419	1.9%
Joel C. Peterson[(4)]	221,018	1.6%
M. Sean Covey	205,644	1.5%
Dennis G. Heiner[(4)]	58,201	*%
E. Kay Stepp[(4)]	49,960	*%
Clayton M. Christensen[(4)]	20,992	*%
Michael Fung[(4)]	20,792	*%
Colleen Dom	15,027	*%
C. Todd Davis	12,615	*%
Scott J. Miller	4,255	*%
Paul S. Walker	3,068	*%
Anne H. Chow[(4)]	—	—%
All directors and executive officers as a group (14 persons)[(4)(5)]	4,765,672	33.4%

(1) Mr. McNamara, who is a director of the Company, is a principal of The Hampstead Group, the private investment firm that sponsors Knowledge Capital, and therefore may be deemed the beneficial owner of the Common Stock held by Knowledge Capital. Mr. McNamara disclaims beneficial ownership of the Common Stock held by Knowledge Capital.

(2) The share amounts include those held for Donald J. McNamara by the Donald J. and Joan P. McNamara Foundation with respect to 23,000 shares. Mr. McNamara is the trustee of his foundation, having sole voting and dispositive control of all shares held by the foundation, and may be deemed to have beneficial ownership of such shares.

(3) Information for Dimensional Fund Advisors Inc., Pembroke Management LTD, and Blackrock Inc. is provided as of September 30, 2017, the filing of their last 13F Reports.

(4) The share amounts indicated exclude restricted stock awards currently held by the following persons in the following amounts: Anne H. Chow, 4,262 shares; Clayton M. Christensen, 4,262 shares; Michael Fung, 4,262 shares; Dennis G. Heiner, 4,262 shares; Donald J. McNamara, 4,262 shares; Joel C. Peterson, 4,262 shares; E. Kay Stepp, 4,262 shares; and all directors as a group, 29,834 shares. These restricted stock awards do not have voting power or dividend rights until the shares actually vest to members of the Board of Directors.

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

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our Board and executive officers, and persons who own more than 10 percent of our common stock, to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of the Common Stock and other securities which are derivative of the Common Stock. Executive officers, directors and holders of more than 10 percent of our Common Stock are required by SEC regulations to furnish us with copies of all such reports they file. Based upon a review of the copies of such forms received by us and information furnished by the persons named above, we believe that all reports were filed on a timely basis during fiscal 2017.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Review and Approval of Related Party Transactions

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

Related Party Transactions

In fiscal 2009, we acquired CoveyLink Worldwide, LLC (CoveyLink). CoveyLink conducts seminars and training courses and provides consulting based upon the book *The Speed of Trust* by Stephen M.R. Covey, who is the brother of M. Sean Covey. Prior to the acquisition date, CoveyLink had granted us a non-exclusive license related to *The Speed of Trust* book and related training courses for which we paid CoveyLink specified royalties. As part of the CoveyLink acquisition, an amended and restated license of intellectual property was signed that granted us an exclusive, perpetual, worldwide, transferable, royalty-bearing license to use, reproduce, display, distribute, sell, prepare derivative works of, and perform the licensed material in any format or medium and through any market or distribution channel. The amount expensed for these royalties due to Stephen M.R. Covey under the amended and restated license agreement totaled $1.5 million during the fiscal year ended August 31, 2017. In connection with the CoveyLink acquisition, we also signed a speaking services agreement that pays Stephen M.R. Covey a portion of the speaking revenues received for his presentations. During fiscal 2017, we expensed $1.2 million for payment on these presentations.

We pay M. Sean Covey, who is also an officer of the Company, a percentage of the royalty proceeds received from the sales of certain books authored by him in addition to his salary. During the fiscal year ended August 31, 2017, we expensed $0.2 million for these royalty payments.

In fiscal 2017, we employed Joshua M.R. Covey, who is the brother of M. Sean Covey, and paid him compensation totaling $189,397. We also employed Dr. John Covey, an uncle of M. Sean Covey, and paid him compensation totaling $132,505 during fiscal 2017.

We employ Curtis Bateman, who is Shawn D. Moon's brother-in-law, and paid him compensation totaling $333,657 during fiscal 2017. Mr. Bateman also received a long-term incentive equity award with a fair value of $25,000 during fiscal 2017, or 1,385 shares. During fiscal 2017, 417 shares of this award vested to Mr. Bateman. In fiscal 2017 we paid Curtis Garbett, who is also a brother-in-law to Shawn D. Moon, compensation totaling $224,063.

During fiscal 2017 we employed Doug Puzey, who is an uncle of Paul S. Walker, and paid him compensation totaling $397,038.

We employ John Harding, who is the brother-in-law of Stephen D. Young, and paid him compensation totaling $345,074 in fiscal 2017. Mr. Harding received a long-term incentive equity award with a fair value of $50,000 during fiscal 2017, or 2,770 shares. During fiscal 2017, 831 of these shares vested to Mr. Harding.

Robert A. Whitman, our Chairman of the Board of Directors and CEO, beneficially owns a partnership interest in Knowledge Capital. Donald J. McNamara, a member of our Board of Directors, also beneficially owns a partnership interest in Knowledge Capital. Knowledge Capital beneficially owns 2,812,805 shares of our Common Stock at October 31, 2017.

During fiscal 2017, we acquired the license rights for certain intellectual property owned by Higher Moment, LLC for $0.8 million. The intellectual property is in part based on works authored and developed by Dr. Clayton Christensen, a well-known author and lecturer, who is a member of our Board of Directors. However, Dr. Christensen does not have an ownership interest in Higher Moment, LLC. The initial license period is five years and the agreement may be renewed for successive five-year periods for $0.8 million at each renewal date.

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

COMPENSATION DISCUSSION AND ANALYSIS

Our Compensation Committee, composed of four independent directors, determined the fiscal 2017 compensation for the Named Executive Officers (NEOs) identified below.

- **Robert A. Whitman** – Chairman and Chief Executive Officer (CEO)
- **Stephen D. Young** – Chief Financial Officer (CFO)
- **M. Sean Covey** – Executive Vice President for Global Solutions and Partnerships
- **Shawn D. Moon** – Former Executive Vice President for Strategic Markets
- **Paul S. Walker** – Executive Vice President for Global Sales and Delivery

The material elements of our executive compensation programs and policies, including program objectives, reasons for paying each element and the specific amounts of our NEOs' compensation for fiscal 2017, are explained below. Following this description, you will find a series of tables containing more specific information about our NEOs' compensation. We begin with an executive summary to provide a framework for analysis of this information.

Executive Summary

Overview

The Company's multi-year transition from selling engagement-by-engagement training and performance solutions to clients to selling training and performance solutions delivered through a software as a service (SaaS) business model, continued in fiscal 2017. Our new SaaS business model: (1) provides clients with unlimited access to Franklin Covey's entire collection of best-in-class content for a defined population; (2) can be delivered through an almost unlimited combination of delivery modalities; (3) includes the services of an implementation specialist to help clients design "impact journeys" to help them achieve their performance objectives; and (4) at a price per population trained that is equivalent to that typically charged in the industry for just a single course in a single delivery modality. We anticipated that this value proposition would be extremely compelling to our customers. We also expected that it would be disruptive both to our historical course-by-course business model, and to our financial reporting, since the recognition of a significant portion of the value of contracts sold in a given period would be deferred into future periods, rather than being recognized in the current period.

Fiscal 2017 Performance

We believe that the Company is now at an inflection point where the magnitude and significant growth rate of our subscription business will increasingly more than offset the ongoing declines in our now, much smaller, historical channels. As a result, we expect both our reported and economic revenue growth to accelerate in fiscal 2018 and beyond.

Subscription and subscription-related revenue already accounts for more than 70% of the revenue and deferred revenue in our English speaking direct offices, and is expected to increase to approximately 80-85% in the coming years. We also expect to launch our All Access Pass subscription offering (AAP) in our offices in China and Japan this coming year. In addition, more than 80% of our Education business is already subscription or subscription-related. Our fiscal 2017 reported revenue, reported Adjusted EBITDA[1] and reported operating income all showed significant and anticipated declines as a result of the change in our business model, and the related accounting. However, we are pleased that the value proposition of our AAP offering is driving a higher initial sale, a higher rate of revenue renewal, and more add-on sales of services, resulting in a significantly higher lifetime value of our customers. This higher lifetime customer value is driving accelerated growth for our subscription model.

Key Compensation Decisions and Actions for Fiscal 2017

The Compensation Committee made the following key executive compensation decisions and took the following key executive compensation actions for fiscal 2017:

- **Salaries** – Fiscal 2017 salaries for our CEO and other NEOs remained at the same levels as in fiscal 2016, consistent with the Compensation Committee's desire to gradually increase the relative proportion of variable pay for each of our NEOs.
- **Annual Incentive Payments** – Consistent with prior years, the Compensation Committee approved an annual incentive plan, which provided for potential cash incentives based on (1) the annual financial performance of the Company, based on reported Adjusted EBITDA, plus the amount of Adjusted EBITDA contribution imbedded in the change in deferred revenue (70% of payout) and (2) executive team performance objectives (30% of payout). At the time this financial performance objective was set for fiscal 2017, the Company had not yet begun to offer extended term or multi-year agreements. As a consequence, the Company's reported Adjusted EBITDA (plus the amount of Adjusted EBITDA contribution imbedded in the change in deferred revenue) was defined to include only that portion of deferred revenue that had been both contracted and billed in the year, and excluded deferred revenue which had been contracted, but not yet billed. However, during the year, we began offering clients the opportunity to enter into multi-year agreements, a portion of which would be billed in future periods. Although the amount of revenue from these contracts that would be recognized in future periods was equivalent to what it would have been had that portion of revenue been invoiced up front, this unbilled deferred revenue did not meet the definition of deferred revenue on which the compensation performance objectives were set, and, as a result, the NEOs did not receive compensation for achievement of the financial performance objective under the annual incentive plan. However, the metric-based executive team performance objectives were achieved, resulting in an approximately 30% payout of total for each NEO. In addition, the Company provided an incentive opportunity and payout to the NEOs in fiscal 2017 in respect to recognition of that portion of fiscal 2016 revenue which was deferred into fiscal 2017 on which, because of the structure of the fiscal 2017 objectives, the NEO's could never receive payment. Further details of our annual incentive plan for fiscal 2017 are explained in the section below entitled "Fiscal 2017 Annual Performance-Based Variable Pay."
- **Long-Term Incentive Awards** – Consistent with prior years, the Compensation Committee granted to each of the NEOs, performance-based restricted stock units (RSUs) that may be earned based on the achievement of six individual vesting conditions that are divided into two performance measures: (1) trailing four-quarter LTIP Adjusted EBITDA and (2) trailing four-quarter gross AAP sales. LTIP Adjusted EBITDA equals Adjusted EBITDA plus the change in deferred revenue (less certain costs), and excludes the impact of foreign exchange. As of August 31, 2017, each of the NEOs had vested in all three tranches of 18,338 shares related to AAP gross sales and the first tranche of 42,789 shares

[1] Throughout this section, we refer to Adjusted EBITDA, a non-GAAP financial measure, which we believe is relevant to understanding our results of operations and compensation performance measures. See Appendix B attached to this proxy statement for a discussion of Adjusted EBITDA and a reconciliation of Adjusted EBITDA to GAAP Net Income (Loss) for fiscal years 2012 to 2017.

related to Adjusted EBITDA. All other tranches of this award remain unvested. Further details of the performance-based RSUs granted in fiscal 2017 are explained in the section below entitled "Equity Compensation."

Shareholder-Minded Compensation Practices

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

- **Clawback Policy** – The Board is empowered to require reimbursement of any annual incentive payment or long-term incentive payment made to an executive officer where: (1) the payment was predicated upon achieving financial results that were subsequently the subject of a substantial restatement of Company financial statements filed with the SEC; (2) the Board determines the executive engaged in misconduct that caused the need for the substantial restatement; and (3) a lower payment would have been made to the executive based upon the restated financial results. In such instance, the Company will seek to recover from the individual executive the amount by which the individual executive's incentive payments for the relevant period exceeded the lower payment that would have been made based on the restated financial results.
- **Hedging Policy** – Our directors and executive officers are prohibited from trading in publicly traded options, puts, calls or other derivative instruments related to Franklin Covey stock or debt. All other employees are discouraged from engaging in hedging transactions related to Company stock.
- **No Repricing Without Shareholder Approval** – Our equity plans expressly prohibit option repricing without shareholder approval.
- **No Excise Tax Gross-ups** – Excise tax gross-ups for our NEOs are prohibited.
- **Stock Ownership Guidelines** – Our stock ownership guidelines require an ownership threshold of five times base salary for our CEO, three times base salary for our CFO and two times base salary for our other NEOs, with all NEOs targeted to reach these applicable thresholds within five years of the policy becoming applicable to the particular NEO and from the date each NEO first has shares awarded as part of their annual compensation. Unvested share awards are included in calculating the required threshold. NEOs are prohibited from selling any shares until after these guidelines are met. The Compensation Committee annually reviews executives' progress toward meeting these guidelines. Currently, the stock ownership of each of our CEO, our CFO and Mr. Covey meets or exceeds the applicable thresholds. Mr. Walker is expected to meet his ownership threshold within the allotted time, and Mr. Moon has departed from the Company. In addition, a Board policy requires that each director who is not an employee of the Company must maintain beneficial ownership of the Company's common stock and/or fully vested RSUs equal in value to at least four times the Board cash retainer at all times during his or her tenure on the Board. New directors have up to three years of service on the Board in which to meet this ownership requirement.
- **No Significant Perquisites** – No "corporate perquisites" such as country club memberships or automobile allowances are provided to our NEOs.
- **No Employment Agreements for NEOs and Limited Change-in-Control Benefits** – The Company does not enter into employment agreements with its NEOs, and has a change-in-control policy for its NEOs that provide for a potential change-in-control severance benefit of only one times total targeted annual cash compensation without any excise tax gross-ups. Our NEOs are subject to the same general (non-change-in-control) severance policies as for all Company employees.
- **Pay for Performance** – The performance-based awards we granted in fiscal 2017 were designed to incentivize even greater achievement levels in the Company's future results of operations, and payout only if these operating improvements are achieved.
- **Efficient Share Utilization** – The Compensation Committee believes that the Company's historical utilization of shares for compensation purposes has been relatively low and is expected to remain relatively low in the future.

Consideration of 2017 "Say-On-Pay" Voting Results

At our 2017 Annual Meeting, we held our annual advisory "say-on-pay" vote with respect to the compensation of our NEOs. Over 99% of the votes cast were in favor of the compensation of our NEOs. Our Board of Directors and the Compensation Committee considered and discussed this shareholder vote result during fiscal 2017 and, determined not to make significant changes to the existing program for fiscal 2017 specifically as a result of the 2017 say-on-pay vote. The Compensation Committee will, from time to time, explore various executive pay and corporate governance changes to the extent appropriate in an effort to keep our executive compensation program aligned with best practices in our competitive market and the company's particular circumstances, and expects to consider shareholder views in so doing. The Compensation Committee intends to continue holding say-on-pay votes with shareholders on an annual basis, and the next such vote is scheduled for the 2018 Annual Meeting. At the 2018 Annual Meeting, our shareholders once again have the opportunity to indicate, on an advisory basis, their preference on how frequently the "say-on-pay" vote should occur. See Proposal No. 3 for further details about this year's "say-on-frequency" vote, including our Board's recommendation to vote for "every one year" frequency for the "say-on-pay" vote.

Executive Transition

On September 13, 2017, we announced that Mr. Moon will be leaving his full-time role with the Company. Mr. Moon will continue to be involved with the Company on a part-time consulting basis in connection with the implementation of certain key initiatives, including speaking at key thought leadership events, helping to launch new books, and other activities.

Guiding Philosophy, Principles and Objectives of Our Executive Compensation Program

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

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

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

- *Reflect Performance:* To align compensation with performance over both the short and long term, we establish multi-year objectives for the Company relating both to growth and to the achievement of key strategic objectives. Annual performance targets are established in the context of these multi-year objectives, and for fiscal 2017 consisted primarily of goals for growth in revenue, Adjusted EBITDA, and deferred revenue. NEO performance pay levels for the year are generally determined by assessing the Company's level of achievement compared to these objectives. Since our NEOs have responsibility for our overall Company performance against these objectives, their compensation can vary, and has varied, significantly from year to year.
- *Encourage Long-Term Company-Wide Focus:* We believe that compensation should encourage and reward both the achievement of annual objectives and longer-term Company-wide performance improvement. We utilize a performance-based RSU program to focus NEO efforts on long-term growth in shareholder value. We believe that paying a significant portion of variable compensation to our NEOs in the form of equity-based compensation that vests over a period of time, based on performance, also encourages a long-term, Company-wide focus. Value is realized through delivering results today, but in a way that builds the foundation for delivering even stronger results in the future. We believe that

this practice will lead to our NEOs having a considerable investment in our shares over time. This investment in turn advances both a culture of teamwork and partnership, and encourages a stewardship mentality for the Company among our key leaders.

- *Attract and Retain Talent:* We believe that we have a deep understanding of the importance of hiring and retaining the best people. Retention of talented employees is critical to successfully executing our business strategy. We seek to be what we refer to internally as "the workplace of choice for achievers with heart." Successful execution of our business strategy requires that our management team be in place, engaged and focusing their best energy and talents on achieving our business goals and strategies. For us, compensation is not just an overhead expense; it is a key component of the investments we make and costs we incur to generate our revenues. For our delivery consultants, a portion of this compensation cost is reflected as cost of goods sold. In determining the compensation of our NEOs and in reviewing the effectiveness of our compensation program for attracting and retaining talent, the Compensation Committee generally considers the competitive market for talent. We believe that our compensation programs should enable us to attract and retain talented people, and incentivize them to contribute their finest talents to achieving our objectives. We are pleased that our executive officers have an average tenure of over 22 years with our Company (ranging from 17 years on the low-end to 32 years on the high-end).

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

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

Our compensation framework seeks to achieve balance between risk and reward. Our executive team is involved in identifying relevant risks and performance metrics for our business. We create a cadence of accountability within our organization through continuous evaluation and measurement of performance compared to what we refer to internally as our "Wildly Important Goals" of achieving profitable growth, meeting strategic objectives and building a winning culture. Based on the considerations discussed above, in connection with its compensation decisions for fiscal 2017, our Compensation Committee concluded that our Company's compensation program and policies are structured such that they do not encourage imprudent risk-taking, and that there are no risks arising from such programs and policies that are reasonably likely to have a material adverse effect on the Company.

2017 Executive Compensation Program

Our fiscal 2017 executive compensation program incorporated five main elements:

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

Analysis of Fiscal 2017 Compensation Decisions and Actions

Fiscal 2017 Executive Compensation Determination Process

The Compensation Committee determined the form and amount of fixed compensation and established specific performance metrics for determining year-end variable compensation to be awarded to our NEOs for fiscal 2017. In so doing, our Compensation Committee considered (1) our financial performance over the prior year and past several years and expectations for fiscal 2017, (2) the individual and collective performance of our NEOs relative to the achievement of metric-based strategic objectives related to growth in our key practice areas, and (3) in connection with our goal of attracting and retaining the best talent, a general understanding of market compensation practices. In particular, the Compensation Committee reviewed the following financial metrics and related growth rates in connection with making its key compensation decisions:

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

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

Market Assessment: Our Compensation Committee evaluates our existing NEO compensation program against market practices. In so doing, the Committee asked Mercer, the Committee's current compensation consulting firm, to assess our compensation program for the NEOs, identify considerations that could inform compensation decisions for fiscal 2017 and advise as to current market practices, trends and plan designs related to executive compensation. In connection with its work, Mercer reviewed data from its own research and databases. This information was used primarily as supplemental data to assist the Compensation Committee in understanding current market practices related to executive compensation, and not for specific or mathematical benchmarking. In its assessment of our compensation program for our NEOs, Mercer confirmed that the amounts of compensation are consistent with market compensation for similar-sized and comparable professional services and content companies, and that the program has been aligned with and is sensitive to corporate performance. Further, Mercer advised that the compensation program contains features that reinforce significant alignment with shareholders and a long-term focus, and blends subjective assessment and policies in a way that addresses known and perceived risks.

The Compensation Committee has assessed Mercer's independence, as required under NYSE rules. The Compensation Committee has also considered and assessed all relevant factors, including those required by the SEC that could give rise to a potential conflict of interest with respect to Mercer during fiscal 2017. Based on this review, the Compensation Committee did not identify any conflicts of interest raised by the work performed by Mercer.

In making executive compensation decisions for fiscal 2017, the Compensation Committee considered our business objectives and how executive compensation could and should drive desired performance toward achieving them. The Compensation Committee also took into consideration the specific business opportunities and challenges facing the Company as compared to those of known competitors and similar sized companies. However, the Compensation Committee did not specifically benchmark elements of compensation when making its fiscal 2017 executive compensation decisions. Finally, the Compensation Committee considered the past performance of our NEOs, including performance against previous individual and corporate objectives, expected contribution to future corporate objectives and whether the NEOs' performance was achieved consistent with our governing values. The Compensation Committee made final judgments regarding the appropriate compensation level for each NEO based on these additional inputs.

The following peer group was again adopted for fiscal 2017. These companies were selected based on size, industry and types of professional services offered. Annual revenues for this peer group (which is one of several factors considered when selecting a peer group) range from $180 million to $805 million. Since our fiscal 2017 revenues totaled $185.3 million,

we believe this peer group is appropriate for comparison purposes. This peer group is one of many tools used by the Compensation Committee for assessing executive compensation; we do not specifically benchmark pay to that of the peer group. The peer group companies for fiscal 2017 were:

- The Advisory Board Company
- Callidus Software Inc.
- CRA International Inc.
- Exponent Inc.
- Forrester Research Inc.
- GP Strategies Corporation
- The Hackett Group, Inc.
- Healthstream, Inc.
- Huron Consulting Group Inc.
- Information Services Group, Inc.
- RCM Technologies, Inc.
- Resources Connection Inc.

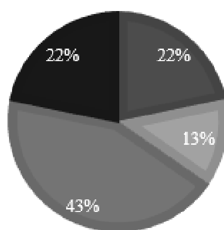
As compared to the peer group for fiscal 2016, this peer group added CRA International Inc. and Forrester Research Inc. and eliminated CEB Inc.

Decisions on Key Elements of Fiscal 2017 Executive Compensation

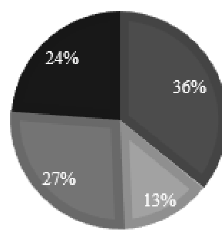
Total Compensation: In addition to the specific elements of compensation discussed below, we consider the total compensation provided to our NEOs and establish annual targets for them. Based on the key factors described above, the Compensation Committee established fiscal 2017 total compensation targets of approximately $2.4 million for our CEO and approximately $881,000, on average, for our other NEOs, in each case assuming achievement of targeted results under our short and long-term performance-based variable pay plans. The calculation excludes book royalty payments made to Mr. Covey as noted in the Fiscal 2017 Summary Compensation Table.

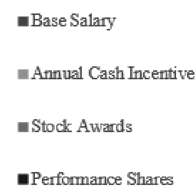
Total Compensation Mix: The following charts identify the fiscal 2017 target compensation mix for our CEO and our other NEOs.

2017 Target Compensation Mix (CEO)



2017 Target Compensation Mix (Other NEOs)





Base Salaries

The Company pays a base salary to each of our NEOs to provide a base level of fixed income for services rendered. The Compensation Committee annually reviews market data and may increase base salaries in the future to remain at competitive levels. However, the Committee continues to emphasize performance-based variable pay as the means by which NEOs may increase their total compensation. Consistent with its desire to gradually increase the relative proportion of variable pay, in fiscal 2017, the Compensation Committee decided not to change the base salaries for our CEO and other NEOs from their base salaries for fiscal 2016.

Annual Performance-Based Variable Pay

Fiscal 2017 Performance-Based Cash Variable Pay Plan: The Company provides annual performance-based cash incentive opportunities to link our NEOs to specific financial and strategic goals established by the Compensation Committee. In fiscal 2017, the Performance-Based Cash Variable Pay Plan (STIP) for our NEOs included two components for the payout calculation: (1) the annual financial performance of the Company (70% of payout) and (2) metric-based executive team performance objectives (30% of payout). The target variable performance payout opportunities for our NEOs were determined by the Compensation Committee based on the consideration described above as follows: $525,000 for Mr. Whitman; $235,000 for Mr. Young and $200,000 for each of Mr. Covey, Mr. Moon and Mr. Walker. The Performance-Based Cash Variable Pay Plan reinforces our strong pay-for-performance philosophy and rewards the achievement of specific stretch business and financial goals achieved during the fiscal year.

Financial Performance Component: The financial performance threshold necessary for NEOs to earn 100% of the financial performance component of their target variable performance payout opportunity in fiscal 2017 was $38.2 million of STIP Adjusted EBITDA, which equals Adjusted EBITDA plus the change in deferred revenue (less certain costs), and excludes the impact of foreign exchange on the calculation of short-term incentive pay. As explained earlier, the formula utilized for this financial objective included only that portion of deferred revenue which was billed. It did not include unbilled deferred revenue because at the time the target was set, the Company did not anticipate doing multi-year agreements.

In fiscal 2017, Adjusted EBITDA decreased from $26.9 million in fiscal 2016 to $7.7 million, a decrease of $19.2 million (-71.4%) (excluding the $19.9 million increase in deferred billed revenue during the year). Accordingly, excluding the substantial portion of deferred revenue which was unbilled, the Company did not achieve the threshold of financial performance as precisely defined, and no payout was made for the financial performance component of the fiscal 2017 annual incentive. As further described below, our NEOs each received a payout of approximately 30% of targeted annual incentive pay for the metric-based executive team performance objectives, based on the degree of achievement of the specified strategic objectives.

The following table shows the potential payouts to our NEOs based on the degree of attainment of the fiscal 2017 STIP Adjusted EBITDA. As discussed above, no amounts were paid based on these metrics for fiscal 2017.

STIP Adjusted EBITDA less than $31.3 million and not meeting Performance Objectives	Pro-rata share of 70% financial performance metric for achieving STIP Adjusted EBITDA as calculated if > $31.3 million and < $38.2 million and meeting Performance Objectives	Targeted STIP Adjusted EBITDA of $38.2 million and meeting Performance Objectives	Pro-rata share of total target opportunity for achieving STIP Adjusted EBITDA as calculated if > $38.2 million and < $43.6 million in and meeting Performance Objectives	STIP Adjusted EBITDA equal to or greater than $43.6 million in 2017 and meeting Performance Objectives
0%	Pro-rata calculation	100%	Pro-rata calculation	200%

Performance Objectives Component: Payout of the executive team performance objectives component of STIP in fiscal 2017 was based on achievement of key strategic goals established by the Compensation Committee at the beginning of fiscal 2017. While these goals were strategic in nature, and disclosing specifics could cause potential competitive harm, they were objectives related to the transition to a SaaS business model as well as recurring AAP revenue. Each key strategic goal was individually weighted based on difficulty and on the effort required to achieve the goal, with most goals weighted between 30% and 40% of this portion of the short-term variable pay award. We believe that the goals established for each NEO were "stretch" goals tied to achieving our annual plan in support of the Company's long-term strategy of building its SaaS business. Each goal was typically linked to what we refer to internally as our "Wildly Important Goals" that are cascaded throughout the Company, and progress toward each of these goals was tracked regularly. For fiscal 2017, the performance objectives component of STIP was met. Accordingly, the NEOs received the targeted cash compensation related to executive team performance objectives, which was 30% of the total targeted STIP.

Fiscal 2016 Performance-Based Variable Pay Plan: As described in our proxy statement for fiscal 2016, the Company's decision to offer the AAP in fiscal 2016 occurred after the NEOs' compensation targets for the fiscal 2016 STIP were set. As a result of offering the AAP, a substantial portion of the revenue contracted in fiscal 2016 was not recognized in fiscal 2016, but deferred into future periods. Because this revenue was deferred, the NEOs did not meet the technical definition of Adjusted EBITDA for fiscal 2016, and received none of the incentive pay tied to this portion of their compensation plan. Inasmuch as the Company and shareholders have already received, or will receive the benefit from the deferred revenue generated in fiscal 2016, and since the STIP for fiscal 2017 did not provide for any compensation benefit from those deferred sales from fiscal 2016, subsequent to year-end fiscal 2016, the Compensation Committee determined it appropriate to provide an incentive opportunity and payout in respect to recognition of fiscal 2016 revenue which was deferred into fiscal 2017. The amounts of such payouts for our NEOs were as follows: $309,136 for Mr. Whitman; $126,598 for Mr. Young and $117,766 for each of Mr. Covey, Mr. Moon and Mr. Walker.

Equity Compensation

We believe that the granting of long-term equity awards over the years has created strong alignment of interest between NEOs and shareholders, as reflected in our strong financial performance from fiscal 2010 through fiscal 2017, which would have been even stronger in common currency over that period. The same program and philosophy was reflected in our use of equity awards in fiscal 2017.

Fiscal 2017 Long-Term Incentive Plan (LTIP) – Performance-Based Equity Grants: In fiscal 2005, the Compensation Committee adopted a long-term incentive strategy using performance-based shares as a component of total targeted compensation. The LTIP was established as a performance incentive for senior management, including our NEOs, to achieve specific financial objectives included in our long-term financial plan. A significant portion of our NEOs' total targeted compensation is in the form of RSU awards that vest solely upon the achievement of these key financial objectives over a period of years. If the performance targets are not achieved within the allotted time frame, then the awards are forfeited.

During fiscal 2017, the Compensation Committee granted performance-based RSU awards to our executive officers and additional members of senior management. A total of 183,381 shares may be awarded under the RSUs to the participants based on six individual vesting conditions that are divided into two performance measures: (1) trailing four-quarter LTIP Adjusted EBITDA as previously defined and (2) trailing four-quarter gross AAP sales. Multi-year LTIP Adjusted EBITDA targets for this award are $36.7 million, $41.8 million and $47.7 million (70% of the award shares), and the targets for the AAP-related sales are $30.1 million, $35.4 million and $40.8 million (30% of the award shares). As of August 31, 2017, participants had vested in all three tranches of 18,338 shares related to AAP gross sales and the first tranche of 42,789 shares related to Adjusted EBITDA. All other tranches of this award remain unvested.

We believe that our RSU programs align a significant portion of our executive compensation with increasing value to our shareholders. For further information regarding our LTIP awards and other share-based compensation instruments (including applicable performance achievement), please refer to the notes to our financial statements found in our Annual Report on Form 10-K for the fiscal year ended August 31, 2017 and the footnotes to the Outstanding Equity Awards at Fiscal 2017 Year-End table that are provided further below.

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

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

fiscal 2017, our Compensation Committee was provided with the estimated value of these items (which value is included in the Fiscal 2017 Summary Compensation Table below), and determined, as in prior years, that these amounts were not material in determining our NEOs' fiscal 2017 compensation.

- *Term Life Insurance:* Franklin Covey provides a portable 20-year term life policy for the CEO and CFO. The coverage amount is 2.5 times each executive's target annual cash compensation (base salary + target annual incentive).
- *Supplemental Disability Insurance:* We provide our CEO with long-term disability insurance which, combined with our current group policy, provides, in the aggregate, monthly long-term disability benefits equal to 75% of his fiscal 2017 target cash compensation. Executives and other highly compensated associates may purchase voluntary supplemental disability insurance at their own expense.

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

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

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

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

Section 162(m): Historically, Section 162(m) of the Code has imposed a $1.0 million limit on the amount that a public company such as ours may deduct for compensation paid to the company's principal executive officer or any of the company's three other most highly compensated executive officers, other than the company's chief financial officer, who are employed as of the end of the year. For fiscal 2017, this limitation did not apply to compensation that meets the requirements under Section 162(m) of the Code for "qualified performance-based" compensation (in other words, compensation paid only if, among other requirements, the individual's performance meets pre-established objective goals based on performance criteria approved by shareholders). Even if the Compensation Committee intends to grant compensation that qualifies as "performance-based" compensation for purposes of Section 162(m) of the Code, we cannot guarantee that such compensation will so qualify or ultimately will be deductible. Although the Compensation Committee may take actions intended to limit the impact of Section 162(m) of the Code, the Compensation Committee also believes that the tax deduction is only one of several relevant considerations in setting compensation. The Compensation Committee believes that the tax deduction limitation should not be permitted to compromise our ability to design and maintain executive compensation arrangements that will attract, retain, motivate and reward the executive talent to compete successfully. Accordingly, achieving the desired flexibility in the design and delivery of compensation may result in compensation that in certain cases is not deductible for federal income tax purposes.

EXECUTIVE COMPENSATION

The Fiscal 2017 Summary Compensation Table below sets forth compensation information for our NEOs relating to fiscal 2017, fiscal 2016 and fiscal 2015, as applicable.

Fiscal 2017 Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Non-Equity Incentive Plan Compensation ($)	All Other Compensation ($)	Total ($)
Robert A. Whitman	2017	525,000	309,136	1,050,000	157,500	64,906	2,106,542
Chairman and CEO	2016	525,000	—	1,050,000	78,750	60,568	1,714,318
	2015	525,000	—	1,050,000	89,817	54,531	1,719,348
Stephen D. Young	2017	350,000	126,598	350,000	70,500	15,652	912,750
CFO	2016	350,000	—	350,000	35,250	12,947	748,197
	2015	320,000	—	350,000	36,782	11,323	718,105
M. Sean Covey	2017	300,000	117,766	200,000	60,000	206,340	884,106
EVP Global Solutions and Partnerships	2016	300,000	—	200,000	30,000	328,710	858,710
	2015	300,000	—	200,000	34,216	231,058	765,274
Shawn D. Moon	2017	300,000	117,766	200,000	60,000	14,387	692,153
Former EVP Strategic Markets	2016	300,000	—	200,000	30,000	7,950	537,950
	2015	300,000	—	200,000	34,216	8,891	543,107
Paul S. Walker	2017	309,500	117,766	200,000	60,000	10,493	697,759
EVP Global Sales and Delivery	2016	309,500	—	200,000	30,000	6,071	545,571

Salary

The amounts reported in the "Salary" column for fiscal 2017 represent base salaries paid to each NEO in fiscal 2017.

Bonus

The amounts reported in the "Bonus" column for fiscal 2017 represent an incentive opportunity and payout paid to the NEOs in fiscal 2017 in respect to recognition of fiscal 2016 revenue which was deferred into fiscal 2017. These payments are discussed above in the section entitled "Compensation Discussion and Analysis – Analysis of Fiscal 2017 Compensation Decisions and Actions."

Stock Awards

The amounts reported in the "Stock Awards" column for fiscal 2017 represent the aggregate grant date fair value (computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, or ASC Topic 718), based on the probable outcome of any applicable performance conditions, excluding the effect of estimated forfeitures, for the RSUs granted to NEOs as LTIP awards. For further information regarding these stock awards and the assumptions made in their valuation, refer to Note 11, *Stock-Based Compensation Plans*, to our consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended August 31, 2017.

Non-Equity Incentive Plan Compensation

The amounts reported in the "Non-Equity Incentive Plan Compensation" column for fiscal 2017 represent the amounts paid to each NEO under the STIP, which is discussed above in the section entitled "Compensation Discussion and Analysis – Analysis of Fiscal 2017 Compensation Decisions and Actions." Payouts are based on achieving objectives established annually and meeting annual financial targets. Incentive amounts were approved by the Compensation Committee and were paid following the conclusion of the fiscal year.

All Other Compensation

The amounts reported for fiscal 2017 in the "All Other Compensation" column are set forth in the "Fiscal 2017 All Other Compensation Table" below.

Name	Year	Company Contributions to 401(k) Plan[(a)] ($)	Executive Life Insurance Premiums[(b)] ($)	Executive Disability Premiums[(c)] ($)	Other ($)	Total ($)
Mr. Whitman	2017	7,875	8,084	44,609	4,338	64,906
Mr. Young	2017	7,950	4,409	—	3,293	15,652
Mr. Covey	2017	8,100	—	—	198,240[(d)]	206,340
Mr. Moon	2017	7,950	—	—	6,437	14,387
Mr. Walker	2017	7,900	—	—	2,593	10,493

(a) We match dollar-for-dollar the first 1% of salary contributed to the 401(k) plan and 50 cents on the dollar of the next 4% of salary contributed. Our match for executives is the same match received by all associates who participate in the 401(k) plan.

(b) For the CEO and CFO, we maintain an executive life insurance policy with a face value of approximately 2.5 times their target annual cash compensation. These amounts show the annual premiums paid for each 20-year term executive life insurance policy.

(c) We provide Mr. Whitman with long-term disability insurance which, combined with our current group policy, provides, in the aggregate, monthly long-term disability benefits equal to 75% of his fiscal 2017 target cash compensation. The amount shows the premiums paid for Mr. Whitman's supplemental long-term disability coverage.

(d) For Mr. Covey, this amount includes approximately $195,000 of royalties earned during fiscal 2017 from books he authored that are used in our training and education businesses.

Fiscal 2017 Grants of Plan-Based Awards

The following table sets forth the plan-based awards that were granted to our NEOs in fiscal 2017. We granted two types of awards in fiscal 2017: annual incentive-based cash awards identified in the table as Performance-Based Variable Pay, and long-term LTIP equity awards in the form of performance-based RSUs.

		Estimated Possible Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			Grant Date Fair Value of Stock and Option Awards
Name	Grant Date	Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)	($)
Mr. Whitman								
Performance-Based Variable Pay[(a)]	—	—	525,000	1,050,000	—	—	—	—
Long-Term Incentive Plan Award[(b)]	10/18/2016	—	—	—	—	58,172	—	1,050,000
Mr. Young								
Performance-Based Variable Pay[(a)]	—	—	235,000	470,000	—	—	—	—
Long-Term Incentive Plan Award[(b)]	10/18/2016	—	—	—	—	19,391	—	350,000
Mr. Covey								
Performance-Based Variable Pay[(a)]	—	—	200,000	400,000	—	—	—	—
Long-Term Incentive Plan Award[(b)]	10/18/2016	—	—	—	—	11,080	—	200,000
Mr. Moon								
Performance-Based Variable Pay[(a)]	—	—	200,000	400,000	—	—	—	—
Long-Term Incentive Plan Award[(b)]	10/18/2016	—	—	—	—	11,080	—	200,000
Mr. Walker								
Performance-Based Variable Pay[(a)]	—	—	200,000	400,000	—	—	—	—
Long-Term Incentive Plan Award[(b)]	10/18/2016	—	—	—	—	11,080	—	200,000

[(a)] These amounts relate to the Performance-Based Variable Pay Plan for the annual performance period ending August 31, 2017. For additional information regarding the Performance-Based Variable Pay Plan, see the section above entitled "Compensation Discussion and Analysis – Analysis of Fiscal 2017 Compensation Decisions and Actions." The actual payouts made to the NEOs are reflected in the "Non-Equity Incentive Plan Compensation" column of the Fiscal 2017 Summary Compensation Table above.

[(b)] These amounts relate to the Long-Term Incentive Plan Awards granted to the NEOs in the form of performance-based RSUs, which vest based on the attainment of specified levels of Adjusted EBITDA and AAP sales. For additional information about these equity awards, see the section entitled "Compensation Discussion and Analysis – Analysis of Fiscal 2017 Compensation Decisions and Actions" above.

Employment and Change-in-Control Severance Agreements

We do not maintain employment agreements with any of our NEOs, but we do maintain change-in-control severance agreements with each of our NEOs. For more information about the terms of these change-in-control severance agreements, see the section below entitled "Executive Compensation – Potential Payments Upon Termination or Change-in-Control."

Outstanding Equity Awards at Fiscal 2017 Year-End

The following equity awards granted to our NEOs were outstanding as of August 31, 2017.

		Option Awards			Stock Awards	
Name	Grant Date	Number of Securities Underlying Unexercised Options (#) Exercisable[(a)]	Option Exercise Price ($)	Option Expiration Date	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)[(g)]
Mr. Whitman	10/18/16	—	—	—	27,146[(b)]	510,345
	11/12/15	—	—	—	33,980[(c)]	638,824
	11/21/14	—	—	—	25,350[(d)]	476,580
	11/21/13	—	—	—	22,116[(e)]	415,781
	9/20/12	—	—	—	22,127[(f)]	415,988
	9/28/11	—	—	—	—	—
	1/28/11	62,500	9.00	1/28/2021	—	—
	1/28/11	62,500	10.00	1/28/2021	—	—
	1/28/11	62,500	12.00	1/28/2021	—	—
	1/28/11	62,500	14.00	1/28/2021	—	—
	1/28/10	62,500	10.00	1/28/2020	—	—
	1/28/10	62,500	12.00	1/28/2020	—	—
	1/28/10	62,500	14.00	1/28/2020	—	—
Mr. Young	10/18/16	—	—	—	9,048[(b)]	170,102
	11/12/15	—	—	—	11,326[(c)]	212,929
	11/21/14	—	—	—	8,450[(d)]	158,860
	11/21/13	—	—	—	6,740[(e)]	126,712
	9/20/12	—	—	—	5,533[(f)]	104,020
	9/28/11	—	—	—	—	—
	1/28/10	43,750	10.00	1/28/2020	—	—
	1/28/10	43,750	12.00	1/28/2020	—	—
	1/28/10	43,750	14.00	1/28/2020	—	—
Mr. Covey	10/18/16	—	—	—	5,170[(b)]	97,196
	11/12/15	—	—	—	6,472[(c)]	121,674
	11/21/14	—	—	—	4,828[(d)]	90,766
	11/21/13	—	—	—	3,510[(e)]	65,988
Mr. Moon	10/18/16	—	—	—	5,170[(b,h)]	97,196
	11/12/15	—	—	—	6,472[(c,h)]	121,674
	11/21/14	—	—	—	4,828[(d,h)]	90,766
	11/21/13	—	—	—	3,510[(e,h)]	65,988
Mr. Walker	10/18/16	—	—	—	5,170[(b)]	97,196
	11/12/15	—	—	—	6,472[(c)]	121,674

(a) These options had a market vesting condition related to the resolution of a management stock loan program when the share price reached the breakeven amount for participants. In 2013, the stock price exceeded the required threshold and the management stock loan program was extinguished, resulting in these options vesting for both the CEO and CFO.

(b) These awards are LTIP Awards granted in fiscal 2017 (October 18, 2016). For additional information regarding the fiscal 2017 LTIP Award, see the section above entitled "Compensation Discussion and Analysis – Equity Compensation."

(c) These awards are LTIP Awards granted in fiscal 2016 (November 12, 2015). The number of shares that may be awarded under the RSUs to the participants is based on six individual vesting conditions that are divided into two performance measures: (1) trailing four-quarter LTIP Adjusted EBITDA, which equals Adjusted EBITDA plus the change in deferred revenue (less certain costs), and excludes the impact of foreign exchange and (2) increased sales of the Organization Development Suite (OD Suite) of offerings. The OD Suite is defined as Leadership, Productivity and Trust offerings. Multi-year LTIP Adjusted EBITDA targets for this award (excluding the impact of fluctuations

in foreign currency exchange rates and STIP) are $36.0 million, $40.0 million and $44.0 million (70% of the award shares), and the targets related to increased sales of the OD Suite are $107.0 million, $116.0 million and $125.0 million (30% of the award shares). As of August 31, 2017, participants had vested in all three tranches of 23,128 shares related to increased OD Suite sales and the first tranche of 53,964 shares related to LTIP Adjusted EBITDA. All other tranches of this award remain unvested.

(d) These awards are LTIP Awards granted in fiscal 2015 (November 21, 2014). The number of shares that may be awarded to the participants is based on six individual vesting conditions that are divided into two performance measures: (1) trailing four-quarter LTIP Adjusted EBITDA and (2) increased sales of the OD Suite of offerings. Multi-year LTIP Adjusted EBITDA targets for this award are $39.6 million, $45.5 million and $52.3 million (70% of the award shares), and the targets related to increased sales of the OD Suite are $107.0 million, $118.0 million and $130.0 million (30% of the award shares). As of August 31, 2017, participants had vested in all three tranches of 11,247 shares related to increased OD Suite sales and the first tranche of 26,241 shares related to LTIP Adjusted EBITDA. All other tranches of this award remain unvested and it is anticipated that at least one tranche will not vest prior to the expiration date.

(e) These awards are LTIP Awards granted in fiscal 2014 (November 21, 2013). The number of shares that may be awarded to the participants is based on six individual vesting conditions that are divided into two performance measures: (1) trailing four-quarter LTIP Adjusted EBITDA and (2) trailing four-quarter increased sales of courses related to The 7 Habits of Highly Effective People. Multi-year LTIP Adjusted EBITDA targets for this award are $37.0 million, $43.0 million and $49.0 million (70% of the award shares), and the targets related to increased sales of The 7 Habits of Highly Effective People courses are $5.0 million, $10.0 million and $12.5 million (30% of the award shares). As of August 31, 2017, participants had vested in the first tranche of 20,864 shares related to LTIP Adjusted EBITDA and all three tranches of 8,942 shares related to increased sales of The 7 Habits of Highly Effective People courses. All other tranches of this award remain unvested and it is anticipated that at least one tranche will not vest prior to the expiration date.

(f) These awards are LTIP Awards granted in fiscal 2013 (September 20, 2012). The number of shares that may be awarded to the participants is based on six individual vesting conditions that are divided into two performance measures: (1) trailing four-quarter LTIP Adjusted EBITDA and (2) increased Productivity Practice sales. Multi-year LTIP Adjusted EBITDA targets for this award are $33.0 million, $40.0 million and $47.0 million (70% of the award shares) and Productivity Practice sales targets are $23.5 million, $26.5 million and $29.5 million (30% of the award shares). As of August 31, 2017, participants had vested in the first two tranches of 15,887 shares related to LTIP Adjusted EBITDA and the first tranche of 6,808 shares related to Productivity Practice sales. All other tranches of this award remain unvested and it is anticipated that at least one or more tranches will not vest prior to the expiration date.

(g) Values were determined by multiplying the target number of RSUs or other performance awards by the closing price per share of the Company's common stock on the NYSE on August 31, 2017 of $18.80.

(h) In September 2017, Mr. Moon left his full-time role with the Company. Mr. Moon will continue to be involved with the Company on a part-time consulting basis in connection with the implementation of certain key initiatives, including speaking at key thought leadership events, helping to launch new books, and other activities. As a result, the Compensation Committee determined that Mr. Moon forfeited his rights to the outstanding stock awards listed in the table above.

Fiscal 2017 Option Exercises and Stock Vested

The following table sets forth the value of the awards held by our NEOs that vested or were exercised, as applicable, during fiscal 2017.

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
Mr. Whitman	62,500	521,875	145,110	2,753,733
Mr. Young	—	—	45,378	861,230
Mr. Covey	—	—	21,331	404,388
Mr. Moon	—	—	21,331	404,388
Mr. Walker	—	—	13,306	256,149

Fiscal 2017 Pension Benefits and Nonqualified Deferred Compensation

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

Potential Payments Upon Termination or Change-in-Control

Severance Benefits Upon Termination Without Cause

Our NEOs are subject to the same general (non-change-in-control) severance policies as for all Franklin Covey employees. Under our severance policy, Company employees, including each of the NEOs, who are terminated involuntarily by the Company without cause receive a lump sum payment equal to one week's salary for every $10,000 of their annual total targeted cash compensation. Additionally, we pay COBRA medical and dental premiums for the term of the severance period. As a condition to receipt of severance benefits, the NEO must agree to abide by specific non-compete, non-solicitation and confidentiality requirements. The target total severance payment equals the target severance compensation excluding COBRA (as described above) plus target COBRA premiums for the severance period. The COBRA benefits are generally limited to 18 months for all NEOs. The amounts below assume that each NEO incurred a qualifying termination of employment on August 31, 2017 (the last business day of fiscal 2017).

Estimated Severance Amounts as of August 31, 2017

Name	Year	Target Total Severance Payment ($)	Base Salary ($)	Target Annual STIP ($)	Target Annual Cash Compensation ($)	Target Severance Compensation (Excluding COBRA) ($)	Target COBRA Premiums ($)
Mr. Whitman	2017	2,144,601	525,000	525,000	1,050,000	2,120,193	24,409
Mr. Young	2017	677,465	350,000	235,000	585,000	663,750	13,715
Mr. Covey	2017	497,808	300,000	200,000	500,000	480,769	17,039
Mr. Moon	2017	497,808	300,000	200,000	500,000	480,769	17,039
Mr. Walker	2017	517,082	309,500	200,000	509,500	499,702	17,380

Change-in-Control Severance Benefits

The Company has entered into a change-in-control severance agreement with each NEO. Under the terms of the agreements, upon the occurrence of a change in control and a qualifying termination, each NEO is entitled to a lump severance payment equal to one times his current annual total targeted cash compensation, plus reimbursement of premiums

to secure medical benefit continuation coverage for a period of one year. The target total severance payment equals the target annual cash compensation plus target COBRA premiums for the severance period. There are no excise tax gross-up provided under the agreements. The amounts below assume that each NEO incurred a qualifying termination of employment on August 31, 2017.

Estimated Change-in-Control Severance Amounts as of August 31, 2017

Name	Year	Target Total Severance Payment ($)	Base Salary ($)	Target Annual STIP ($)	Target Annual Cash Compensation ($)	Target COBRA Premiums for 12 Months ($)
Mr. Whitman	2017	1,062,826	525,000	525,000	1,050,000	12,826
Mr. Young	2017	597,826	350,000	235,000	585,000	12,826
Mr. Covey	2017	518,776	300,000	200,000	500,000	18,776
Mr. Moon	2017	518,776	300,000	200,000	500,000	18,776
Mr. Walker	2017	528,651	309,500	200,000	509,500	19,151

Compensation Committee Report

Our Compensation Committee reviewed the Compensation Discussion and Analysis (CD&A), as prepared by management of Franklin Covey, and discussed the CD&A with management of Franklin Covey. Mercer, outside legal counsel and the Company's CFO and Chief People Officer also reviewed the CD&A. Based on the Committee's review and discussions, the Committee recommended to the Board that the CD&A be included in this Proxy Statement and in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2017.

COMPENSATION COMMITTEE:

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

AUDIT COMMITTEE REPORT

The following is the report of the Audit Committee with respect to our audited financial statements for the fiscal year ended August 31, 2017. The information contained in this report shall not be deemed "soliciting material" or otherwise considered "filed" with the SEC, and such information shall not be incorporated by reference under the Exchange Act except to the extent that we specifically incorporate such information by reference in such filing.

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

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

In fulfilling its oversight responsibilities, the Audit Committee reviewed and discussed with management the audited financial statements to be included in the Annual Report on Form 10-K for the fiscal year ended August 31, 2017. This review included a discussion of the quality and the acceptability of the Company's financial reporting and system of internal controls, including the clarity of disclosures in the financial statements. The Audit Committee also reviewed and discussed with the Company's independent registered public accounting firm the audited financial statements of the Company for the fiscal year ended August 31, 2017, their judgments as to the quality and acceptability of the Company's financial reporting, and such other matters as are required to be discussed by Public Company Accounting Oversight Board standards.

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

Based upon the review and discussions referred to above, the Audit Committee recommended that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2017, for filing with the SEC.

Date: November 7, 2017

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

OVERVIEW OF PROPOSALS

This Proxy Statement includes five proposals requiring shareholder action. Proposal No. 1 requests the election of eight directors to the Board. Proposal No. 2 requests an advisory vote on executive compensation. Proposal No. 3 requests an advisory vote on the frequency of "say on pay votes" for executive compensation. Proposal No. 4 requests the approval of the Franklin Covey Co. 2017 Employee Stock Purchase Plan. Proposal No. 5 requests the ratification of Deloitte & Touche, LLP as our independent registered public accounting firm for fiscal 2018. Each of these proposals is discussed in more detail in the pages that follow.

Proposal No. 1

ELECTION OF DIRECTORS

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

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

Vote Required

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

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

Recommendation of the Board

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

Proposal No. 2

ADVISORY VOTE ON EXECUTIVE COMPENSATION

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

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

The Compensation Discussion and Analysis, as presented within this Proxy Statement, describes the Company's executive compensation program and the decisions made by the Compensation Committee during fiscal 2017 in more detail. We believe that the compensation program for the Named Executive Officers is instrumental in helping the Company achieve financial goals. Please refer to the information contained in the Compensation Discussion and Analysis as you consider this proposal.

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

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

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

Vote Required

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

Recommendation of the Board

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

Proposal No. 3

ADVISORY VOTE ON THE FREQUENCY OF ADVISORY VOTE ON EXECUTIVE COMPENSATION

As described in Proposal No. 2 above, our shareholders are being provided with the opportunity to cast an advisory vote on the Company's executive compensation program. The advisory vote on executive compensation described in Proposal No. 2 is commonly referred to as a "say-on-pay vote."

Proposal No. 3 provides our shareholders with the opportunity to cast an advisory vote on how often the Company should include a say-on-pay vote in its proxy materials for future annual shareholder meetings (or a special shareholder meeting for which we must include executive compensation information in the proxy statement for that meeting). Under this Proposal No. 3, shareholders may vote to have the say-on-pay vote every year, every two years, every three years, or they may abstain.

We believe that say-on-pay votes should be conducted every year so that shareholders may annually express their views on our executive compensation program. The Compensation Committee, which administers our executive compensation program, values the opinions expressed by shareholders and will consider the outcome of these votes in making its decisions on executive compensation in the future.

Vote Required

The option of "one year," "two years," or "three years" which receives the highest number of votes will be the option recommended by the shareholders. Abstentions and broker non-votes will not have any effect on the outcome of this approval.

Recommendation of the Board

The Board recommends that shareholders vote on Proposal No. 3 to hold say-on-pay votes at intervals of ONE YEAR (as opposed to every two years or every three years).

Proposal No. 4

TO APPROVE THE FRANKLIN COVEY CO. 2017 EMPLOYEE STOCK PURCHASE PLAN

General

On May 31, 2017, the Company's Board of Directors approved and adopted, and is submitting to the Company's shareholders for approval, the Franklin Covey Co. 2017 Employee Stock Purchase Plan, which is referred to in this Proxy Statement as the Plan. The Plan replaces the Company's Amended and Restated 2004 Employee Stock Purchase Plan, which expired. The Plan is intended to provide employees with an opportunity to purchase shares of our common stock at a 15% discount and possibly with favorable tax consequences to the participants. The Board approved and adopted the Plan because it believes that the Plan will provide an incentive that will assist the Company in retaining the services of its employees and securing and retaining the services of new employees, thereby enhancing employee interest in the continued success and progress of the Company. The Plan is intended to qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code and will be treated as such for U.S. federal and state tax purposes.

Summary of the Franklin Covey 2017 Employee Stock Purchase Plan

The following is a summary of certain of the material terms and conditions of the Plan. The following summary is qualified in its entirety by reference to the full text of the Plan, which is attached as Appendix A, and is incorporated herein by reference. Capitalized terms used but not otherwise defined herein have the respective meanings ascribed to such terms in the Plan.

Purpose. The purpose of the Plan is to provide employees of the Company and its Designated Subsidiaries with an opportunity to purchase Common Stock of the Company. Subject to shareholder approval of the Plan within twelve (12) months after its date of adoption, the Company intends that the Plan qualify as an "Employee Stock Purchase Plan" under Section 423 of the Code. The provisions of the Plan shall, accordingly, be construed so as to extend and limit participation in a manner consistent with the requirements of that section of the Code.

Administration. The Board, or a Committee of the Board named by the Board, shall supervise and administer the Plan and shall have full power to adopt, amend and rescind any rules deemed desirable and appropriate for the administration of the Plan and not inconsistent with the Plan, to construe and interpret the Plan, and to make all other determinations necessary or advisable for the administration of the Plan.

Dilution/Shares Subject to the Plan. The maximum number of shares of Common Stock that may be issued under the Plan is 1,000,000 shares. Shares issued under the Plan may be either newly issued shares or shares held in treasury. In the event that outstanding shares of Common Stock are increased, decreased, changed into, or exchanged for a different number or kind of shares or securities of the Company through reorganization, merger, recapitalization, reclassification, stock split, reverse stock split, or a similar transaction, the maximum number of shares available for issuance under the Plan shall be proportionally adjusted.

Term of Plan. The Plan became effective for Offering Periods beginning on and after June 1, 2017. If the Plan is approved by our shareholders, the Plan will continue in effect until all of the Shares of Common Stock described above are exhausted or such earlier time as the Plan is appropriately terminated. If the Plan is not approved by our shareholders, it will terminate.

Eligibility. Participation in the Plan is limited to employees of the Company and designated subsidiaries who hold positions customarily requiring them to work at least 20 hours per week. Employees who own five percent or more of the voting stock of the Company, however, may not participate in the Plan. As of October 31, 2017 there were 647 employees eligible to participate in the Plan, which number will fluctuate from time-to-time.

Offerings Under the Plan. The Plan provides for a series of offerings commencing on September 1, December 1, March 1, and June 1 of each calendar year during the term of the Plan. An eligible employee may elect on or before the start of an offering to participate in the offering under the Plan by authorizing the Company to make deductions from their pay on each payday during the time the employee is a participant in an offering at any rate between one percent and 15 percent of their cash salary. On the date of commencement of each offering, we will grant to each eligible employee who elects to participate in the offering an option to purchase a number of shares of Common Stock equal to the number of whole shares that can be purchased with the employee's salary reduction contributions during the offering period at a price equal to 85 percent of the fair market value of those shares at the close of the offering period. The purchase rights granted to eligible employees under the Plan shall be limited such that the rights granted under the Plan and all other options or other rights granted under other plans do not permit such employee to purchase in excess of $25,000 of Common Stock per calendar year. Further, no eligible employee shall be permitted to purchase more than 20,000 shares of Common Stock during any offering period.

An employee's share purchase option under the Plan will be deemed to be exercised automatically at the close of each three-month offering period for the purchase of the number of full shares of Common Stock which the accumulated payroll deductions in their account will purchase, but not in excess of the maximum number of shares for which an option has been granted to an employee.

Purchase Price of Shares. The price per share to be paid by participants under the Plan is 85 percent of the fair market value of the Common Stock on the last day of the applicable offering period. The fair market value of the Common Stock shall be the average of the highest and lowest trading prices of our Common Stock on the NYSE on the offering closing date or the nearest prior trading day, if such date is not a trading day. The purchase price shall be payable only through payroll deductions from an employee's compensation.

Termination of Employment and Withdrawal. Upon the termination of a participant's employment for any reason during an offering period and prior to the close of the offering period, including retirement, the payroll deductions credited to the participant's account shall be returned to the participant and shall not be used to purchase shares of Common Stock under the Plan. In the event of the participant's death, their designated beneficiary shall have the right to receive all cash and shares credited to the participant's account under the Plan. A participant may also withdraw voluntarily from any offering under the Plan prior to the conclusion of that offering and thereby receive a refund of their contributions during the offering period.

Amendment and Termination. The Board of Directors may amend, suspend or terminate the Plan or any portion thereof at any time; provided, however, that no amendment may be made without shareholder approval to the extent such amendment would adversely affect the rights of any participant, or to the extent that shareholder approval is necessary to comply with the rules of the NYSE or under Section 423 of the Internal Revenue Code.

Other Provisions. No participant or their legal representatives, legatees or distributees will be deemed to be the holder of any shares of Common Stock subject to an offering under the Plan until the option has been exercised, the purchase price for the shares has been paid, and the shares have been issued. No payroll deductions credited to a participant's stock purchase account nor any rights to receive shares of Common Stock under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way by a participant other than by will or the laws of descent and distribution. Purchase rights under the Plan will be exercisable during a participant's lifetime only by the participant, their guardian or legal representative.

Certain U.S. Federal Income Tax Consequences

The following tax discussion is a brief summary of the United States federal income tax law applicable to the Plan. The discussion is intended solely for general information and omits certain information that does not apply generally to all participants in the Plan.

Grant of Purchase Rights. Assuming shareholder approval of the Plan is obtained at the Annual Meeting, the Plan will qualify as an "employee stock purchase plan" within the meaning of Section 423 of the Internal Revenue Code. As such, a participant under the Plan will incur no income tax liability, and the Company will obtain no deduction, from the grant of the purchase rights at the beginning of each offering. Participant payroll deductions, however, are made on an after-tax basis. Participants will not be entitled to deduct or exclude from income or social security taxes any part of their payroll deductions.

Exercise of Purchase Rights. An employee will not be subject to United States federal income tax upon the exercise of purchase rights granted under the Plan, nor will the Company be entitled to a tax deduction by reason of such exercise, provided that the holder is still employed by the Company. The employee will have a cost basis in the shares of Common Stock acquired upon such exercise equal to the purchase price paid at the close of the offering.

Disposition of Shares Acquired Under the Plan. In order to defer taxation on the difference between the fair market value and purchase price of shares acquired upon exercise of purchase rights, the employee must hold the shares more than one year after their issuance date and more than two years after the date the offering commenced. The only exceptions are for dispositions of shares upon death, as part of a tax-free exchange of shares in a corporate reorganization, into joint tenancy with right of survivorship with one other person, or the mere pledge or hypothecation of shares.

If an employee disposes of stock acquired under the Plan before expiration of the holding periods described above, such as by gift or ordinary sale of such shares, the employee must recognize as ordinary compensation income in the year of disposition the difference between the purchase price paid and the stock's fair market value as of the date of purchase. This amount must be recognized as income even if it exceeds the fair market value of the shares as of the date of disposition or the amount of the sales proceeds received. The Company will be entitled to a corresponding compensation expense deduction for the taxable year of the Company in which the disposition occurs, although the income tax deduction may be limited by the deductibility of compensation paid to certain Company officers under Section 162(m) of the Code.

Disposition of shares after expiration of the required holding period will result in the recognition of ordinary income in the year of disposition equal to the excess of the lesser of (i) the fair market value of the shares on the date of disposition over the purchase price for the shares or (ii) the greater of (a) the fair market value of the shares on the date the purchase right relating to the disposed shares was first granted over the purchase price and (b) the fair market value of the shares on the day immediately prior to the disposition over the purchase price. Any additional gain or loss on the disposition, after adding the amount treated as ordinary income to the employee's basis in the shares, will be long-term capital gain or loss to the employee. The Company will not be entitled to an income tax deduction for any amount with respect to the issuance or exercise of the purchase right or the sale of the underlying shares.

New Plan Benefits

The benefits that will be received by or allocated to eligible employees under the Plan cannot be determined at this time because the amount of contributions set aside to purchase shares of the Common Stock under the Plan (subject to the limitations discussed above) is within each employee's discretion.

Plan Benefits

We are adopting the Plan to replace the Company's Amended and Restated 2004 Employee Stock Purchase Plan, which expired. The following table sets forth, for each of the individuals and groups indicated, the total number of shares of our common stock purchased under our employee stock purchase plans, including under the Amended and Restated 2004 Employee Stock Purchase Plan, since September 1, 2016.

As of December 13, 2017, the fair market value of a share of Common Stock was $18.65.

Category	Shares
Named Executive Officers:	
Robert A. Whitman	—
Stephen D. Young	—
M. Sean Covey	—
Shawn D. Moon	1,272
Paul S. Walker	—
All current executive officers as a group	1,272
All current non-employee directors as a group	—
All other employees, including all current officers who are not executive officers, as a group	40,771

Equity Compensation Plan Information

Plan Category	[a] Number of securities to be issued upon exercise of outstanding options, warrants, and rights	[b] Weighted-average exercise price of outstanding options, warrants, and rights	[c] Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column [a])
	(in thousands)		(in thousands)
Equity compensation plans approved by security holders[1]	1,129[2]	$11.41	494[3]
Equity compensation plans not approved by security holders	—	—	—[4]
Total	1,129	11.41	494

(1) Excludes 29,834 shares of unvested (restricted) stock awards and stock units that are subject to forfeiture.

(2) Amount includes 560,110 performance share awards that may be awarded under the terms of various long-term incentive plans. The number of shares eventually awarded to participants through our long-term incentive plans is variable and based upon the achievement of specified financial goals. The weighted average exercise price of outstanding options, warrants, and rights does not include the impact of performance awards.

(3) Amount is based upon the number of performance-based plan shares expected to be awarded at August 31, 2017 and may change in future periods based upon the achievement of specified goals and revisions to estimates.

(4) Through August 31, 2017, we issued 12,857 shares of our Common Stock under the provisions of the Franklin Covey Co. 2017 Employee Stock Purchase Plan, which is subject to approval by our shareholders as described in this Proposal No. 4. This table does not include shares related to the Franklin Covey Co. 2017 Employee Stock Purchase Plan.

Vote Required

Approval of this Proposal No. 4 requires that the number of votes cast in favor of the proposal exceeds the number of votes cast in opposition. Abstentions with respect to this proposal will have the same effect as votes against the proposal. Broker non-votes will not have any effect on the outcome of this proposal.

Recommendation of the Board

The Board recommends that shareholders vote FOR Proposal No. 4.

Proposal No. 5

RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has selected the independent registered public accounting firm Deloitte & Touche, LLP to audit our financial statements for fiscal 2018. Deloitte began serving as our independent registered public accounting firm in the third quarter of fiscal 2016. Prior to this appointment, Ernst & Young, LLP (Ernst & Young) served as our independent registered public accounting firm since fiscal 2011.

During fiscal 2016, the Audit Committee completed the process it undertook in accordance with its previously announced policy to review the appointment of our independent registered public accounting firm every five years. Pursuant to this policy, the Audit Committee conducted a competitive process to select a firm to serve as the Company's independent registered public accounting firm for the remainder of fiscal 2016 and in future periods.

As a result of this process and following careful deliberation, the Audit Committee engaged Deloitte & Touche, LLP as the Company's independent registered public accounting firm for the remainder of the fiscal year ended August 31, 2016, and dismissed Ernst & Young from that role on April 20, 2016.

During the fiscal year ended August 31, 2015, and in the subsequent interim period through April 20, 2016, there were (i) no disagreements between the Company and Ernst & Young on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure and (ii) no "reportable events" as that term is defined in Item 304(a)(1)(v) of Regulation S-K.

The audit report of Ernst & Young on the Company's financial statements for the fiscal year ended August 31, 2015 did not contain an adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope, or accounting principles. The audit report of Ernst & Young on the effectiveness of internal control over financial reporting as of August 31, 2015 did not contain an adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope, or accounting principles.

The Company provided Ernst & Young with a copy of the disclosures it made in a Current Report on Form 8-K (the Report) prior to the time the Report was filed with the SEC. The Company requested that Ernst & Young furnish a letter addressed to the SEC stating whether or not it agrees with the statements made therein. A copy of Ernst & Young's letter dated April 26, 2016 was attached as exhibit 16.1 to the Report.

In its decision to engage Deloitte, the Audit Committee reviewed auditor independence and all existing relationships with Deloitte, and concluded that Deloitte has no relationships with the Company that would impair its independence. During the fiscal year ended August 31, 2015, and in the subsequent interim period through February 27, 2016, neither the Company nor anyone acting on its behalf consulted with Deloitte on any of the matters or events set forth in Item 304(a)(2) of Regulation S-K.

The Board of Directors anticipates that one or more representatives of Deloitte will be present at the Annual Meeting and will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

Principal Accountant Fees

The following table shows the fees accrued or paid to our independent registered public accounting firms for the fiscal years ended August 31, 2017 and 2016:

	Deloitte		Ernst & Young
	Fiscal 2017	Fiscal 2016	Fiscal 2016
Audit Fees[1]	$716,574	$540,901	$195,000
Audit-Related Fees[2]	—	—	—
Tax Fees[3]	34,139	—	40,098
All Other Fees	—	—	—
	$750,713	$540,901	$235,098

(1) Audit fees represent fees and expenses for professional services provided in connection with the audit of our consolidated financial statements and the effectiveness of internal controls over financial reporting found in the Annual Report on Form 10-K and reviews of our financial statements contained in Quarterly Reports on Form 10-Q, procedures related to registration statements, accounting consultations on actual transactions, and audit services provided in connection with other statutory filings.

(2) Audit-Related Fees primarily consist of accounting consultation on proposed transactions.

(3) Tax Fees consisted primarily of fees and expenses for services related to tax compliance, tax planning, and tax consulting.

The Audit Committee pre-approves all services to be performed by our independent registered public accountants and subsequently reviews the actual fees and expenses paid to them. All of the audit-related and non-audit services provided by our independent registered public accounting firms during the fiscal years ended August 31, 2017 and 2016 were

pre-approved by the Audit Committee. The Audit Committee has determined that the fees paid for non-audit services are compatible with maintaining independence as our independent registered public accountants.

Vote Required

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

Board Recommendation

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

OTHER MATTERS

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

PROPOSALS OF SHAREHOLDERS

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

Shareholders may present proposals for inclusion in our proxy statement and form of proxy for the annual meeting of shareholders to be held in calendar year 2019, provided that such proposals must be received by us, at our executive offices (2200 West Parkway Boulevard, Salt Lake City, Utah 84119-2331) no later than August 22, 2018, provided that this date may be changed in the event that the date of the annual meeting of shareholders to be held in calendar year 2019 is changed by more than 30 days from the date of the annual meeting of shareholders to be held in calendar year 2018. Such proposals must also comply with the requirements as to form and substance established by the SEC if such proposals are to be included in our proxy statement and form of proxy.

Requirements for Shareholder Proposals to be Brought Before the Annual Meeting

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

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

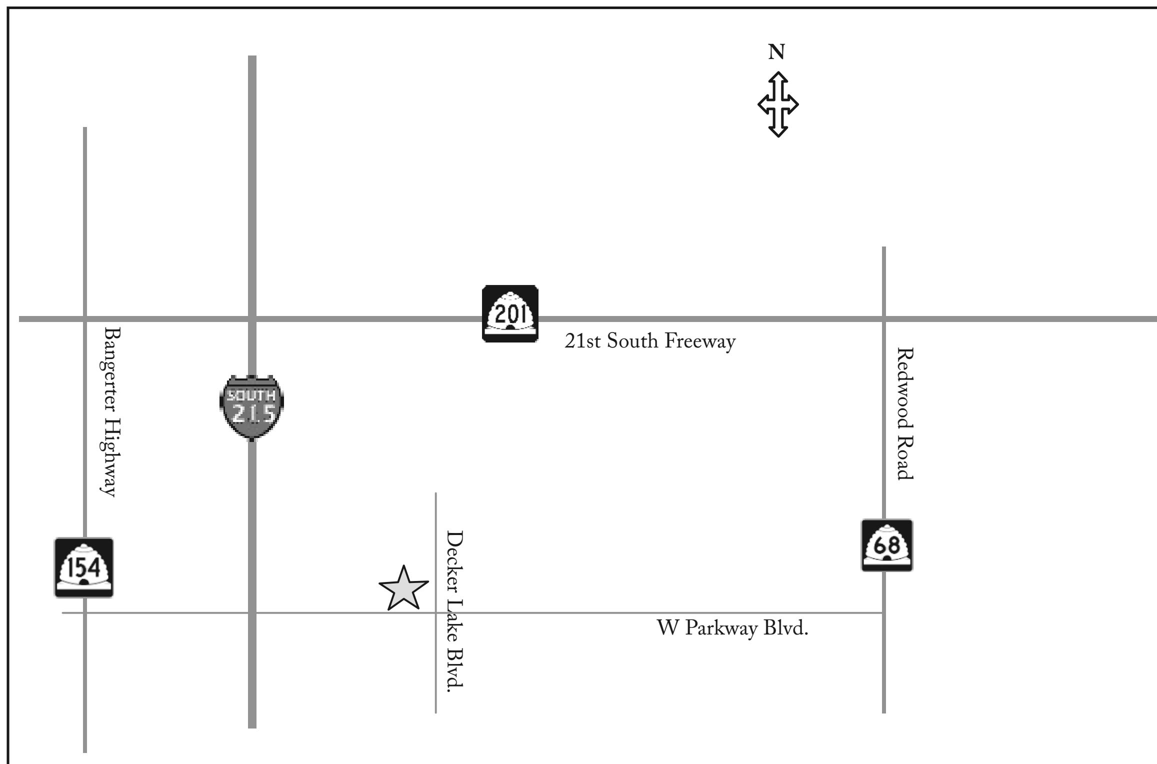
WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly, and current reports, proxy statements and other information with the SEC. You may read and copy any document we file at the SEC's public reference room, 100 F Street NE, Washington, D.C. 20549. You can also request copies of the documents, upon payment of a duplicating fee, by writing the Public Reference Section of the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. These SEC filings are also available to the public from the SEC's web site at http://www.sec.gov.

We will provide without charge to any person from whom a Proxy is solicited by the Board of Directors, upon the written request of such person, a copy of our 2017 Annual Report on Form 10-K, including the financial statements and schedules thereto (as well as exhibits thereto, if specifically requested), required to be filed with the Securities and Exchange Commission. Written requests for such information should be directed to Franklin Covey Co., Investor Relations Department, 2200 West Parkway Boulevard, Salt Lake City, Utah 84119-2331, Attn: Mr. Stephen D. Young.

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

DIRECTIONS TO THE ANNUAL MEETING



Directions to Franklin Covey from Provo/South

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

Directions to Franklin Covey from Downtown/North

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

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

APPENDIX A

FRANKLIN COVEY CO.
2017 EMPLOYEE STOCK PURCHASE PLAN

Franklin Covey Co. (the Company) hereby adopts the Franklin Covey Co. 2017 Employee Stock Purchase Plan (the Plan) effective for Offering Periods beginning on and after June 1, 2017, to read as follows:

1. ***Purpose.*** The purpose of the Plan is to provide employees of the Company and its Designated Subsidiaries with an opportunity to purchase Common Stock of the Company. Subject to shareholder approval of the Plan within twelve (12) months after its date of adoption, the Company intends that the Plan qualify as an "Employee Stock Purchase Plan" under Section 423 of the Code. The provisions of the Plan shall, accordingly, be construed so as to extend and limit participation in a manner consistent with the requirements of that section of the Code.

2. ***Definitions.***

(a) "*Board*" means the Board of Directors of the Company.

(b) "*Code*" means the Internal Revenue Code of 1986, as amended.

(c) "*Committee*" means a committee of the Board designated pursuant to Section 12 below.

(d) "*Common Stock*" means the $0.05 par value common stock of the Company.

(e) "*Company*" means Franklin Covey Co., a Utah corporation.

(f) "*Compensation*" means total base cash compensation received by an Employee from the Company or a Designated Subsidiary. By way of illustration, but not limitation, Compensation includes regular base salary, wages, overtime, bonuses, commissions and incentive compensation. Compensation does not include profit sharing, deferred compensation, relocation allowances, expense reimbursements, tuition or other reimbursements, contributions or imputed income under any 401(k) plan, insurance plan, or other employee benefit plan, and income realized as a result of participation in any stock option, stock purchase, or similar plan of the Company or any Designated Subsidiary.

(g) "*Continuous Employment*" means uninterrupted employment with the Company or a Designated Subsidiary as an Employee. Employment shall not be considered interrupted in the case of (i) sick leave; (ii) military leave; (iii) any other leave of absence approved by the Company; or (iv) in the case of transfers between locations of the Company or between the Company and its Designated Subsidiaries. However, in the case of an approved leave under (i), (ii) or (iii) that exceeds three months and the Employee's right to reemployment is not guaranteed either by contract or by law (*e.g.*, FMLA or USERRA), the Employee shall be deemed to incur a termination of his or her Continuous Status as an Employee (for purposes of this Plan) on the first day immediately following such three-month period.

(h) "*Contributions*" means all amounts credited to the account of a Participant pursuant to the Plan.

(i) "*Corporate Transaction*" means a sale of all or substantially all of the Company's assets, or a merger, consolidation or other capital reorganization of the Company with or into another corporation, or any other transaction or series of related transactions in which the Company's shareholders immediately prior thereto own less than fifty percent (50%) of the voting stock of the Company (or its successor or parent) immediately thereafter.

(j) "*Designated Subsidiaries*" means the Subsidiaries that have been designated by the Board from time to time in its sole discretion as eligible to participate in the Plan. As of the date hereof, the Designated Subsidiaries are the entitles listed on Schedule 1 hereto. The Board may revoke the designation of a Subsidiary at any time and any previously Designated Subsidiary shall automatically cease to be a Designated Subsidiary on the date it ceases to be a Subsidiary. If any Subsidiary ceases to be Designated Subsidiary, all employees of that entity shall be deemed to have terminated employment for purposes of this Plan on the date Designated Subsidiary status ceases.

(k) "*Employee*" means any person, including an Officer, who is an employee of the Company or a Designated Subsidiary for federal withholding tax purposes.

(l) "*Eligible Employee*" means an Employee who is in a position requiring the Employee to work at least twenty (20) hours per week for the Company or one of its Designated Subsidiaries.

(m) "*Exchange Act*" means the Securities Exchange Act of 1934, as amended.

(n) "*Fair Market Value*" means as of any given date the average between the highest and lowest sale prices per share of Common Stock on the NYSE (or, if the Common Shares cease to be traded on the NYSE, on such other securities exchange or market system on which the Common Stock is then listed or quoted) as reported in the Wall Street Journal or such other source as the Board deems reliable. If no shares of Common Stock are traded on such an exchange or market quotation system on the date in question, Fair Market Value shall be the average between the highest and lowest sale prices per share of Common Stock on the nearest prior business day on which shares of Common Stock are so traded. In the event Common Shares cease to be traded on any securities exchange or market system the Board shall determine the Fair Market Value of Common Stock in good faith.

(o) "*NYSE*" means the New York Stock Exchange.

(p) "*Offering*" means the grant of Purchase Rights to purchase Common Stock to Eligible Employees under the Plan.

(q) "*Offering Date*" means the first business day of each Offering Period of the Plan.

(r) "*Offering Period*" means a period of three (3) months commencing on September 1, December 1, March 1 and June 1 of each year; provided, however, that the Committee shall have the power to change the duration and/or frequency of Offering Periods with respect to future purchases if such change is announced prior to the scheduled beginning of the first Offering Period to be affected; provided further, however, that no Offering Period shall exceed 27 months.

(s) "*Officer*" means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(t) "*Participant*" means with respect to any Offering any Eligible Employee who has elected to participate in the Offering.

(u) "*Plan*" means this 2017 Employee Stock Purchase Plan.

(v) "*Purchase Date*" means as to any Offering, the last day of the applicable Offering Period.

(w) "*Purchase Price*" means with respect to each Offering, (i) an amount equal to eighty-five percent (85%) of the Fair Market Value of a Share of Common Stock on the Purchase Date, rounded up to the nearest whole cent per share; or (ii) such other amount announced by the Committee prior to the Offering Period, which price may, in the discretion of the Committee, be a price which is not fixed or determinable as of the Offering Date of that Offering Period; provided, however, that in no event shall the Purchase Price for any Offering Period be less than the lesser of eighty-five percent (85%) of the Fair Market Value per share at the time the Purchase Right is granted or eighty-five percent (85%) of the Fair Market Value per Share at the time of exercise.

(x) "*Purchase Rights*" means options to purchase Shares under the Plan.

(y) "*Share*" means a share of Common Stock, as adjusted in accordance with Section 19 of the Plan.

(z) "*Subsidiary*" means any corporation, domestic or foreign, which is a "subsidiary of the Company within the meaning of Section 424(f) of the Code, whether or not such corporation now exists or is hereafter organized or acquired by the Company or a Subsidiary.

3. ***Offerings***. The Plan shall be generally implemented by a series of Offerings conducted over Offering Periods of three calendar months' duration, with new Offerings and related Offering Periods commencing on or about September 1, December 1, March 1, and June 1 of each year. The first Offering Period under the Plan shall commence on June 1, 2017. The Plan shall continue until terminated in accordance with Section 18 below. The Committee may limit the aggregate number of Shares available for purchase in each Offering by written notice to all Participants given with sixty (60) days after the commencement of such Offering.

4. ***Eligibility and Participation***.

(a) Any person who is an Eligible Employee as of the Offering Date of a given Offering shall be eligible to participate in the Offering commencing on that date, subject to the requirements of Section 5(a) below and the limitations imposed by Section 423(b) of the Code. Persons who are not Eligible Employees on the Offering Date with respect to a given Offering may not participate in that Offering.

(b) Any provisions of the Plan to the contrary notwithstanding, no Employee shall be granted Purchase Rights under the Plan or be eligible to participate in an Offering if, immediately after the grant, such Employee (or any other person whose stock would be attributed to such Employee pursuant to Section 424(d) of the Code) would own capital stock of the Company and/or hold outstanding options or rights to purchase stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company or of any subsidiary of the Company. For purposes of this limitation, the rules of Section 424(d) of the Code shall apply in determining the stock ownership of any person.

(c) An Eligible Employee may become a Participant in the Plan by completing a subscription agreement on the form provided by the Company and filing it with the Company's Human Resources Department. The subscription agreement shall set forth the percentage of the Participant's Compensation (subject to Section 5(a) below) to be paid as Contributions pursuant to the Plan.

(d) With respect to each Offering, payroll deductions shall commence on the first full payroll following the Offering Date and shall end on the last payroll paid on or prior to the end of the Offering Period to which the subscription agreement is applicable, unless sooner terminated by the Participant as provided in Section 9 below.

(e) Any provisions of the Plan to the contrary notwithstanding, and in accordance with Section 423(b)(8) of the Code, all Purchase Rights granted to any Eligible Employee hereunder shall be limited so that for any calendar year in which such Purchase Rights are outstanding at any time, such Purchase Rights and all other options and rights to purchase stock under all employee stock purchase plans (described in Section 423 of the Code) of the Company and its Subsidiaries, do not permit the Eligible Employee to purchase or otherwise accrue the right to acquire Shares having a Fair Market Value in excess of $25,000, with all such Share values to be determined at the time of grant of the Purchase Rights or other options and rights in question.

5. ***Method of Payment of Contributions***.

(a) A Participant in any Offering shall elect to have payroll deductions made on each payday during the applicable Offering Period in an amount not less than one percent (1%) and not more than fifteen percent (15%) (or such other percentage as the Committee may establish from time to time before an Offering Date) of such Participant's Compensation on each payday during the Offering Period. All payroll deductions made by a Participant shall be credited to his or her account under the Plan. A Participant may not make any additional payments into such account without the written consent of the Committee.

(b) A Participant may discontinue his or her participation in any Offering as provided in Section 9 below.

(c) Notwithstanding the foregoing, to the extent necessary to comply with Section 423(b)(8) of the Code and Section 4(e) above, a Participant's payroll deductions may be decreased during any Offering Period scheduled to end during the current calendar year to zero percent (0%). Payroll deductions shall re-commence at the rate provided in such Participant's subscription agreement at the beginning of the first Offering Period that is scheduled to end in the following calendar year, unless terminated by the Participant as provided in Section 9 below.

6. ***Grant of Purchase Rights.*** On the Offering Date of each Offering, each Participant in such Offering shall be granted the right to purchase on the Purchase Date at the conclusion of that Offering a number of Shares of the Company's Common Stock determined by dividing (a) the Participant's Contributions prior to the Purchase Date and retained in the Participant's account as of the Purchase Date, by (b) the applicable Purchase Price; provided however that (i) the maximum number of Shares an Employee may purchase during each Offering Period shall be twenty thousand (20,000) Shares (subject to any

adjustment pursuant to Section 17(a) below); (ii) such purchase shall be subject to the limitations set forth in Sections 4(e) above and 11 below; and (iii) in the case of the Offering commencing prior to shareholder approval of the Plan, the limitations and special rules of Sections 8 and 21 below shall apply.

7. ***Exercise of Option.*** Unless a Participant withdraws from an Offering as provided in Section 9 below, his or her right to purchase Shares in that Offering will be exercised automatically on the Purchase Date at the conclusion of the applicable Offering Period, and the maximum number of full Shares subject to the Purchase Right will be purchased at the applicable Purchase Price with the accumulated Contributions in his or her account. No fractional Shares shall be issued. Any payroll deductions accumulated in a Participant's account that are not sufficient to purchase a full Share shall be retained in the Participant's account for the subsequent Offering Period, subject to earlier withdrawal by the Participant as provided in Section 9 below. Any other amounts left over in a Participant's account after a Purchase Date shall be returned to the Participant. Except as provided in Sections 8 and 21 below, the Shares purchased upon exercise of Purchase Rights hereunder shall be deemed to be transferred to the Participant on the Purchase Date. During his or her lifetime, a Participant's right to purchase Shares hereunder is exercisable only by him or her.

8. ***Delivery.*** As promptly as practicable after the Purchase Date at the conclusion of an Offering Period, the number of Shares purchased by each Participant upon exercise of his or her Purchase Rights shall be deposited into an account established in the Participant's name with the Designated Broker.

9. ***Voluntary Withdrawal; Termination of Employment***.

(a) A Participant may withdraw all but not less than all the Contributions credited to his or her account under the Plan during an Offering Period at any time prior to the Purchase Date at the conclusion of that offering Period by giving written notice to the Company's Human Resources Department. All of the Participant's Contributions credited to his or her account will be paid to him or her promptly after receipt of his or her notice of withdrawal and his or her Purchase Rights for the current Offering will be automatically terminated, and no further Contributions for the purchase of Shares will be made during the Offering Period in question.

(b) If an Eligible Employee elects to participate in an Offering and his or her Continuous Employment with the Company or a Designated Subsidiary subsequently terminates for any reason, including retirement or death, during the applicable Offering Period (but prior to the Purchase Date at the conclusion of that Offering), the Contributions credited to his or her account during the Offering Period will be returned to him or her or, in the case of his or her death, to the person or persons entitled thereto under Section 13 below, and his or her Purchase Rights with respect to that Offering will automatically terminate.

(c) A Participant's withdrawal from an Offering will not have any effect upon his or her eligibility to participate in a succeeding Offering or in any similar plan that may hereafter be adopted by the Company.

10. ***Interest***. No interest shall accrue on the Contributions of a Participant in the Plan.

11. ***Stock***.

(a) Subject to adjustment as provided in Section 17(a) below, the maximum number of Shares which shall be made available for sale under the Plan shall be one million (1,000,000) Shares. If the Committee determines that, on a given Purchase Date, the number of Shares with respect to which Purchase Rights are to be exercised may exceed the number of Shares available for sale under the Plan on such Purchase Date, the Committee may in its sole discretion provide that the Company shall make a pro rata allocation of the Shares of Common Stock available for purchase on such Purchase Date in as uniform a manner as shall be practicable and as it shall determine in its sole discretion to be equitable among all Participants exercising rights to purchase Common Stock on such Purchase Date. The Company may make pro rata allocation of the Shares available pursuant to the preceding sentence, notwithstanding any authorization of additional Shares for issuance under the Plan by the Company's shareholders subsequent to such Offering Date.

(b) No Participant shall have any interest or voting rights in Shares covered by his or her Purchase Rights until such rights have been exercised and the Shares have been issued.

(c) Shares to be delivered to a Participant under the Plan will be registered in the name of the Participant or in the name of the Participant and his or her spouse.

12. ***Administration***. The Board, or a Committee of the Board named by the Board, shall supervise and administer the Plan and shall have full power to adopt, amend and rescind any rules deemed desirable and appropriate for the administration of the Plan and not inconsistent with the Plan, to construe and interpret the Plan, and to make all other determinations necessary or advisable for the administration of the Plan. To the extent the Board has delegated authority to a Committee, the Board may revoke that delegation at any time. Unless the context otherwise requires, if the Board has delegated authority to a Committee, all references in this Plan to the Board shall be deemed to include the Committee.

13. ***Designation of Beneficiary***.

(a) A Participant may designate a beneficiary who is to receive any Shares and cash, if any, from the Participant's account under the Plan in the event of such Participant's death on or subsequent to the close of an Offering Period but prior to delivery to the Participant of such Shares and cash. In addition, a Participant may designate a beneficiary who is to receive any cash from the Participant's account under the Plan in the event of such Participant's death prior to the Purchase Date of an Offering. Beneficiary designations under this Section 13(a) shall be made in writing (or through an electronic medium) in accordance with procedures approved by the Company's Human Resources Department.

(b) Such Beneficiary designations may be changed in writing (or through an electronic medium) by the Participant in accordance with procedures approved by the Company's Human Resources Department.

(c) In the event of the death of a Participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such Participant's death, the Company shall deliver such Shares and/or cash to the executor or administrator of the estate of the Participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may deliver such Shares and/or cash to the spouse or to any one or more dependents or relatives of the Participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

(d) No beneficiary shall, prior to the death of the Participant by whom such beneficiary has been designated, acquire any interest in the Shares or cash credited to the Participant under the Plan.

14. ***Transferability***. Neither Contributions credited to a Participant's account nor any Purchase Rights or other rights to receive Shares under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws of descent and distribution, or as provided in Section 13 above) by the Participant. Any such attempt at assignment, transfer, pledge or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw funds in accordance with Section 9 above.

15. ***Use of Funds***. All Contributions received or held by the Company under the Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such Contributions.

16. ***Account Maintenance and Reports***. For administrative convenience, the Company will establish non-interest bearing, individual accounts for each Participant in the Plan with one or more brokerage firms designated by the Company (the "Designated Broker"). All Shares purchased by a Participant under the Plan and all earnings from or with respect to those Shares will be credited to the Participant's account under the Plan. Each Participant's account will be reduced by all distributions and expenditures from the account and any account-related expenses not paid by the Company. Unless and until the Board otherwise determines, the Company will pay all annual fees and other costs of maintaining such accounts ("Account Fees") on behalf of each Participant while they remain an Employee, excluding commissions on sales of Shares from the account which shall be the sole responsibility of the selling Participant. Upon termination of a Participant's Continuous Employment with the Company or a Designated Subsidiary, the Company shall no longer pay any Account Fees, transfer costs or other fees and costs with respect to such Participant's account and the Participant may either (a) continue the account in his or her own name and at his or her sole expense (including the liability for all Account Fees); or (b) at his or her sole expense transfer the cash and whole Shares held in such account to an account at another brokerage firm or financial institution designated by the Participant. To consummate such a transfer, a former Employee must submit a transfer request to the Designated Broker in accordance with such transfer procedures as are established by that Designated

Broker from time to time. If a former Employee requests a transfer of the assets from his or her account to another brokerage firm or financial institution, any fractional shares held in the account shall if requested by the Company be sold to or otherwise cashed out by the Company for their Fair Market Value as soon as reasonably practicable following receipt of the transfer request, such that only whole Shares and cash may be transferred. Statements of account will be provided to Participants by the Company or the Designated Broker at least annually, which statements will set forth the amounts of Contributions, the number of Shares purchased and the remaining cash balance, if any. The Company has no fiduciary or other obligations with respect to the investment or custody of the accounts.

17. ***Adjustments Upon Changes in Capitalization; Corporate Transactions***.

(a) *Adjustment*. Subject to any required action by the shareholders of the Company, the number of Shares covered by each Purchase Right under the Plan that has not yet been exercised and the number of Shares that have been authorized for issuance under the Plan but have not yet been placed under Purchase Rights (collectively, the "*Reserves*"), as well as the maximum number of Shares of Common Stock that may be purchased by a Participant in an Offering Period, the number of shares of Common Stock set forth in Section 11(a) above, and the price per Share of Common Stock covered by each Purchase Right under the Plan that has not yet been exercised, shall be proportionately adjusted for any increase or decrease in the number of issued Shares during an Offering Period resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock (including any such change in the number of Shares of Common Stock effected in connection with a change in domicile of the Company), or any other increase or decrease in the number of Shares effected without receipt of consideration by the Company; provided however that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of Shares subject to Purchase Rights.

(b) *Corporate Transactions.* In the event of a dissolution or liquidation of the Company, the Offering and Offering Period then in progress will terminate immediately prior to the consummation of such action, unless otherwise provided by the Board. In the event of a Corporate Transaction, each Purchase Right outstanding under the Plan shall be assumed or an equivalent option shall be substituted by the successor corporation or a parent or Subsidiary of such successor corporation. In the event that the successor corporation refuses to assume or substitute for outstanding options, the Offering and Offering Period then in progress shall be shortened and a new Purchase Date shall be set (the "*New Purchase Date*"), as of which date the Offering and Offering Period then in progress will terminate. The New Purchase Date shall be on or before the date of consummation of the transaction and the Board shall notify each Participant in writing (or through an electronic medium), at least ten (10) days prior to the New Purchase Date, that the Purchase Date for his or her Purchase Right has been changed to the New Purchase Date and that his or her Purchase Right will be exercised automatically on the New Purchase Date, unless prior to such date he or she has withdrawn from the Offering as provided in Section 9 above. For purposes of this Section 17, Purchase Rights granted under the Plan shall be deemed to be assumed, without limitation, if, at the time of issuance of the stock or other consideration upon a Corporate Transaction, each holder of Purchase Rights under the Plan would be entitled to receive upon exercise of those rights the same number and kind of shares of stock or the same amount of property, cash or securities as such holder would have been entitled to receive upon the occurrence of the transaction if the holder had been, immediately prior to the transaction, the holder of the number of Shares of Common Stock covered by the Purchase Rights at such time (after giving effect to any adjustments in the number of Shares covered by the rights as provided for in this Section 17); provided however that if the consideration received in the transaction is not solely common stock of the successor corporation or its parent (as defined in Section 424(e) of the Code), the Board may, with the consent of the successor corporation, provide for the consideration to be received upon exercise of Purchase Rights to be solely common stock of the successor corporation or its parent equal in Fair Market Value to the per Share consideration received by holders of Common Stock in the transaction.

(c) The Board may, if it so determines in the exercise of its sole discretion, also make provision for adjusting the Reserves, as well as the Purchase Price per Share of Common Stock covered by each outstanding Purchase Right, in the event that the Company effects one or more reorganizations, recapitalizations, rights offerings or other increases or reductions of Shares of its outstanding Common Stock, and in the event of the Company's being consolidated with or merged into any other corporation.

18. ***Amendment or Termination***.

(a) The Board may at any time and for any reason terminate or amend the Plan. Except as provided in Sections 17 and 21, no such termination of the Plan may affect Purchase Rights previously granted, provided that the Plan or an Offering may be terminated by the Board on a Purchase Date or by the Board's setting a new Purchase Date with respect to an Offering then in progress if the Board determines that termination of the Plan and/or the Offering is in the best interests of the Company and the shareholders or if continuation of the Plan and/or the Offering would cause the Company to incur adverse accounting charges as a result of a change after the effective date of the Plan in the generally accepted accounting rules applicable to the Plan. Except as provided in Section 17 above and in this Section 18, no amendment to the Plan shall make any change in any Purchase Right previously granted that adversely affects the rights of any Participant. In addition, to the extent necessary to comply with the rules of the NYSE or any other securities exchange or market system on which Shares are listed or quoted, or under Section 423 of the Code (or any successor rule or provision or any applicable law or regulation), the Company shall obtain shareholder approval in such a manner and to such a degree as so required.

(b) Without shareholder consent and without regard to whether any Participant rights may be considered to have been adversely affected, the Committee, pursuant to its administrative authority granted under Section 12, shall be entitled to permit payroll withholding in excess of the amount designated by a Participant in order to adjust for delays or mistakes in the Company's processing of properly completed withholding elections, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of Common Stock for each Participant properly correspond with amounts withheld from the Participant's Compensation, and establish such other limitations or procedures as the Committee determines in its sole discretion advisable that are consistent with the Plan.

19. ***Notices***. All notices or other communications by a Participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

20. ***Conditions Upon Issuance of Shares***. Shares shall not be issued under the Plan with respect to any Purchase Rights unless the exercise of such rights and the issuance and delivery of such Shares pursuant thereto shall comply with all applicable provisions of law, domestic or foreign, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, applicable state securities laws and the requirements of the NYSE and any stock exchange upon which the Shares may then be listed or quoted, and shall be further subject to the approval of counsel for the Company with respect to such compliance. As a condition to the exercise of rights and issuance or Shares, the Company may require the person exercising such rights to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned applicable provisions of law.

21. ***Term of Plan***. Upon approval by the Board, the Plan shall become effective for Offering Periods beginning on and after June 1, 2017. It shall continue in effect until all of the Shares of Common Stock set forth in Section 11 hereof are exhausted or such earlier time as the Plan is terminated pursuant to Section 18 hereof.

22. ***Additional Restrictions of Rule 16b-3***. The terms and conditions of Purchase Rights granted hereunder to, and the purchase of Shares by, persons subject to Section 16 of the Exchange Act shall comply with the applicable provisions of Rule 16b-3. This Plan shall be deemed to contain, and such rights shall contain, and the Shares issued upon exercise thereof shall be subject to, such additional conditions and restrictions as may be required by Rule 16b-3 to qualify for the maximum exemption from Section 16 of the Exchange Act with respect to Plan transactions.

23. ***Governing Law and Choice of Law***. This Plan and all Purchase Rights hereunder shall be interpreted and construed according to the laws of the State of Utah, without giving effect to any conflict of laws provisions. In the event any person initiates legal action based upon a dispute or claim arising out of this Plan or any Award Agreement, such action shall be exclusively brought before and decided by a state court or U.S. District Court in the State of Utah.

24. ***Non-U.S. Participants***. The Committee shall have the power and authority to designate a portion of the Plan that is not intended to comply with Section 423 of the Code and to allow any of the Company's Subsidiaries other than Designated Subsidiaries to adopt and join in such portion of the Plan so that employees of such Subsidiaries who work or reside outside

of the United States have an opportunity to acquire Shares of Common Stock in accordance with such special terms and conditions as the Committee may establish from time to time, which terms and conditions may modify the terms and conditions of the Plan set forth elsewhere in this Plan. Without limiting the authority of the Committee, the special terms and conditions which may be established with respect to any foreign country, and which need not be the same for all foreign countries, include but are not limited to the right to participate, procedures for elections to participate, the payment of any interest with respect to amounts received from or credited to accounts held for the benefit of participants, the purchase price of any Shares to be acquired, the length of any Offering Period, the maximum amount of contributions, credits or Shares of Common Stock which may be acquired by any participating employees, and a participating employee's rights in the event of his or her death, disability, withdrawal from participation in the purchase of Shares of Common Stock hereunder, or termination of employment. Any purchases made pursuant to the provisions of this Section 24 shall not be subject to the requirements of Section 423 of the Code.

IN WITNESS WHEREOF, the Company has caused this Plan document to be executed by its duly authorized officer this _____ day of _______________, 2017.

FRANKLIN COVEY CO.

By: ____

Name:
Title:

Schedule 1
Designated Subsidiaries

Franklin Development Corporation (a Utah corporation)

Franklin Covey Travel, Inc. (a Utah corporation)

Franklin Covey Client Sales, Inc. (a Utah corporation)

APPENDIX B

ADJUSTED EBITDA RECONCILIATION TO NET INCOME (LOSS)

For fiscal 2012 to fiscal 2017, Adjusted EBITDA means net income or loss from operations excluding the impact of interest expense, income tax expense, amortization, depreciation, share-based compensation expense and non-recurring items. The Company references this non-GAAP financial measure in its disclosure and decision making because it provides supplemental information that facilitates consistent internal comparisons to the historical operating performance of prior periods and the Company believes it provides investors with greater transparency to evaluate operational activities and financial results.

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

	Fiscal Year Ended August 31,					
	2017	2016	2015	2014	2013	2012
Reconciliation of net income (loss) to Adjusted EBITDA:						
Net income (loss)	$(7,172)	$ 7,016	$11,116	$18,067	$14,319	$ 7,841
Adjustments:						
Other income, net	—	—	—	—	(21)	—
Interest expense, net	2,029	1,938	1,754	1,810	1,718	2,464
Discount on related party receivable	—	—	363	1,196	519	1,369
Income tax provision (benefit)	(3,737)	4,895	6,296	3,692	5,079	5,906
Amortization	3,538	3,263	3,727	3,954	3,191	2,499
Depreciation	3,879	3,677	4,142	3,383	3,008	3,142
Share-based compensation	3,658	3,121	2,536	3,534	3,589	3,835
Reduction of contingent earn-out liability	(1,936)	1,538	35	(1,579)	—	—
Impairment of related party receivable	—	—	—	363	—	—
Severance costs	—	—	—	—	—	—
Impairment of assets	—	—	1,302	—	—	—
Costs to exit Japan publishing business	2,107	—	—	—	—	—
Restructuring costs	1,482	776	587	—	—	—
ERP system implementation costs	1,404	448	—	—	—	—
Business acquisition costs	442	—	—	—	—	—
Contract termination costs	1,500	—	—	—	—	—
China start-up costs	505	222	—	—	—	—
	$ 7,699	$26,894	$31,858	$34,420	$31,402	$27,056

Form 10-K

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

FORM 10-K

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

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM ___ TO ___

FRANKLIN COVEY CO.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

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

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

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

Large accelerated filer ☐ Accelerated filer ☑

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

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

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

As of October 31, 2017, the Registrant had 13,702,759 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Parts of the Registrant's Definitive Proxy Statement for the Annual Meeting of Shareholders, which is scheduled to be held on January 26, 2018, are incorporated by reference in Part III of this Form 10-K.

PART I

Disclosure Regarding Forward-Looking Statements

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

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

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

ITEM 1. BUSINESS

GENERAL INFORMATION

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

The Company was incorporated in 1983 under the laws of the state of Utah, and we merged with the Covey Leadership Center in 1997 to form Franklin Covey Co. Our consolidated net sales for the fiscal year ended August 31, 2017 totaled $185.3 million and our shares of common stock are traded on the New York Stock Exchange (NYSE) under the ticker symbol "FC."

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

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

RECENT BUSINESS DEVELOPMENTS

During fiscal 2016, we introduced the All Access Pass (AAP), which allows our clients unlimited access to our content through an electronic portal. We believe the All Access Pass is a revolutionary and innovative way to deliver content to clients of various sizes, including large, multinational organizations. Clients may utilize complete offerings such as *The 7 Habits of Highly Effective People* and *The 5 Choices to Extraordinary Productivity*, or use individual concepts from any of our well-known offerings to create a custom solution to fit their organizational or individual training needs. During fiscal 2017, we invested significant capital to further develop the AAP offering and increase its usefulness to our clients. We are currently translating AAP materials into 15 additional languages and completing significant upgrades of the AAP portal. These enhancements to the AAP are expected to be launched in fiscal 2018.

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

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

- ***New China Offices*** – On September 1, 2016 we opened three new sales offices in China. These offices are located in Beijing, Shanghai, and Guangzhou. Subsequent to August 31, 2017, we opened another sales office in Shenzhen, China. Our sales operations in China were previously managed by an independent licensee partner.
- ***Acquisition of Robert Gregory Partners*** – In May 2017, we acquired the assets of Robert Gregory Partners, LLC (RGP), a corporate coaching firm with expertise in executive coaching, transition acceleration coaching, leadership development coaching, implementation coaching, and consulting. We anticipate that RGP services and methodologies will become key offerings in our training and consulting business.
- ***Acquisition of Jhana Education*** – In July 2017, we acquired the stock of Jhana Education (Jhana), a company that specializes in the creation and dissemination of relevant, bite-sized content and learning tools for leaders and managers. We anticipate that the Jhana content and delivery methodologies acquired will become key features of our AAP offering.
- ***License Rights for Intellectual Property*** – During fiscal 2017, we acquired the license rights for certain intellectual property owned by Higher Moment, LLC. The intellectual property is in part based on works authored and developed by Dr. Clayton Christensen, a well-known author and lecturer, who is a member of our Board of Directors. As we seek to expand offerings available on the AAP, we anticipate additional purchases or licenses of intellectual property in future periods.

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

SERVICES OVERVIEW

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

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

1. **World Class Content** – Rather than rely on "flavor of the month" training fads, our content is principle-centered and based on natural laws of human behavior and effectiveness. Our content is designed to build new skillsets, establish new mindsets, and provide enabling toolsets. When our content is applied consistently in an organization, we believe the culture of that organization will change to enable the organization to achieve its own great purposes. Our content is well researched, subjected to numerous field beta tests, and improved through a proven development process.
2. **Breadth and Scalability of Delivery Options** – We have a wide range of content delivery options, including: the All Access Pass and other intellectual property licensing arrangements, on-site training, training led through certified facilitators, on-line learning, blended learning, and organization-wide transformational processes, including consulting and coaching.

3. **Global Capability –** We not only operate domestically with sales personnel in the United States and Canada, but we also deliver content through our directly owned international offices and international licensee partners who deliver our content in over 150 other countries and territories around the world. This capability allows us to deliver content to a wide range of customers, from large, multinational corporations to smaller, local entities.

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

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

SEGMENT INFORMATION

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

- ***Direct Offices*** – This segment consists of our sales force that serves the United States and Canada; our international sales offices located in Japan, China, the United Kingdom, and Australia; and our public programs group.
- ***Strategic Markets*** – This segment includes our government services office, the Sales Performance practice, the Customer Loyalty practice, and the "Global 50" group, which is specifically focused on sales to large, multi-national organizations.
- ***Education practice*** – This segment is comprised of our domestic and international Education practice operations, which are centered on sales to educational institutions such as elementary schools, high schools, and colleges and universities.
- ***International Licensees*** – This segment is primarily comprised of our international licensees' royalty revenues.

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

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

INDUSTRY INFORMATION

According to the *Training* magazine 2017 Training Industry Survey, the total size of the U.S. training industry is estimated to be $93.7 billion, which is a significant increase (32%) compared with the prior year. One of our competitive advantages in this highly fragmented industry stems from our fully integrated principle-centered training offerings, measurement methodologies, and implementation tools to help organizations and individuals measurably improve their effectiveness. This advantage allows us to deliver not only training to both corporations and individuals, but also to implement the training through the use of powerful behavior-changing tools with the capability to then measure the impact of the delivered content and solutions.

CLIENTS

We have a relatively broad base of clients, which includes thousands of organizational, governmental, educational, and individual clients in both the United States and in other countries that are served through our directly owned operations. We have thousands of additional organizational clients throughout the world, which are served through our global licensee partner network, and we believe that our content, in all its forms, delivers results that encourage strong client loyalty. We are not dependent on a single client or industry group, and during the periods presented in this report, none of our clients were responsible for more than ten percent of our consolidated revenues.

Over our history, we have provided content, services, and products to 97 of the Fortune 100 companies and more than 75 percent of the Fortune 500 companies. We also provide content and services to a number of U.S. and foreign governmental agencies, as well as numerous educational institutions. Due to the nature of our business,

we do not have a significant backlog of orders. Nearly all of our deferred revenue is attributable to subscription services for which we recognize revenue over the lives of the corresponding agreements.

COMPETITION

We operate in a highly competitive and rapidly changing global marketplace and compete with a variety of organizations that offer services comparable with those that we offer. The nature of the competition in the performance improvement industry, however, is highly fragmented with few large competitors. Based upon our fiscal 2017 consolidated sales of $185.3 million, we believe that we are a leading competitor in the performance skills and education market. Other significant comparative companies in the performance improvement market are Development Dimensions International, CRA International, Inc., Learning Tree International Inc., GP Strategies Corp., FTI Consulting, Inc., American Management Association, Wilson Learning, Forum Corporation, The Hackett Group, and the Center for Creative Leadership.

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

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

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

SEASONALITY

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

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

MANUFACTURING AND DISTRIBUTION

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

TRADEMARKS, COPYRIGHTS, AND INTELLECTUAL PROPERTY

Our success has resulted in part from our proprietary content, methodologies, and other intellectual property

rights. We seek to protect our intellectual property through a combination of trademarks, copyrights, and confidentiality agreements. We claim rights for over 580 trademarks in the United States and foreign countries, and we have obtained registration in the United States and numerous foreign countries for many of our trademarks including *FranklinCovey, The 7 Habits of Highly Effective People, The 4 Disciplines of Execution*, and *The 7 Habits*. We consider our trademarks and other proprietary rights to be important and material to our business.

We claim over 200 registered copyrights, and own sole or joint copyrights on our books, manuals, text and other printed information provided in our training programs, and other electronic media products, including audio and video media. We may license, rather than sell, facilitator workbooks and other seminar and training materials in order to protect our intellectual property rights therein. We place trademark and copyright notices on our instructional, marketing, and advertising materials. In order to maintain the proprietary nature of our product information, we enter into written confidentiality agreements with certain executives, product developers, sales professionals, training consultants, other employees, and licensees.

EMPLOYEES

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

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

EXECUTIVE OFFICERS

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

M. Sean Covey, 53, currently serves as Executive Vice President of Global Solutions and Partnerships and Education Practice Leader, and has been an Executive Officer since September 2008. Sean was formerly Senior Vice President of Innovations and Product Development from April 2006 to September 2009, where he led the development of nearly all of the Company's current organizational offerings, including: *The 7 Habits* curriculum; *xQ*; *The 4 Disciplines of Execution*; *The Leader in Me*; and *Leadership Greatness*. Prior to 2006, Sean ran the Franklin Covey retail chain of stores, growing it to $152 million in sales. Before joining Franklin Covey, Sean worked for the Walt Disney Company, Trammel Crow Ventures, and Deloitte & Touche Consulting. Sean is also the author of several books, including *The 4 Disciplines of Execution*, *The 6 Most Important Decisions You'll Ever Make*, the New York Times Best Seller *The 7 Habits of Happy Kids*, and the international bestseller *The 7 Habits of Highly Effective Teens*, which has been translated into 20 languages and has sold over 4 million copies. Sean graduated with honors from Brigham Young University with a Bachelor's degree in English and later earned his MBA from the Harvard Business School. Sean is the son of the late Dr. Stephen R. Covey.

Colleen Dom, 55, was appointed to be the Executive Vice-President of Operations in September 2013. Ms. Dom began her career with the Company in 1985 and served as the first "Client Service Coordinator," providing service and seminar support for some of the Company's very first clients. Prior to her appointment as an Executive Vice President, Ms. Dom served as Vice President of Domestic Operations since 1997 where she had responsibility for the Company's North American operations, including client support, supply chain, and feedback operations. During her time at Franklin Covey Co., Ms. Dom has been instrumental in creating and implementing systems and processes that have supported the Company's strategic objectives and has more than 30 years of experience in client services, sales support, operations, management, and supply chain. Due to her valuable understanding of the Company's global operations, Ms. Dom has been responsible for numerous key assignments that have enhanced client support, optimized operations, and built capabilities for future growth. Prior to joining the Company, Ms. Dom worked in retail management and in the financial investment industry.

C. Todd Davis, 60, is an Executive Vice President and Chief People Officer, and has been an Executive Officer since September 2008. Todd has over 30 years of experience in training, training development, sales and marketing, human resources, coaching, and executive recruiting. He has been with Franklin Covey for more than the past 20 years. Previously, Todd was a Director of our Innovations Group where he led the development of core offerings

including *The 7 Habits of Highly Effective People – Signature Program* and *The 4 Disciplines of Execution*. He also worked for several years as our Director of Recruitment and was responsible for attracting, hiring, and retaining top talent for the organization. Prior to joining Franklin Covey, Mr. Davis worked in the medical industry for 9 years where he recruited physicians and medical executives along with marketing physician services to hospitals and clinics throughout the country. Todd is the author of the recently released *Get Better: 15 Proven Practices to Build Effective Relationships at Work*.

Scott J. Miller, 49, was appointed as Executive Vice-President of Business Development and Marketing in March 2012. Mr. Miller, who has been with Franklin Covey for nearly 19 years, previously served as Vice-President of Business Development and Marketing. Mr. Miller's role as an Executive Vice-President caps 12 years on our front line, working with thousands of client facilitators across many markets and countries. Prior to his appointment as Vice-President of Business Development and Marketing, Mr. Miller served as the general manager of our central regional sales office for six years. Scott originally joined the Covey Leadership Center in 1996 as a client partner with the Education division. Mr. Miller started his professional career with the Disney Development Company, the real estate development division of the Walt Disney Company, in 1992. During his time with the Disney Development Company, Scott identified trends and industry best practices in community development, education, healthcare, architectural design, and technology. Mr. Miller received a Bachelor of Arts in Organizational Communication from Rollins College in 1996.

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

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

Paul S. Walker, 42, is a 17-year veteran of Franklin Covey Co. On September 1, 2015, Mr. Walker was appointed Executive Vice-President of Global Sales and Delivery. Mr. Walker began his career with Franklin Covey in 2000 in the role of business developer, was promoted to a Client Partner, and then to an Area Director. In 2007, Mr. Walker became General Manager of the Company's central sales region, an 11-state area that also included Ontario, Canada. Prior to working for Franklin Covey, Mr. Walker was a senior sales partner for Alexander's Digital Printing and a middle-market pilot coordinator with New York Life. Mr. Walker graduated from Brigham Young University with a Bachelor of Arts in Communications.

Robert A. Whitman, 64, has served as Chairman of the Board of Directors since June 1999 and as President and Chief Executive Officer of the Company since January 2000. Mr. Whitman previously served as a director of the Covey Leadership Center from 1994 to 1997. Prior to joining us, Mr. Whitman served as President and Co-Chief Executive Officer of The Hampstead Group from 1992 to 2000 and is a founding partner at Whitman Peterson. Mr. Whitman received his Bachelor of Arts degree in Finance from the University of Utah and his MBA from the Harvard Business School.

Stephen D. Young, 64, joined FranklinCovey as Executive Vice President of Finance, was appointed Chief Accounting Officer and Controller in January 2001, Chief Financial Officer in November 2002, and Corporate Secretary in March 2005. Prior to joining us, he served as Senior Vice-President of Finance, Chief Financial Officer, and director of international operations for Weider Nutrition for seven years; as Vice-President of Finance at First Health for ten years; and as an auditor at Fox and Company, a public accounting firm, for four years. Mr. Young has more than 35 years of accounting and management

experience and is a Certified Public Accountant. Mr. Young was awarded a Bachelor of Science in Accounting from Brigham Young University.

AVAILABLE INFORMATION

We regularly file reports with the SEC. These reports include, but are not limited to, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and security transaction reports on Forms 3, 4, or 5. The public may read and copy any materials that the Company files with the SEC at the SEC's Public Reference Room located at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains electronic versions of the Company's reports, proxy and information statements, and other information that the Company files with the SEC on its website at www.sec.gov.

The Company makes our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, current reports on Form 8-K, and other reports filed or furnished with the SEC available to the public, free of charge, through our website at www.franklincovey.com. These reports are provided through our website as soon as is reasonably practicable after we file or furnish these reports with the SEC.

ITEM 1A. RISK FACTORS

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

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

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

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

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

In fiscal 2016, we introduced the All Access Pass, which is an internet-based platform that allows our clients to purchase unlimited access to our intellectual property for a specified period. Clients may utilize entire training offerings or use individual portions of numerous programs to customize a training or personnel program that fits their needs. We expected that the change to an AAP focused business model would be disruptive in the short term as we transition to the new business model, but we believe the benefits of the AAP to our clients and to our business will prove beneficial in future periods.

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

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

The All Access Pass is an internet-based platform, and as such we are subject to increased risks of cyber-attacks and other security breaches that could have a material adverse effect on our business.

As part of selling the AAP, we collect, process, and retain a limited amount of sensitive and confidential information regarding our customers. Because the AAP is an internet-based platform, our facilities and systems associated with the AAP may be vulnerable to external or internal security breaches, acts of vandalism, computer viruses, misplaced or lost data, stolen intellectual property, programming or human errors, or other similar events.

The access by unauthorized persons to, or the improper disclosure by us of, confidential information regarding our customers or our own proprietary information, software, methodologies, and business secrets could result in significant legal and financial exposure, damage to our reputation, or a loss of confidence in the security of our

systems, products, and services, which could have a material adverse effect on our business, financial condition, or results of operations. To the extent we are involved in any future cyber-attacks or other breaches, our brand and reputation could be affected, and these conditions could also have a material adverse effect on our business, financial condition, or results of operations.

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

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

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

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

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

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

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

We could have liability or our reputation could be damaged if we do not protect client data or if our information systems are breached.

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

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

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

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

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

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

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

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

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

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

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

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

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

Our global operations pose complex management, foreign currency, legal, tax, and economic risks, which we may not adequately address.

We have sales offices in Australia, China, Japan, and the United Kingdom. We also have licensed operations in numerous other foreign countries. As a result of these foreign operations and their impact upon our financial statements, we are subject to a number of risks, including:

- Restrictions on the movement of cash
- Burdens of complying with a wide variety of national and local laws
- The absence in some jurisdictions of effective laws to protect our intellectual property rights
- Political instability
- Currency exchange rate fluctuations
- Longer payment cycles
- Price controls or restrictions on exchange of foreign currencies

For instance, on June 23, 2016, the United Kingdom held a referendum in which a majority of voters chose to exit the European Union, commonly referred to as "Brexit." The outcome of this referendum produced significant currency exchange rate fluctuations and volatility in global stock markets and it is expected that the British government will commence negotiations to determine the terms of Brexit. Given the lack of comparable precedent, the implications of Brexit or how such implications might affect us are unclear. Brexit could, among other things, disrupt trade and the free movement of goods, services and people between the United Kingdom and the European Union or other countries as well as create legal and global economic uncertainty. These and other potential implications of Brexit could adversely affect our business and financial results.

We may experience foreign currency gains and losses.

Our sales outside of the United States totaled $48.0 million, or approximately 26 percent of consolidated sales, for the fiscal year ended August 31, 2017. As our international operations grow and become a larger component of our overall financial results, our revenues and operating results may be adversely affected when the dollar strengthens relative to other currencies and may be favorably affected when the dollar weakens. In order to manage a portion of our foreign currency risk, we may make limited use of foreign currency derivative contracts to hedge certain transactions and

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

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

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

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

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

Our common stock is publicly traded on the NYSE, and at any given time various securities analysts follow our financial results and issue reports on us. These periodic reports include information about our historical financial results as well as the analysts' estimates of our future performance. The analysts' estimates are based on their own opinions and are often different from our estimates or expectations. If our operating results are below the estimates or expectations of public market analysts and investors, our stock price could decline. If our stock price is volatile, we may become involved in securities litigation following a decline in price. Any litigation could result in substantial costs and a diversion of management's attention and resources that are needed to successfully run our business.

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

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

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

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

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

Knowledge Capital Investment Group (Knowledge Capital), a related party primarily controlled by a member of our Board of Directors, holds 2.8 million shares, or approximately 21 percent, of our outstanding common shares. On January 26, 2015, the SEC declared effective a registration statement on Form S-3 to register shares held by Knowledge Capital. On May 20, 2015, Knowledge Capital sold 400,000 shares of our common stock on the open market and we did not purchase any of these shares. The sale or prospect of the sale of a substantial number of the shares held by Knowledge Capital may have an adverse effect on the market price of our common stock.

Our profitability will suffer if we are not able to maintain our pricing and utilization rates.

The profit margin on our services is largely a function of the rates we are able to recover for our services and the utilization, or chargeability, of our trainers, client

partners, and consultants. Accordingly, if we are unable to maintain sufficient pricing for our services or an appropriate utilization rate for our training professionals without corresponding cost reductions, our profit margin and overall profitability will suffer. The rates that we are able to recover for our services are affected by a number of factors that we may be unable to control, including:

- Our clients' perceptions of our ability to add value through our programs and content
- Competition
- General economic conditions
- Introduction of new programs or services by us or our competitors
- Our ability to accurately estimate, attain, and sustain engagement sales, margins, and cash flows over longer contract periods

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

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

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

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

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

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

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

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

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

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

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

- Develop new services, programs, or offerings

- Take advantage of opportunities, including business acquisitions
- Respond to competitive pressures

Going forward, we will continue to incur costs necessary for the day-to-day operation and potential growth of the business and may use our available revolving line of credit facility and other financing alternatives, if necessary, for these expenditures. Our existing credit arrangement expires on March 31, 2020 and we expect to regularly renew our lending agreement to maintain the availability of this credit facility. Additional potential sources of liquidity available to us include factoring receivables, issuance of additional equity, or issuance of debt from public or private sources. If necessary, we will evaluate all of these options and select one or more of them depending on overall capital needs and the associated cost of capital.

Any additional capital raised through the sale of equity could dilute current shareholders' ownership percentage in us. Furthermore, we may be unable to obtain the necessary capital on terms or conditions that are favorable to us, or at all.

We may have exposure to additional tax liabilities.

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

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

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

At August 31, 2017 we had $57.3 million of intangible assets, which were primarily generated from the fiscal 1997 merger with the Covey Leadership Center, and $24.2 million of goodwill. Our intangible assets are evaluated for impairment based on qualitative factors or upon cash flows (definite-lived intangible assets) and estimated royalties from revenue streams (indefinite-lived intangible assets) if necessary. Our goodwill is evaluated through qualitative factors and by comparing the fair value of the reporting units to the carrying value of our net assets if necessary. Our intangible assets, goodwill, and other long-term assets may become impaired if the corresponding cash flows associated with these assets decline in future periods or if our market capitalization declines significantly in future periods. Although our current sales, cash flows, and market capitalization are sufficient to support the carrying basis of these long-lived assets, if our sales, cash flows, or common stock price decline, we may be faced with significant asset impairment charges that would have an adverse impact upon our results of operations.

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

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

Ineffective internal controls could impact our business and operating results.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal executive offices are located in Salt Lake City, Utah and as of August 31, 2017, all of the facilities used in our operations are leased. Our leased facilities primarily consist of sales and administrative offices both in the United States and various countries around the world, and we consider our existing facilities to be in good condition and suitable for our current and expected level of operations in the upcoming fiscal year and in future periods.

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

Corporate Facilities

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

U.S./Canada Sales Offices

Regional Sales Offices:
United States (2 locations)

International Facilities

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

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

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

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

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Our common stock is listed and traded on the New York Stock Exchange (NYSE) under the symbol "FC." The following table sets forth the high and low sale prices per share of our common stock for the fiscal years ended August 31, 2017 and 2016.

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

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

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

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

Purchases of Common Stock

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

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

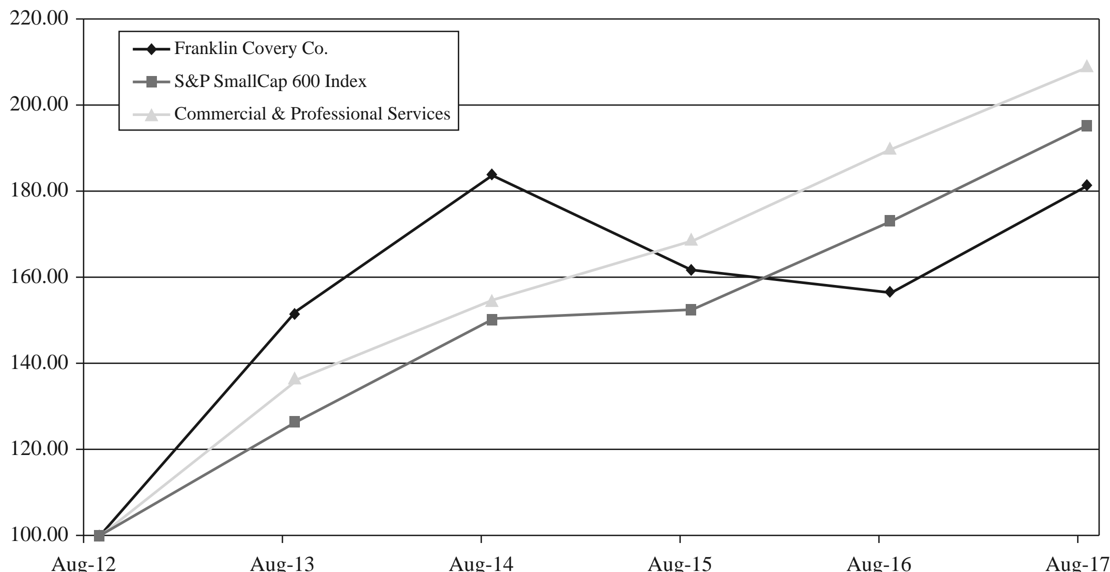
(1) On January 23, 2015, our Board of Directors approved a new plan to repurchase up to $10.0 million of the Company's outstanding common stock. All previously existing common stock repurchase plans were canceled and the new common share repurchase plan does not have an expiration date. On March 27, 2015, our Board of Directors increased the aggregate value of shares of Company common stock that may be purchased under the January 2015 plan to $40.0 million so long as we have either $10.0 million in cash and cash equivalents or have access to debt financing of at least $10.0 million. Under the terms of this expanded common stock repurchase plan, we have purchased 1,539,828 shares of our common stock for $26.8 million through August 31, 2017.

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

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

Performance Graph

The following graph demonstrates a five-year comparison of cumulative total returns for Franklin Covey Co. common stock, the S&P SmallCap 600 Index, and the S&P 600 Commercial & Professional Services Index. The graph assumes an investment of $100 on August 31, 2012 in each of our common stock, the stocks comprising the S&P SmallCap 600 Index, and the stocks comprising the S&P 600 Commercial & Professional Services Index. Each of the indices assumes that all dividends were reinvested.



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

The performance graph above is being furnished solely to accompany this report on Form 10-K pursuant to Item 201(e) of Regulation S-K, and is not being filed for purposes of Section 18 of the Exchange Act, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

ITEM 6. SELECTED FINANCIAL DATA

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

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

(1) During fiscal 2017 we decided to allow new All Access Pass intellectual property agreements to receive updated content throughout the contracted period. Accordingly, we defer substantially all AAP revenues at the inception of the agreements and recognize the revenue over the lives of the arrangements. The transition to the AAP model resulted in significantly reduced revenues and operating income during fiscal 2017.

(2) We elected to amend previously filed U.S. federal income tax returns to claim foreign tax credits instead of foreign tax deductions and recognized significant income tax benefits which reduced our effective income tax rate during these years.

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

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

EXECUTIVE SUMMARY

General Overview

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

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

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

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

Our fiscal year ends on August 31, and unless otherwise indicated, fiscal 2017, fiscal 2016, and fiscal 2015 refer to the twelve-month periods ended August 31, 2017, 2016, 2015, and so forth.

Fiscal 2017 Business Development

Development of the All Access Pass

During mid-2016, we introduced the All Access Pass (AAP), which allows our clients unlimited access to our intellectual property through an electronic portal. We believe the All Access Pass is a revolutionary and innovative way to deliver content to clients of various sizes, from large, multinational entities to smaller organizations that are seeking to improve their culture and results. The All Access Pass allows our clients to: purchase unlimited access to our collection of best-in-class content to address their most important performance needs; assemble, integrate, and deliver that content through any of a broad combination of delivery modalities; have the help of our implementation specialists to design customized impact journeys; and do so at a very attractive price per person trained. Clients may utilize complete offerings such as *The 7 Habits of Highly Effective People* and *The 5 Choices to Extraordinary Productivity*, or use individual concepts from any of our well-known offerings to create a custom solution to fit their organizational or individual training needs. During fiscal 2017, we invested significant capital to further develop the AAP offering and increase its functionality and usefulness to our clients. We are currently translating AAP materials into 15 languages and completing significant upgrades of the AAP portal. These enhancements to the All Access Pass are expected to be launched in mid-fiscal 2018.

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

Business Acquisitions

In May 2017, we acquired the assets of Robert Gregory Partners, LLC (RGP), a corporate coaching firm with expertise in executive coaching, transition acceleration coaching, leadership development coaching, implementation coaching, and consulting. We recognized $1.2 million of sales from RGP in fiscal 2017, and we anticipate that RGP services and methodologies will become key offerings in our training and consulting business in future periods.

In July 2017, we acquired the stock of Jhana Education (Jhana), a company that specializes in the creation and dissemination of relevant, bite-sized content and learning tools for leaders and managers. While our fiscal 2017 sales were not significantly impacted by the Jhana acquisition, we anticipate that the acquired Jhana content and delivery methodologies will become key features of our AAP offering.

New China Direct Offices

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

Acquisition of Intellectual Property License Rights

During fiscal 2017, we acquired the license rights for certain intellectual property owned by Higher Moment, LLC. The intellectual property is in part based on works authored and developed by Dr. Clayton Christensen, a well-known author and lecturer, who is a member of our Board of Directors. As we seek to expand the content and offerings available on the All Access Pass, we anticipate additional purchases of intellectual property licenses in future periods.

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

Financial Overview

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

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

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

Including the factors noted above, our net sales in fiscal 2017 were $185.3 million compared with $200.1 million in fiscal 2016, and $209.9 million in fiscal 2015. Deferred

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

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

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

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

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

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

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

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

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

Key Growth Objectives

We believe that our best-in-class content, combined with flexible delivery modalities and worldwide sales and distribution capabilities are the foundation for future growth at Franklin Covey. Building on this foundation, we have identified the following key drivers of growth in fiscal 2018 and beyond:

- ***New All Access Pass Sales and the Renewal of Existing Client Contracts*** – We are focused on sales of AAP contracts and have restructured our domestic sales force and sales support functions to more effectively sell and support the AAP. We believe we are well positioned to expand sales of the All Access Pass in the United States and Canada and reach new clients. The fiscal 2017 acquisition of Jhana Education is expected to attract new clients through its delivery of content in bite-sized modules. We are currently in the process of translating AAP content into 15 new languages and expect to release the content and a new improved AAP portal in fiscal 2018. These additional languages will allow us to launch the AAP at our offices in Japan and China, as well as with many of our licensee partners.
- ***Education Segment Sales*** – Our Education segment has consistently grown over the past several years. We intend to continue to invest in new content and additional sales personnel to reach out to new schools and retain existing schools. We believe there are significant growth opportunities, both domestically and internationally, for our Education segment and its well-known *The Leader in Me* offering.
- ***Growth of our Direct Office and International Licensee Channels*** – We are actively focused on growing the size and productivity of our direct office channel through expansion of our sales force to reach potential clients. We believe that the structural changes made in fiscal 2017 will help us improve sales and lower costs in future periods. In addition, we believe the acquisition of Robert Gregory Partners, LLC in fiscal 2017 will open new opportunities as we seek to expand our coaching business. We are also actively seeking to expand the size and productivity of our international licensee partners through the development of additional content, such as the translated AAP offerings, and additional licensee support activities.

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

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

RESULTS OF OPERATIONS

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

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

FISCAL 2017 COMPARED WITH FISCAL 2016

Sales

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

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

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

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

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

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

International Licensees – In countries or foreign locations where we do not have a directly owned office, our training and consulting services are delivered through independent licensees, which may translate and adapt our offerings to local preferences and customs, if necessary. Our international licensee revenues decreased $3.5 million compared with the prior year. The decrease was primarily due to the conversion of our China licensee into a direct office ($2.5 million of royalty revenues during fiscal 2016) and by decreased sales at certain of our licensee partners during the fiscal year. Foreign exchange rates did not have a material impact on licensee sales in fiscal 2017.

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

Cost of Sales and Gross Profit

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

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

Operating Expenses

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

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

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

Contract Termination Costs – We entered into a new 10-year license agreement for Education practice content in a foreign country, with minimum required royalties payable to us that total $16.1 million (at current exchange rates) over the life of the arrangement. Under a previously existing profit-sharing agreement, we would have been obligated to pay one-third of the royalty, or $5.4 million, to an international licensee partner that owns the rights in that country. For a $1.5 million cash payment, we terminated the previously existing profit sharing arrangement and we will owe no further royalty payments to the licensee. Based on the guidance for contract termination costs, we expensed the $1.5 million payment made during the second quarter.

Restructuring Costs – During the third quarter of fiscal 2017, we decided to exit the publishing business in Japan and we restructured our U.S./Canada direct office operations to transition to an AAP-focused business model. We expensed $3.6 million related to these changes during fiscal 2017. Due to a change in strategy designed to focus resources and efforts on sales of the All Access Pass in Japan, and declining sales and profitability of the publishing business, we decided to exit the publishing business in Japan. As a result of this determination, we wrote off the majority of our book inventory located in Japan and expensed $2.1 million, which was recorded in cost of sales, as previously described. We also restructured the operations of our U.S/Canada direct offices to create new smaller regional market teams that are focused on selling the All Access Pass. Accordingly, we determined that our three remaining regional sales offices were unnecessary since most client partners work from home-based offices, we restructured the operations of the Sales Performance and Winning Customer Loyalty Practices, and we eliminated certain functions to reduce costs in future periods. We expensed $1.5 million for these restructuring costs in fiscal 2017.

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

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

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

Income Taxes

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

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

FISCAL 2016 COMPARED WITH FISCAL 2015

Sales

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

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

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

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

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

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

Gross Profit

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

Operating Expenses

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

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

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

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

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

During fiscal 2016 we also restructured the operations of our Australian direct office. The restructuring was designed to reduce ongoing operating costs by closing the sales offices in Brisbane, Sydney, and Melbourne, and by reducing headcount for administrative functions. Our remaining sales and support personnel in Australia now work from home offices, as do most of our sales personnel located in the U.S. and Canada. The $0.4 million charge recorded during the second quarter of fiscal 2016 was primarily for office closure costs, including remaining lease expense on the offices that were closed, and for employee severance costs.

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

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

Income Taxes

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

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

Discount on Related Party Receivable

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

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

QUARTERLY RESULTS

The following tables set forth selected unaudited quarterly consolidated financial data for the fiscal years ended August 31, 2017 and 2016. The quarterly consolidated financial data reflects, in the opinion of management, all normal and recurring adjustments necessary to fairly present the results of operations for such periods. Results of any one or more quarters are not necessarily indicative of continuing trends (in thousands, except for per-share amounts).

YEAR ENDED AUGUST 31, 2017 (unaudited)

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

YEAR ENDED AUGUST 31, 2016 (unaudited)

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

Our fourth quarter of each fiscal year has higher sales and operating income than other fiscal quarters primarily due to increased revenues in our Education practice (when school administrators and faculty have professional development days) and to increased AAP and facilitator sales that typically occur during that quarter resulting from year-end incentive programs. Overall, training sales are moderately seasonal because of the timing of corporate training, which is not typically scheduled as heavily during holiday and certain vacation periods. Quarterly fluctuations may also be affected by other factors including the introduction of new offerings, business acquisitions, the addition of new organizational customers, and the elimination of underperforming offerings.

For more information on our quarterly results of operations, refer to our quarterly reports filed on Form 10-Q as filed with the SEC. Our quarterly reports for the periods indicated are available free of charge at www.sec.gov.

LIQUIDITY AND CAPITAL RESOURCES

Introduction

During fiscal 2017, we used our cash provided by operating activities and a portion of the available capital from our secured credit facility to make substantial and significant investments in our business that we believe will provide benefits in future periods. We spent $7.3 million of cash to acquire the businesses of Robert Gregory Partners, LLC, and Jhana Education during the last half of fiscal 2017. We used $7.2 million of cash for purchases of property and equipment in fiscal 2017, primarily for software and hardware related to our new ERP system and significantly upgraded All Access Pass portal. The new ERP system and AAP portal are expected to be completed and launched during fiscal 2018. We also spent $6.5 million of cash to develop additional offerings primarily related to the AAP, including the translation of AAP materials into additional languages, and *The Leader in Me* courses offered through our Education segment. In addition to these uses of cash for investing activities, we also spent $5.4 million to purchase shares of our common stock on both the open market and from shares withheld on vested stock-based incentive awards. For further information on these investments in our business during fiscal 2017, refer to the discussions under "Cash Flows from Investing Activities" and "Cash Flows from Financing Activities" found later in this analysis of liquidity and capital resources.

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

Our net working capital (current assets less current liabilities) was $11.2 million at August 31, 2017 compared with $35.7 million at August 31, 2016. The reduction in our net working capital was primarily due to a $20.7 million increase in deferred revenues resulting primarily from increased AAP sales, and borrowings used in fiscal 2017 to invest in our business as described above. Of our $8.9 million in cash at August 31, 2017, $7.3 million was held outside the U.S. by our foreign subsidiaries. We routinely repatriate cash from our foreign subsidiaries and consider cash generated from foreign activities a key component of our overall liquidity position. Our primary sources of liquidity are cash flows from the sale of services in the normal course of business and available proceeds from our secured credit facility. Our primary uses of liquidity include payments for operating activities,

capital expenditures (including curriculum development), acquisition of businesses and intellectual property licenses, purchases of our common stock, working capital expansion, and debt payments.

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

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

Modifications to the Amended and Restated Credit Agreement

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

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

The various modification agreements preserve existing debt covenants that include (i) a funded debt to EBITDAR ratio of less than 3.0 to 1.0; (ii) a fixed charge coverage ratio greater than 1.15 to 1.0; (iii) an annual limit on capital expenditures (excluding capitalized curriculum development) of $8.0 million; and (iv) outstanding borrowings on the revolving line of credit may not exceed 150 percent of consolidated accounts receivable. The other key terms and conditions of the various modification agreements are substantially the same as those defined in the Restated Credit Agreement, except as described above. We believe that we were in compliance with the financial covenants and other terms applicable to the Restated Credit Agreement at August 31, 2017.

In addition to our revolving line of credit facility and term loan obligations, we have a long-term lease on our corporate campus that is accounted for as a financing obligation. For further information on our operating lease obligations, which are not currently recorded on our consolidated balance sheet, refer to the notes to our consolidated financial statements as presented in Item 8 of this report on Form 10-K.

The following discussion is a description of the primary factors affecting our cash flows and their effects upon our liquidity and capital resources during the fiscal year ended August 31, 2017.

Cash Flows from Operating Activities

Our primary source of cash from operating activities was the sale of services and products to our customers in the normal course of business. The primary uses of cash for operating activities were payments for selling, general, and administrative expenses, payments for direct costs necessary to conduct training programs, payments to suppliers for materials used in training manuals sold, and to fund working capital needs. Our cash provided by operating activities was $17.4 million for the fiscal year ended August 31, 2017 compared with $32.7 million in fiscal 2016. The decline was primarily attributable to decreased operating income when compared with the prior year. Our operating income during fiscal 2017 was significantly reduced by the deferral of All Access Pass sales and costs

associated with the transition to an AAP-focused business model. Following the transition period to the AAP focused business model, we anticipate that cash flows from operating activities will improve and return to levels consistent with prior years.

Cash Flows from Investing Activities and Capital Expenditures

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

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

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

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

During fiscal 2017, we acquired the license rights to certain intellectual property owned by Higher Moment, LLC for $0.8 million. The intellectual property is in part based on works authored and developed by Dr. Clayton Christensen, a well-known author and lecturer, who is a member of our Board of Directors. Acquisitions of other businesses and intellectual property licenses in future periods will increase our use of cash for investing activities.

Cash Flows from Financing Activities

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

On January 23, 2015, our Board of Directors approved a new plan to repurchase up to $10.0 million of the Company's outstanding common stock. All previously existing common stock repurchase plans were canceled and the new common share repurchase plan does not have an expiration date. On March 27, 2015, our Board of Directors increased the aggregate value of shares of Company common stock that may be purchased under the January 2015 plan to $40.0 million so long as we have either $10.0 million in cash and cash equivalents or have access to debt financing of at least $10.0 million. Under the terms of this expanded common stock repurchase plan, we have purchased 1,539,828 shares of our common stock for $26.8 million through August 31, 2017. Since September 1, 2014, we have returned $63.4 million of cash to our shareholders through the purchase of our shares by means of a $35.0 million tender offer, open market purchases, and from shares withheld for minimum statutory taxes on stock-based compensation awards. Future purchases of our common stock will increase the amount of cash used for financing activities in those periods.

During fiscal 2017, we completed the acquisitions of Robert Gregory Partners and Jhana Education as previously described. Each of these acquisitions have contingent consideration that may be earned by their former owners based on specified performance criteria. As the operations of

these acquisitions reach the specified milestones for required contingent payments, our uses of cash for financing activities will increase.

Sources of Liquidity

We expect to meet our projected capital expenditures, service our existing financing obligation, and meet other working capital requirements during fiscal 2018 from current cash balances, future cash flows from operating activities, and available borrowings on our secured credit facility. Going forward, we will continue to incur costs necessary for the day-to-day operation and potential growth of the business and may use our available revolving line of credit and other financing alternatives, if necessary, for these expenditures. Our Restated Credit Agreement expires in March 2020 and we expect to renew the Restated Credit Agreement on a regular basis to maintain the long-term borrowing capacity of this credit facility. At August 31, 2017, we had $25.6 million of borrowing capacity on our Restated Credit Agreement. Additional potential sources of liquidity available to us include factoring receivables, issuance of additional equity, or issuance of debt from public or private sources. If necessary, we will evaluate all of these options and select one or more of them depending on overall capital needs and the associated cost of capital.

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

Contractual Obligations

We have not structured any special purpose entities, or participated in any commodity trading activities, which would expose us to potential undisclosed liabilities or create adverse consequences to our liquidity. Required contractual payments primarily consist of lease payments resulting from the sale of our corporate campus (financing obligation); repayment of term loans payable; expected contingent consideration payments from business acquisitions; short-term purchase obligations for inventory items and other products and services used in the ordinary course of business; minimum operating lease payments primarily for leased office space; and minimum payments for outsourced warehousing and distribution service charges. At August 31, 2017, our expected payments on these obligations over the next five fiscal years and thereafter are as follows (in thousands):

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

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

(2) The payment of contingent consideration from business acquisitions is based on current estimates and projections. We reassess the fair value of estimated contingent consideration payments each quarter based on information available. The actual payment of contingent consideration amounts may differ in amount and timing from those shown in the table.

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

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

USE OF ESTIMATES AND CRITICAL ACCOUNTING POLICIES

Our consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America. The significant accounting policies that we used to prepare our consolidated financial statements are outlined primarily in Note 1 to the consolidated financial statements, which are presented in Part II, Item 8 of this Annual Report on Form 10-K. Some of those accounting policies require us to make assumptions and use judgments that may affect the amounts reported in our consolidated financial statements. Management regularly evaluates its estimates and assumptions and bases those estimates and assumptions on historical experience, factors that are believed to be reasonable under the circumstances, and requirements under accounting principles generally accepted in the United States of America. Actual results may differ from these estimates under different assumptions or conditions, including changes in economic and political conditions and other circumstances that are not in our control, but which may have an impact on these estimates and our actual financial results.

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

Revenue Recognition

We derive revenues primarily from the following sources:

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

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

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

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

basis. Our process for determining BESPs requires judgment and considers multiple factors, such as market conditions, type of customer, geographies, stage of product lifecycle, internal costs, and gross margin objectives. These factors may vary over time depending upon the unique facts and circumstances related to each deliverable. However, we do not expect the effect of changes in the selling price or method or assumptions used to determine selling price to have a significant effect on the allocation of arrangement consideration.

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

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

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

Stock-Based Compensation

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

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

Accounts Receivable Valuation

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Our allowance for doubtful accounts calculations contain uncertainties because the calculations require us to make assumptions and judgments regarding the collectability of customer accounts, which may be influenced by a number of factors that are not within our control, such as the financial health of each customer. We regularly review the collectability assumptions of our allowance for doubtful accounts calculation and compare them against historical collections. Adjustments to the assumptions may either increase or decrease our total allowance for doubtful accounts. For example, a 10 percent increase to our allowance for doubtful accounts at August 31, 2017 would increase our reported loss from operations by approximately $0.2 million.

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

Related Party Receivable

At August 31, 2017, we had receivables from FCOP, an entity in which we own 19.5 percent, for reimbursement of certain operating costs and for working capital and other advances, even though we are not obligated to provide advances to, or fund the losses of FCOP. We make use of estimates to account for these receivables, including estimates of the collectability of amounts receivable from FCOP in future periods and, based upon the timing of estimated

collections, we were required to classify a portion of the receivable to long-term. In accordance with applicable accounting guidance, we are required to discount the long-term portion of the receivable to its net present value using an estimated effective borrowing rate for FCOP.

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

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

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

Inventory Valuation

Our inventories are primarily comprised of training materials and related accessories. Inventories are reduced to their fair market value through the use of inventory valuation reserves, which are recorded during the normal course of business. Our inventory valuation calculations contain uncertainties because the calculations require us to make assumptions and judgments regarding a number of factors, including future inventory demand requirements and pricing strategies. During the evaluation process we consider historical sales patterns and current sales trends, but these may not be indicative of future inventory losses. While we have not made material changes to our inventory valuation methodology during the past three years, our inventory requirements may change based on projected customer demand, technological and product life cycle changes, longer or shorter than expected usage periods, and other factors that could affect the valuation of our inventories. If our estimates regarding consumer demand and other factors are inaccurate, we may be exposed to losses that may have an adverse impact upon our financial position and results of operations. For example, a 10 percent increase to our inventory valuation reserves at August 31, 2017 would increase our reported loss from operations by $0.1 million.

Due to a change in strategy designed to focus resources and efforts on sales of the All Access Pass in Japan, and declining sales and profitability of the publishing business, in the third quarter of fiscal 2017 we decided to exit the publishing business in Japan. As a result of this determination, we wrote off the majority of our book inventory located in Japan for $2.1 million, which was recorded as a component of product cost of sales in the accompanying consolidated statements of operations for fiscal 2017.

Valuation of Indefinite-Lived Intangible Assets and Goodwill

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

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

We tested goodwill for impairment at August 31, 2017 at the reporting unit level using a quantitative approach. The goodwill impairment testing process involves determining whether the estimated fair value of the reporting unit exceeds its respective book value. If the fair value exceeds the book value, goodwill of that reporting unit is not impaired. If the book value exceeds the fair value, an impairment charge is recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. The estimated fair value of each reporting unit was calculated using a combination of the income approach (discounted cash flows) and the market approach (using market multiples derived from a set of companies with comparable market characteristics). The estimated fair values of the reporting units from these approaches were weighted in the determination of the total fair value.

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

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

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

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

The timing and frequency of our goodwill impairment tests are based on an ongoing assessment of events and circumstances that would indicate a possible impairment. Based on the results of our goodwill impairment testing during fiscal 2017, we determined that no impairment existed at August 31, 2017, as each reportable operating segment's estimated fair value exceeded its carrying value. We will continue to monitor our goodwill and intangible assets for impairment and conduct formal tests when impairment indicators are present.

Acquisitions and Contingent Consideration Liabilities

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

Additionally, we are required us to reassess the fair value of contingent consideration liabilities resulting from business acquisitions at each reporting period. Although subsequent changes to the contingent consideration liabilities do not affect the goodwill generated from the acquisition transaction, the valuation of expected contingent consideration often requires us to estimate future sales and profitability. These estimates require the use of numerous assumptions, many of which may change frequently and lead to increased or decreased operating income in future periods. For instance, during fiscal 2017 we recorded $1.9 million of decreases to the fair value of the contingent consideration liability related to a business acquisition from a previous period, which resulted in a corresponding decrease in selling, general, and administrative expenses.

Impairment of Long-Lived Assets

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

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

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

Income Taxes

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

We record previously unrecognized tax benefits in the financial statements when it becomes more likely than not (greater than a 50 percent likelihood) that the tax position will be sustained. To assess the probability of sustaining a tax position, we consider all available evidence. In many instances, sufficient positive evidence may not be available until the expiration of the statute of limitations for audits by taxing jurisdictions, at which time the entire benefit will be recognized as a discrete item in the applicable period.

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

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

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENT

In January 2017, the Financial Accounting Standards Board (FASB) issued ASU 2017-04, *Intangibles – Goodwill and Other: Simplifying the Test for Goodwill Impairment*. This guidance simplifies the subsequent measurement of goodwill and eliminates the two-step goodwill impairment test. Under the new guidance, an annual or interim goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount, and an impairment charge is recognized for the amount by

which the carrying amount exceeds the reporting unit's fair value. The amendments also eliminate the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and two-step goodwill impairment test. The ASU is effective prospectively for fiscal years and interim periods within those years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We have elected, as permitted by the guidance, to early adopt ASU No. 2017-04 of August 31, 2017 to be effective for our annual goodwill impairment testing. The adoption of this standard did not have a material effect on our consolidated goodwill balance at August 31, 2017.

ACCOUNTING PRONOUNCEMENTS ISSUED NOT YET ADOPTED

On May 28, 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. This new standard was issued in conjunction with the International Accounting Standards Board (IASB) and is designed to create a single, principles-based process by which all businesses calculate revenue. The core principle of this standard is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. The standard also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. The new standard replaces numerous individual, industry-specific revenue rules found in generally accepted accounting principles in the United States. We are required to adopt this standard on September 1, 2018, and apply the new guidance during interim periods within fiscal 2019. The new standard may be adopted using the "full retrospective" or "modified retrospective" approach. We are continuing to assess the impact of adopting ASU 2014-09 on our financial position, results of operations, and related disclosures, and we have not yet determined the method of adoption nor the full impact that the standard will have on our reported revenue or results of operations. We currently believe that the adoption of ASU No. 2014-09 will not significantly change the recognition of revenues associated with the delivery of onsite presentations and facilitator material sales. However, the recognition of revenues associated with intellectual property licenses, such as our All Access Pass, and other revenue streams may be more significantly impacted by the new standard. The Company will continue to assess the new standard along with industry trends and additional interpretive guidance, and it may adjust its implementation plan accordingly. We do not expect the adoption of ASU 2014-09 to have any impact on our operating cash flows.

In April 2016, the FASB issued ASU 2016-10, *Revenue from Contracts with Customers (Topic 606) – Identifying Performance Obligations and Licensing*. The guidance in ASU 2016-10 clarifies aspects of Topic 606 related to identifying performance obligations and the licensing implementation guidance, while retaining the related core principles for those areas. The effective date and transition requirements for ASU 2016-10 are the same as the effective date and transition requirements for Topic 606 (ASU 2014-09) discussed above. As of August 31, 2017, we have not yet determined the full impact that ASU No. 2016-10 will have on our reported revenue or results of operations.

On February 25, 2016, the FASB issued ASU No. 2016-02, *Leases*. The new lease accounting standard is the result of a collaborative effort with the IASB (similar to the new revenue standard described above), although some differences remain between the two standards. This new standard will affect all entities that lease assets and will require lessees to recognize a lease liability and a right-of-use asset for all leases (except for short-term leases that have a duration of less than one year) as of the date on which the lessor makes the underlying asset available to the lessee. For lessors, accounting for leases is substantially the same as in prior periods. For public companies, the new lease standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted for all entities. For leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, lessees and lessors must apply a modified retrospective transition approach. While we expect the adoption of this new standard will increase reported assets and liabilities, as of August 31, 2017, we have not yet determined the full impact that the adoption of ASU 2016-02 will have on our financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation – Stock Compensation (Topic 718) – Improvements to Employee Share-Based Payment Accounting*. The guidance in ASU 2016-09 simplifies several aspects of the accounting for stock-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification of items on the statement of cash flows. ASU 2016-09 is effective for public companies' annual periods, including interim

periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted subject to certain requirements, and the method of application (i.e., retrospective, modified retrospective or prospective) depends on the transaction area that is being amended. Following adoption, the primary impact on our consolidated financial statements will be the recognition of excess tax benefits in the provision for income taxes rather than additional paid-in capital, which will likely result in increased volatility in the reported amounts of income tax expense and net income. For example, during fiscal 2017 we recorded $0.2 million of excess income tax benefits to additional paid-in capital. If we would have early adopted ASU 2016-09, this amount would have been recorded as a component of our consolidated income tax benefit for fiscal 2017. As of August 31, 2017, we have not completed the full evaluation of the impact of ASU 2016-09 on our results of operations or cash flows.

REGULATORY COMPLIANCE

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

INFLATION AND CHANGING PRICES

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

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

Certain written and oral statements made by us in this report are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934 as amended (the Exchange Act). Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate, or imply future results, performance, or achievements, and may contain words such as "believe," "anticipate," "expect," "estimate," "project," or words or phrases of similar meaning. In our reports and filings we may make forward-looking statements regarding our expectations about future reported revenues and operating results, future sales growth, the expected completion of our new ERP system and new AAP portal, the expected introduction of new or refreshed offerings, including additions to the All Access Pass and improvements to our Education segment, future training and consulting sales activity, the impact of multi-year contracts for the All Access Pass, renewal of existing contracts, the release and success of new publications, the expected growth of our business in China, anticipated expenses, the adequacy of existing capital resources, projected cost reduction and strategic initiatives, expected levels of depreciation and amortization expense, expectations regarding tangible and intangible asset valuations, the seasonality of future sales, the seasonal fluctuations in cash used for and provided by operating activities, future compliance with the terms and conditions of our Restated Credit Agreement, the ability to borrow on, and renew, our Restated Credit Agreement, expectations regarding income tax expenses as well as tax assets and credits and the amount of cash expected to be paid for income taxes, estimated capital expenditures, and cash flow estimates used to determine the fair value of long-lived assets. These, and other forward-looking statements, are subject to certain risks and uncertainties that may cause actual results to differ materially from the forward-looking statements. These risks and uncertainties are disclosed from time to time in reports filed by us with the SEC, including reports on Forms 8-K, 10-Q, and 10-K. Such risks and uncertainties include, but are not limited to, the matters discussed in Item 1A of this annual report on Form 10-K for the fiscal year ended August 31, 2017, entitled "Risk Factors." In addition, such risks and uncertainties may include unanticipated developments in any one or more of the following areas: unanticipated costs or capital expenditures; delays or unanticipated outcomes relating to our strategic plans; dependence on existing products or services; the rate and consumer acceptance of new product introductions, including the new AAP portal; foreign currency exchange rates; competition; the number and nature of customers and their product orders, including changes in the timing or mix of product or training orders; pricing of our products and services and those of competitors; adverse publicity; adverse effects on certain licensee's performance due to civil unrest in some of the countries where our licensees operate; and other factors which may adversely affect our business.

The risks included here are not exhaustive. Other sections of this report may include additional factors that could adversely affect our business and financial performance. Moreover, we operate in a very competitive and rapidly

changing environment. New risk factors may emerge and it is not possible for our management to predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any single factor, or combination of factors, may cause actual results to differ materially from those contained in forward-looking statements. Given these risks and uncertainties, investors should not rely on forward-looking statements as a prediction of actual results.

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

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk of Financial Instruments

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

Foreign Exchange Sensitivity

Due to the global nature of our operations, we are subject to risks associated with transactions that are denominated in currencies other than the United States dollar, as well as the effects of translating amounts denominated in foreign currencies to United States dollars as a normal part of the reporting process. The objective of our foreign currency risk management activities is to reduce foreign currency risk in the consolidated financial statements. In order to manage foreign currency risks, we may make limited use of foreign currency forward contracts and other foreign currency related derivative instruments. However, we did not utilize any foreign currency forward or related derivative contracts during fiscal 2017, fiscal 2016, or fiscal 2015.

Interest Rate Sensitivity

Our long-term liabilities primarily consist of term loans payable obtained from the lender on our Restated Credit Agreement, a long-term lease agreement (financing obligation) associated with the sale of our corporate headquarters facility, amounts borrowed on our revolving credit facility, deferred income taxes, and contingent consideration payments resulting from our business acquisitions. Our overall interest rate sensitivity is primarily influenced by any amounts borrowed on term loans or on our revolving line of credit facility, and the prevailing interest rate on these instruments. The effective interest rate on the term loans and our revolving line of credit facility was 3.1 percent at August 31, 2017, and we may incur additional expense if interest rates increase in future periods. For example, a one percent increase in the interest rate on our term loans and the amount outstanding on our revolving credit facility at August 31, 2017 would result in approximately $0.2 million of additional interest expense in fiscal 2018. Our financing obligation has a payment structure equivalent to a long-term leasing arrangement with a fixed interest rate of 7.7 percent.

During the fiscal years ended August 31, 2017, 2016, and 2015, we were not party to any interest rate swap agreements or similar derivative instruments.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

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

Salt Lake City, Utah

We have audited the internal control over financial reporting of Franklin Covey Co. and subsidiaries (the "Company") as of August 31, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of August 31, 2017, based on the criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended August 31, 2017 of the Company and our report dated November 14, 2017 expressed an unqualified opinion on those financial statements.

Deloitte + Touche LLP

Salt Lake City, Utah
November 14, 2017

Report of Independent Registered Public Accounting Firm

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

Salt Lake City, Utah

We have audited the accompanying consolidated balance sheets of Franklin Covey Co. and subsidiaries (the "Company") as of August 31, 2017 and 2016, and the related consolidated statements of operations and comprehensive income (loss), shareholders' equity, and cash flows for each of the two years in the period ended August 31, 2017. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Franklin Covey Co. and subsidiaries as of August 31, 2017 and 2016, and the results of their operations and their cash flows for each of the two years in the period ended August 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of August 31, 2017, based on the criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated November 14, 2017 expressed an unqualified opinion on the Company's internal control over financial reporting.

Deloitte + Touche LLP

Salt Lake City, Utah
November 14, 2017

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of
Franklin Covey Co.

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

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

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

Ernst & Young LLP

Salt Lake City, Utah
November 12, 2015

FRANKLIN COVEY CO.
CONSOLIDATED BALANCE SHEETS

AUGUST 31,	2017	2016
In thousands, except per-share data		
Assets		
Current assets:		
Cash and cash equivalents	$ 8,924	$ 10,456
Accounts receivable, less allowance for doubtful accounts of $2,310 and $1,579	66,343	65,960
Receivable from related party	1,020	1,933
Inventories	3,353	5,042
Income taxes receivable	259	—
Prepaid expenses	3,569	2,949
Other current assets	8,367	3,401
Total current assets	91,835	89,741
Property and equipment, net	19,730	16,083
Intangible assets, net	57,294	50,196
Goodwill	24,220	19,903
Long-term receivable from related party	727	1,235
Other long-term assets	16,925	13,713
	$ 210,731	**$ 190,871**
Liabilities And Shareholders' Equity		
Current liabilities:		
Current portion of financing obligation	$ 1,868	$ 1,662
Current portion of term notes payable	6,250	3,750
Accounts payable	9,119	10,376
Deferred revenue	40,772	20,847
Accrued liabilities	22,617	17,422
Total current liabilities	80,626	54,057
Line of credit	4,377	—
Financing obligation, less current portion	21,075	22,943
Term notes payable, less current portion	12,813	10,313
Other liabilities	5,742	3,173
Deferred income tax liabilities	1,033	6,670
Total liabilities	125,666	97,156
Commitments and contingencies (Notes 7 and 8)		
Shareholders' equity:		
Common stock, $.05 par value; 40,000 shares authorized, 27,056 shares issued	1,353	1,353
Additional paid-in capital	212,484	211,203
Retained earnings	69,456	76,628
Accumulated other comprehensive income	667	1,222
Treasury stock at cost, 13,414 shares and 13,332 shares	(198,895)	(196,691)
Total shareholders' equity	85,065	93,715
	$ 210,731	**$ 190,871**

See accompanying notes to consolidated financial statements.

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

YEAR ENDED AUGUST 31,	2017	2016	2015
In thousands, except per-share amounts			
Net sales:			
Training and consulting services	$177,816	$189,661	$198,695
Products	3,881	6,009	6,885
Leasing	3,559	4,385	4,361
	185,256	200,055	209,941
Cost of sales:			
Training and consulting services	56,557	59,158	66,370
Products	3,990	3,206	3,306
Leasing	2,042	2,537	2,176
	62,589	64,901	71,852
Gross profit	122,667	135,154	138,089
Selling, general, and administrative	121,148	113,589	108,802
Impaired assets	—	—	1,302
Contract termination costs	1,500	—	—
Restructuring costs	1,482	776	587
Depreciation	3,879	3,677	4,142
Amortization	3,538	3,263	3,727
Income (loss) from operations	**(8,880)**	**13,849**	**19,529**
Interest income	379	325	383
Interest expense	(2,408)	(2,263)	(2,137)
Discount on related-party receivables	—	—	(363)
Income (loss) before income taxes	**(10,909)**	**11,911**	**17,412**
Benefit (provision) for income taxes	3,737	(4,895)	(6,296)
Net income (loss)	**$ (7,172)**	**$ 7,016**	**$ 11,116**
Net income (loss) per share:			
Basic and diluted	$ (0.52)	$ 0.47	$ 0.66
Weighted average number of common shares:			
Basic	13,819	14,944	16,742
Diluted	13,819	15,076	16,923

COMPREHENSIVE INCOME (LOSS):

	2017	2016	2015
Net income (loss)	$ (7,172)	$ 7,016	$ 11,116
Foreign currency translation adjustments, net of income tax benefit of $37, $115, and $52	(555)	1,030	(1,259)
Comprehensive income (loss)	**$ (7,727)**	**$ 8,046**	**$ 9,857**

See accompanying notes to consolidated financial statements.

FRANKLIN COVEY CO.
CONSOLIDATED STATEMENTS OF CASH FLOWS

YEAR ENDED AUGUST 31,	2017	2016	2015
In thousands			
Cash Flows From Operating Activities			
Net income (loss)	$ (7,172)	$ 7,016	$ 11,116
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	7,443	6,943	7,875
Amortization of capitalized curriculum development costs	3,745	3,865	4,093
Deferred income taxes	(5,594)	1,854	3,665
Stock-based compensation expense	3,658	3,121	2,536
Impairment of assets	—	—	1,302
Excess tax expense (benefit) from stock-based compensation	(168)	52	(137)
Increase (decrease) in contingent consideration liabilities	(1,936)	1,538	35
Changes in assets and liabilities, net of effect of acquired businesses:			
Decrease (increase) in accounts receivable, net	164	(576)	(4,355)
Decrease (increase) in inventories	1,583	(908)	2,239
Decrease in receivable from related party	1,421	820	620
Increase in prepaid expenses and other assets	(4,861)	(1,119)	(2,010)
Increase (decrease) in accounts payable and accrued liabilities	676	2,264	(5,654)
Increase in deferred revenue	19,142	8,112	2,481
Increase (decrease) in income taxes payable/receivable	(249)	(316)	2,548
Decrease in other liabilities	(495)	(1)	(164)
Net cash provided by operating activities	**17,357**	**32,665**	**26,190**
Cash Flows From Investing Activities			
Purchases of property and equipment	(7,187)	(3,993)	(2,446)
Capitalized curriculum development costs	(6,466)	(2,236)	(2,166)
Acquisition of businesses, net of cash acquired	(7,272)	—	(262)
Acquisition of license rights	(750)	—	—
Net cash used for investing activities	**(21,675)**	**(6,229)**	**(4,874)**
Cash Flows From Financing Activities			
Proceeds from line of credit borrowings	34,320	46,454	—
Payments on line of credit borrowings	(29,943)	(46,454)	—
Proceeds from term notes payable financing	10,000	15,000	—
Principal payments on term notes payable	(5,000)	(937)	—
Principal payments on financing obligation	(1,662)	(1,472)	(1,302)
Purchases of common stock for treasury	(5,431)	(43,586)	(14,427)
Payment of contingent consideration liability	—	(2,167)	—
Income tax benefit (expense) recorded in paid-in capital	168	(52)	137
Proceeds from sales of common stock held in treasury	682	679	689
Net cash provided by (used for) financing activities	**3,134**	**(32,535)**	**(14,903)**
Effect of foreign currency exchange rates on cash and cash equivalents	(348)	321	(662)
Net increase (decrease) in cash and cash equivalents	(1,532)	(5,778)	5,751
Cash and cash equivalents at beginning of the year	10,456	16,234	10,483
Cash and cash equivalents at end of the year	**$ 8,924**	**$ 10,456**	**$ 16,234**
Supplemental disclosure of cash flow information:			
Cash paid for income taxes	$ 2,562	$ 3,410	$ 2,383
Cash paid for interest	2,314	2,231	2,130
Non-cash investing and financing activities:			
Purchases of property and equipment financed by accounts payable	$ 697	$ 334	$ 134

See accompanying notes to consolidated financial statements.

FRANKLIN COVEY CO.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock Shares	Treasury Stock Amount
In thousands							
Balance at August 31, 2014	27,056	$1,353	$207,148	$58,496	$ 1,451	(10,266)	$(141,734)
Issuance of common stock from treasury			(847)			111	1,536
Purchase of treasury shares						(778)	(14,427)
Unvested share award			(336)			24	336
Stock-based compensation			2,536				
Cumulative translation adjustments					(1,259)		
Tax benefits recorded in paid-in capital			137				
Other			(3)				3
Net income				11,116			
Balance at August 31, 2015	27,056	1,353	208,635	69,612	192	(10,909)	(154,286)
Issuance of common stock from treasury			(143)			57	823
Purchase of treasury shares						(2,505)	(43,586)
Unvested share award			(356)			25	356
Stock-based compensation			3,121				
Cumulative translation adjustments					1,030		
Tax expense recorded in paid-in capital			(52)				
Other			(2)				2
Net income				7,016			
Balance at August 31, 2016	27,056	1,353	211,203	76,628	1,222	(13,332)	(196,691)
Issuance of common stock from treasury			(2,103)			188	2,785
Purchase of treasury shares						(300)	(5,431)
Unvested share award			(442)			30	442
Stock-based compensation			3,658				
Cumulative translation adjustments					(555)		
Tax benefit recorded in paid-in capital			168				
Other							
Net loss				(7,172)			
Balance at August 31, 2017	**27,056**	**$1,353**	**$212,484**	**$69,456**	**$ 667**	**(13,414)**	**$(198,895)**

See accompanying notes to consolidated financial statements.

FRANKLIN COVEY CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature Of Operations And Summary Of Significant Accounting Policies

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

Fiscal Year

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

Basis of Presentation

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

Pervasiveness of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Cash and Cash Equivalents

Some of our cash is deposited with financial institutions located throughout the United States of America and at banks in foreign countries where we operate subsidiary offices, and at times may exceed insured limits. We consider all highly liquid debt instruments with a maturity date of three months or less to be cash equivalents. We did not hold a significant amount of investments that would be considered cash equivalent instruments at August 31, 2017 or 2016. Of our $8.9 million in cash at August 31, 2017, $7.3 million was held outside the U.S. by our foreign subsidiaries. We routinely repatriate cash from our foreign subsidiaries and consider cash generated from foreign activities a key component of our overall liquidity position.

Inventories

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

AUGUST 31,	2017	2016
Finished goods	$3,306	$5,002
Raw materials	47	40
	$3,353	$5,042

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

During the third quarter of fiscal 2017, we decided to exit the publishing business in Japan (Note 13) and wrote off the majority of our book inventory located in Japan, which totaled $2.1 million.

Other Current Assets

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

AUGUST 31,	2017	2016
Deferred commissions	$6,150	$1,664
Other current assets	2,217	1,737
	$8,367	$3,401

We defer commission expense on All Access Pass and other subscription sales and recognize the commission expense with the corresponding revenue.

Property and Equipment

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

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

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

AUGUST 31,	2017	2016
Land and improvements	$ 1,312	$ 1,312
Buildings	30,044	32,201
Machinery and equipment	2,119	2,279
Computer hardware and software	22,647	18,552
Furniture, fixtures, and leasehold improvements	8,319	9,292
	64,441	63,636
Less accumulated depreciation	(44,711)	(47,553)
	$ 19,730	$ 16,083

Leasehold improvements are amortized over the lesser of the useful economic life of the asset or the contracted lease period. We expense costs for repairs and maintenance as incurred. Gains and losses resulting from the sale of property and equipment are recorded in operating income (loss). During fiscal 2017, we capitalized $0.1 million of interest expense in connection with the installation of our new enterprise resource planning software system and the development of our new All Access Pass portal.

Impairment of Long-Lived Assets

Long-lived tangible assets and definite-lived intangible assets are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. We use an estimate of undiscounted future net cash flows of the assets over the remaining useful lives in determining whether the carrying value of the assets is recoverable. If the carrying values of the assets exceed the anticipated future cash flows of the assets, we recognize an impairment loss equal to the difference between the carrying values of the assets and their estimated fair values. Impairment of long-lived assets is assessed at the lowest levels for which there are identifiable cash flows that are independent from other groups of assets. The evaluation of long-lived assets requires us to use estimates of future cash flows. If forecasts and assumptions used to support the realizability of our long-lived tangible and definite-lived intangible assets change in the future, significant impairment charges could result that would adversely affect our results of operations and financial condition. For more information regarding our impaired asset charges in fiscal 2015, refer to Note 12.

Indefinite-Lived Intangible Assets and Goodwill Impairment Testing

Intangible assets that are deemed to have an indefinite life and acquired goodwill are not amortized, but rather are tested for impairment on an annual basis or more often if events or circumstances indicate that a potential impairment exists. The Covey trade name intangible asset has been deemed to have an indefinite life. This intangible asset is tested for impairment using qualitative factors or the present value of estimated royalties on trade name related revenues, which consist primarily of training seminars and work sessions, international licensee sales, and related products. Based on the fiscal 2017 evaluation of the Covey trade name, we believe the fair value of the Covey trade name substantially exceeds its carrying value. No impairment charges were recorded against the Covey trade name during the fiscal years ended August 31, 2017, 2016, or 2015.

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

We tested goodwill for impairment at August 31, 2017 at the reporting unit level using a quantitative approach. The goodwill impairment testing process involves determining whether the estimated fair value of the reporting unit exceeds its respective book value. If the fair value exceeds the book value, goodwill of that reporting unit is not impaired. If the book value exceeds the fair value, an impairment charge is recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. The estimated fair value of each reporting unit was calculated using a combination of the income approach (discounted cash flows) and the market approach (using market multiples derived from a set of companies with comparable market characteristics).

On an interim basis, we consider whether events or circumstances are present that may lead to the determination that goodwill may be impaired. If, based on events or changing circumstances, we determine it is more likely than not that the fair value of a reporting unit does not exceed its carrying value, we would be required to test goodwill for impairment.

Determining the fair value of a reporting unit is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions, and determination of appropriate market comparables. We base our fair value estimates on assumptions we believe to be reasonable, but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates. In addition, we make certain judgments and assumptions in allocating shared assets and liabilities to determine the carrying values for each of our reporting units. The timing and frequency of our goodwill impairment tests are based on an ongoing assessment of events and circumstances that would indicate a possible impairment. Based on the results of our goodwill impairment testing during fiscal 2017, we determined that no impairment existed at either of August 31, 2017 or 2016, as each reporting unit's estimated fair value exceeded its carrying value. We will continue to monitor our goodwill and intangible assets for impairment and conduct formal tests when impairment indicators are present. For more information regarding our intangible assets and goodwill, refer to Note 4.

Capitalized Curriculum Development Costs

During the normal course of business, we develop training courses and related materials that we sell to our clients. Capitalized curriculum development costs include certain expenditures to develop course materials such as video segments, course manuals, and other related materials. Our capitalized curriculum development spending in fiscal 2017, which totaled $6.5 million, was primarily for offerings related to the All Access Pass, *The Leader In Me*, our Leadership content, and for various other offerings. Generally, curriculum costs are capitalized when there is a major revision to an existing course that requires a significant re-write of the course materials or curriculum. Costs incurred to maintain existing offerings are expensed when incurred. In addition, development costs incurred in the research and development of new curriculum and software products to be sold, leased, or otherwise marketed are expensed as incurred until economic and technological feasibility has been established.

Capitalized development costs are amortized over three- to five-year useful lives, which are based on numerous factors, including expected cycles of major changes to our content. Capitalized curriculum development costs are reported as a component of other long-term assets in our consolidated balance sheets and totaled $11.6 million and $8.9 million at August 31, 2017 and 2016. Amortization of capitalized curriculum development costs is reported as a component of cost of sales in the accompanying consolidated statements of operations.

Accrued Liabilities

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

AUGUST 31,	2017	2016
Accrued compensation	$10,611	$ 8,810
Other accrued liabilities	12,006	8,612
	$22,617	$17,422

We reclassified approximately $4,000 of income taxes payable at August 31, 2016 to accrued liabilities.

Contingent Consideration from Business Acquisitions

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

Foreign Currency Translation and Transactions

The functional currencies of our foreign operations are the reported local currencies. Translation adjustments result from translating our foreign subsidiaries' financial statements into United States dollars. The balance sheet accounts of our foreign subsidiaries are translated into United States dollars using the exchange rate in effect at the balance sheet date. Revenues and expenses are translated using average exchange rates for each month during the fiscal year. The resulting translation differences are recorded as a component of accumulated other comprehensive income in shareholders' equity. Foreign currency transaction losses totaled $0.2 million, $0.3 million, and $1.1 million for the fiscal years ended August 31, 2017, 2016, and 2015, respectively, and are included as a component of selling, general, and administrative expenses in our consolidated statements of operations.

Sales Taxes

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

Revenue Recognition

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

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

When the Company's training and consulting arrangements contain multiple deliverables, consideration is allocated at the inception of the arrangement to all deliverables based on their relative selling prices at the beginning of the agreement, and revenue is recognized as each offering, consulting service, or intellectual property license is delivered. We use the following selling price hierarchy to determine the fair value to be used for allocating revenue to the elements: (i) vendor-specific objective evidence of fair value (VSOE), (ii) third-party evidence (TPE), and (iii) best estimate of selling price (BESP). Generally,

VSOE is based on established pricing and discounting practices for the deliverables when sold separately. In determining VSOE, we require that a substantial majority of the selling prices fall within a narrow range. When VSOE cannot be established, judgment is applied with respect to whether a selling price can be established based on TPE, which is determined based on competitor prices for similar offerings when sold separately. Our products and services normally contain a significant level of differentiation such that the comparable pricing of services with similar functionality cannot be obtained. When we are unable to establish a selling price using VSOE or TPE, BESP is used in our allocation of arrangement consideration. BESPs are established as best estimates of what the selling price would be if the deliverables were sold regularly on a stand-alone basis. Our process for determining BESPs requires judgment and considers multiple factors, such as market conditions, type of customer, geographies, stage of product lifecycle, internal costs, and gross margin objectives. These factors may vary over time depending upon the unique facts and circumstances related to each deliverable. However, we do not expect the effect of changes in the selling price or method or assumptions used to determine selling price to have a significant effect on the allocation of arrangement consideration.

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

Our international strategy includes the use of licensees in countries where we do not have a wholly-owned direct office. Licensee companies are unrelated entities that have been granted a license to translate our content and offerings, adapt the content to the local culture, and sell our content in a specific country or region. Licensees are required to pay us royalties based upon a percentage of their sales to clients. We recognize royalty income each period based upon the sales information reported to us from our licensees. Licensee royalty revenues are included as a component of training sales and totaled $10.6 million, $14.4 million, and $13.7 million for the fiscal years ended August 31, 2017, 2016, and 2015. The decrease in international licensee royalties in fiscal 2017 was primarily due to the conversion of our licensee operations in China into direct offices.

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

Stock-Based Compensation

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

Shipping and Handling Fees and Costs

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

Advertising Costs

Costs for advertising are expensed as incurred. Advertising costs included in selling, general, and administrative expenses totaled $6.4 million, $6.6 million, and $7.4 million for the fiscal years ended August 31, 2017, 2016, and 2015.

Income Taxes

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

We may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement.

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

Comprehensive Income

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

Accounting Pronouncements Issued and Adopted

In January 2017, the Financial Accounting Standards Board (FASB) issued ASU 2017-04, *Intangibles – Goodwill and Other: Simplifying the Test for Goodwill Impairment*. This guidance simplifies the subsequent measurement of goodwill and eliminates the two-step goodwill impairment test. Under the new guidance, an annual or interim goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount, and an impairment charge is recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. The amendments also eliminate the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and two-step goodwill impairment test. The ASU is effective prospectively for fiscal years and interim periods within those years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We have elected, as permitted by the guidance, to early adopt ASU No. 2017-04 to be effective for our annual goodwill impairment testing at August 31, 2017. The adoption of this standard did not have a material effect on our consolidated goodwill balance at August 31, 2017.

Accounting Pronouncements Issued Not Yet Adopted

On May 28, 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. This new standard was issued in conjunction with the International Accounting Standards Board (IASB) and is designed to create a single, principles-based process by which all businesses calculate revenue. The core principle of this standard is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. The standard also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. The new standard replaces numerous individual, industry-specific revenue rules found in generally accepted accounting principles in the United States. We are required to adopt this standard on September 1, 2018, and apply the new guidance during interim periods within fiscal 2019. The new standard may be adopted using the "full retrospective" or "modified retrospective" approach. We are continuing to assess the impact of adopting ASU 2014-09 on our financial position, results of operations, and related disclosures, and we have not yet determined the method of adoption nor the full impact that the standard will have on our reported revenue or results of operations. We currently believe that the adoption of ASU No. 2014-09 will not significantly change the recognition of revenues associated with the delivery of onsite presentations and facilitator material sales. However, the recognition of revenues associated with intellectual property licenses, such as our All Access Pass, and other revenue streams may be more significantly impacted by the new standard. The Company will continue to assess the new standard along with industry trends and additional interpretive guidance, and it may adjust its implementation plan accordingly. We do not expect the adoption of ASU 2014-09 to have any impact on our operating cash flows.

In April 2016, the FASB issued ASU 2016-10, *Revenue from Contracts with Customers (Topic 606) – Identifying Performance Obligations and Licensing*. The guidance in ASU 2016-10 clarifies aspects of Topic 606 related to identifying performance obligations and the licensing implementation guidance, while retaining the related core principles for those areas. The effective date and transition requirements for ASU 2016-10 are the same as the effective date and transition requirements for Topic 606 (ASU 2014-09) discussed above. As of August 31, 2017, we have not yet determined the full impact that ASU No. 2016-10 will have on our reported revenue or results of operations.

On February 25, 2016, the FASB issued ASU No. 2016-02, *Leases*. The new lease accounting standard is the result of a collaborative effort with the IASB (similar to the new revenue standard described above), although some differences remain between the two standards. This new standard will affect all entities that lease assets and will require lessees to recognize a lease liability and a right-of-use asset for all leases (except for short-term leases that have a duration of less than one year) as of the date on which the lessor makes the underlying asset available to the lessee. For lessors, accounting for leases is substantially the same as in prior periods. For public companies, the new lease standard is effective for fiscal years beginning after

December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted for all entities. For leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, lessees and lessors must apply a modified retrospective transition approach. While we expect the adoption of this new standard will increase reported assets and liabilities, as of August 31, 2017, we have not yet determined the full impact that the adoption of ASU 2016-02 will have on our financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation – Stock Compensation (Topic 718) – Improvements to Employee Share-Based Payment Accounting*. The guidance in ASU 2016-09 simplifies several aspects of the accounting for stock-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification of items on the statement of cash flows. ASU 2016-09 is effective for public companies' annual periods, including interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted subject to certain requirements, and the method of application (i.e., retrospective, modified retrospective or prospective) depends on the transaction area that is being amended. Following adoption, the primary impact on our consolidated financial statements will be the recognition of excess tax benefits in the provision for income taxes rather than additional paid-in capital, which will likely result in increased volatility in the reported amounts of income tax benefit or expense and net income (loss). For example, during fiscal 2017, we recorded $0.2 million of excess income tax benefits to additional paid-in capital. If we would have early adopted ASU 2016-09, this amount would have been recorded as a component of our consolidated income tax benefit for fiscal 2017. As of August 31, 2017, we have not completed the full evaluation of the impact of ASU 2016-09 on our results of operations or cash flows.

2. Business Acquisitions

Robert Gregory Partners, LLC

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

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

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

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

Accounts receivable	$ 458
Prepaid expenses	136
Intangible assets	3,811
Goodwill	1,232
Assets acquired	5,637
Accounts payable	(51)
Accrued expenses	(80)
Deferred revenues	(593)
Liabilities assumed	(724)
	$4,913

The goodwill generated from the RGP acquisition was allocated to each of our operating segments. The goodwill was primarily attributed to increased synergies that are expected to be achieved from the integration of RGP's coaching methodologies into our services and offerings. All of the goodwill from the RGP acquisition is expected to be deductible for income tax purposes.

The payment of contingent consideration is based on the achievement of specified financial results and the delivery of "add-on coaching services" content that will be included in our All Access Pass offering. During the quarter ended August 31, 2017, we paid the former owners of RGP $0.5 million of the contingent consideration for delivery of the content that has been integrated into our AAP offering. Due to the timing of the $0.5 million payment for add-on coaching services, this amount was included in the investing activities section of the accompanying consolidated statement of cash flows for fiscal 2017. Refer to Note 10 for further information regarding the fair value of the contingent consideration liability resulting from the RGP acquisition.

Following are the details of the purchase price allocated to the intangible assets acquired (in thousands):

Description	Amount	Weighted Average Life
Customer list	$2,249	10 years
Content	461	5 years
Trade name	341	5 years
Non-compete agreements	328	2 years
Deferred contract revenue	237	2 years
Coach relationships	150	10 years
Acquired technology	45	3 years
	$3,811	8 years

Our consolidated financial statements include $1.2 million of revenue and $0.4 million of income from operations, excluding amortization of intangible assets, attributable to RGP since the date of the acquisition. For the twelve months ended December 31, 2016, RGP had revenues of $3.3 million (unaudited) and operating income of $1.1 million (unaudited). The costs to acquire RGP totaled approximately $0.1 million and were expensed as components of selling, general, and administrative expense in our consolidated financial statements.

Jhana Education

On July 11, 2017, we acquired all of the outstanding stock of Jhana Education (Jhana), a San Francisco based company that specializes in the creation and dissemination of relevant, bite-sized content and learning tools for leaders and managers. We anticipate that the Jhana content and delivery methodologies acquired will become key features of our AAP offering. The purchase price was $3.5 million in cash plus up to $7.2 million of contingent consideration. The financial results of Jhana have been included in our consolidated financial statements since the date of the acquisition.

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

Cash paid to Jhana at closing	$3,525
Fair value of contingent consideration	6,052
Total purchase price	$9,577

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

Cash	$ 253
Accounts receivable	195
Prepaid expenses and other current assets	86
Deferred tax asset	3,138
Intangible assets	6,076
Goodwill	3,085
Assets acquired	12,833
Accounts payable	(185)
Accrued expenses	(19)
Deferred tax liability	(2,257)
Deferred revenues	(795)
Liabilities assumed	(3,256)
	$ 9,577

Following are the details of the purchase price allocated to the intangible assets acquired (in thousands):

Description	Amount	Weighted Average Life
Content	$3,097	5 years
Acquired technology	1,474	3 years
Customer list	1,016	5 years
Trade name	445	5 years
Non-compete agreements	44	3 years
	$6,076	5 years

The goodwill from the Jhana acquisition was assigned to the Direct Offices, Strategic Markets, and International Licensee segments. The goodwill was primarily attributed to increased synergies that are expected to be achieved from the integration of Jhana's content and delivery methodologies into our services and offerings, especially in the All Access Pass. None of the goodwill from the Jhana acquisition is expected to be deductible for income tax purposes.

The first two contingent payments of $1.0 million each are expected to be paid during the first and second quarters of fiscal 2018 based on the specified measures in the acquisition agreement. The payment of the remaining $5.2 million of contingent consideration is based on Company revenues and AAP revenues over the measurement period, which ends in July 2026. Refer to Note 10 for further information regarding the fair value of contingent consideration resulting from the Jhana acquisition.

The acquisition of Jhana had an immaterial impact on our consolidated financial statements for the fiscal year ended August 31, 2017. For the year ending December 31, 2016, Jhana had revenues of $1.6 million (unaudited) and a loss before income taxes of $3.1 million (unaudited). The costs to acquire Jhana totaled approximately $0.1 million and were expensed as incurred. The acquisition costs were included in our selling, general, and administrative expenses.

Unaudited Pro Forma Information

The following are supplemental consolidated financial results of Franklin Covey Co. on an unaudited pro forma basis as if the acquisitions of RGP and Jhana had been completed on September 1, 2015 (in thousands, except per share amounts):

YEAR ENDED AUGUST 31,	2017	2016
Revenue	$187,745	$204,505
Net income (loss)	(7,976)	4,863
Diluted earnings (loss) per share	(0.58)	0.32

These pro forma results were based on estimates and assumptions, which we believe are reasonable. They are not the results that would have been realized had we been a combined company during the periods presented, and are not necessarily indicative of our consolidated results of operations in future periods. The pro forma results include adjustments related to purchase accounting, primarily the amortization of intangible assets, interest expense, and inclusion of acquisition costs.

3. Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts represents our best estimate of the amount of probable credit losses in the existing accounts receivable balance, and we review the adequacy of the allowance for doubtful accounts on a regular basis. We determine the allowance for doubtful accounts using historical write-off experience based on the age of the receivable balances and current economic conditions in general. Receivable balances past due over 90 days, which exceed a specified dollar amount, are reviewed individually for collectability. As we increase sales to governmental organizations, including school districts, and offer longer payment terms on certain contracts (which are still within our normal payment terms), our collection cycle may increase in future periods. If the risk of non-collection increases for such receivable balances, there may be additional charges to expense to increase the allowance for doubtful accounts.

We classify receivable amounts as current or long-term based on expected payment and record long-term accounts receivable at their net present value. During the fourth quarter of fiscal 2015, we became aware of financial difficulties at a contracting partner from whom we receive payment for services rendered on a large federal government contract. Subsequent to August 31, 2015 we received a $1.8 million payment from this entity and entered into discussions to convert the remaining receivable, which totaled $2.9 million, into a note receivable. Based on expected payment terms as of August 31, 2015, we reclassified this amount to other current assets and other long-term assets on our consolidated balance sheets based on expected principal payments. During fiscal 2017, the note receivable terms were extended an additional two years. This note receivable continues to bear interest at 5.0 percent per year.

Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. We do not have any off-balance sheet credit exposure related to our customers nor do we generally require collateral or other security agreements from our customers.

Activity in our allowance for doubtful accounts was comprised of the following for the periods indicated (in thousands):

YEAR ENDED AUGUST 31,	2017	2016	2015
Beginning balance	$ 1,579	$ 1,333	$ 918
Charged to costs and expenses	1,747	2,022	699
Deductions	(1,016)	(1,776)	(284)
Ending balance	$ 2,310	$ 1,579	$1,333

Deductions on the foregoing table represent the write-off of amounts deemed uncollectible during the fiscal year presented. Recoveries of amounts previously written off were insignificant for the periods presented.

4. Intangible Assets And Goodwill

Intangible Assets

Our intangible assets were comprised of the following (in thousands):

AUGUST 31, 2017	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite-lived intangible assets:			
License rights	$ 27,750	$(17,802)	$ 9,948
Acquired content	62,094	(43,864)	18,230
Customer lists	20,092	(16,935)	3,157
Acquired technology	3,568	(2,136)	1,432
Trade names	2,036	(1,163)	873
Non-compete agreements and other	758	(104)	654
	116,298	(82,004)	34,294
Indefinite-lived intangible asset:			
Covey trade name	23,000	–	23,000
	$139,298	$(82,004)	$57,294

AUGUST 31, 2016	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite-lived intangible assets:			
License rights	$ 27,000	$(16,790)	$10,210
Acquired content	58,564	(42,175)	16,389
Customer lists	16,827	(16,529)	298
Acquired technology	2,049	(2,049)	–
Trade names	1,250	(951)	299
	105,690	(78,494)	27,196
Indefinite-lived intangible asset:			
Covey trade name	23,000	–	23,000
	$128,690	$(78,494)	$50,196

Our intangible assets are amortized over the estimated useful life of the asset. The range of remaining estimated useful lives and weighted-average amortization period over which we are amortizing the major categories of definite-lived intangible assets at August 31, 2017 were as follows:

Category of Intangible Asset	Range of Remaining Estimated Useful Lives	Weighted Average Original Amortization Period
License rights	5 to 9 years	30 years
Acquired content	2 to 9 years	25 years
Customer lists	1 to 10 years	12 years
Acquired technology	3 years	3 years
Trade names	1 to 5 years	5 years
Non-compete agreements and other	1 to 10 years	4 years

Our aggregate amortization expense from definite-lived intangible assets totaled $3.5 million, $3.3 million, and $3.7 million for the fiscal years ended August 31, 2017, 2016, and 2015. Amortization expense from our intangible assets over the next five years is expected to be as follows (in thousands):

YEAR ENDING AUGUST 31,	
2018	$5,368
2019	4,790
2020	4,324
2021	3,809
2022	3,498

Goodwill

Activity in our consolidated goodwill was as follows during fiscal 2017 and 2016 (in thousands):

Balance at August 31, 2015	$19,903
Accumulated impairments	–
Balance at August 31, 2016	19,903
Acquisition of RGP (Note 2)	1,232
Acquisition of Jhanna (Note 2)	3,085
Accumulated impairments	–
Balance at August 31, 2017	$24,220

We allocated the goodwill generated from our fiscal 2017 business acquisitions to our operating segments based on their relative fair values as shown below (in thousands):

AUGUST 31,	2016	Allocated Goodwill	2017
Direct offices	$10,790	$2,592	$13,382
Strategic markets	2,930	513	3,443
Education practice	2,176	154	2,330
International licensees	4,007	1,058	5,065
	$19,903	$4,317	$24,220

5. Term Loans Payable And Revolving Line Of Credit

During fiscal 2011, we entered into an amended and restated secured credit agreement (the Restated Credit Agreement) with our existing lender. The Restated Credit Agreement provides us with a revolving line of credit facility and the ability to borrow on other instruments, such as term loans. We generally renew the Restated Credit Agreement on a regular basis to maintain the long-term availability of this credit facility.

On May 24, 2016, we entered into the Fifth Modification Agreement to the Restated Credit Agreement. The primary purposes of the Fifth Modification Agreement were to (i) obtain a term loan for $15.0 million; (ii) increase the maximum principal amount of the revolving line of credit from $30.0 million to $40.0 million; (iii) extend the maturity date of the Restated Credit Agreement from March 31, 2018 to March 31, 2019; (iv) permit the Company to convert balances outstanding from time to time under the revolving line of credit to term loans; and (v) adjust the fixed charge coverage ratio from 1.40 to 1.15.

During fiscal 2017, we entered into the Sixth, Seventh, and Eighth Modification Agreements to the Restated Credit Agreement. The Sixth Modification and Eighth Modification agreements adjusted the definition of EBITDAR in the funded debt to EBITDAR and fixed charge coverage ratios applicable to our debt covenants to include the change in deferred revenue. The Seventh Modification Agreement extended the maturity date of the Restated Credit Agreement to March 31, 2020.

In connection with these Modification Agreements obtained during fiscal 2017 and 2016, we have entered into a security agreement, repayment guaranty agreements, and a pledge and security agreement. These agreements pledge substantially all of our assets located in the United States to the lender as collateral for borrowings under the Restated Credit Agreement and subsequent amendments.

The effective interest rate on our term loans and revolving line of credit was 3.1 percent at August 31, 2017 and 2.3 percent at August 31, 2016.

Term Loans Payable

In connection with the Fifth Modification Agreement, we obtained a $15.0 million term loan and have the ability to obtain additional term loans in increments of $5.0 million up to a maximum of $40.0 million. Each additional term loan reduces the amount available to borrow on the revolving line of credit facility on a dollar-for-dollar basis. We obtained a $5.0 million term loan during each of September 2016 and August 2017. Interest on the term loans is payable monthly at LIBOR plus 1.85 percent per annum and each term loan matures in three years. Interest is payable monthly and principal payments are due and payable on the first day of each January, April, July, and October. Principal payments are equal to the original amount of each term loan divided by 16 and any remaining principal at the maturity date is immediately payable or may be rolled into a new term loan. The proceeds from each term loan may be used for general corporate purposes and each term loan may be repaid sooner than the maturity date at our discretion. The following information applies to our term loans payable at August 31, 2017 (in thousands):

Maturity Date	Original Principal Amount	Quarterly Principal Payment Amount	Outstanding Principal
May 24, 2019	$15,000	$938	$10,313
August 29, 2019	5,000	313	3,750
August 29, 2020	5,000	313	5,000
			$19,063

Principal payments by fiscal year through the maturity dates of the term loans are as follows (in thousands):

YEAR ENDING AUGUST 31,	
2018	$ 6,250
2019	10,313
2020	2,500
	$19,063

Revolving Line of Credit

The key terms and conditions of our revolving line of credit are as follows:

- **Available Credit –** The maximum available credit was $40.0 million. The amount of available credit has been reduced to $30.0 million as of August 31, 2017 by

the $5.0 million term loans (as discussed above) obtained during fiscal 2017.

- **Maturity Date –** The maturity date of the Revolving Line of Credit is March 31, 2020.
- **Interest Rate –** The effective interest rate continues to be LIBOR plus 1.85 percent per annum and the unused credit fee on the line of credit remains 0.25 percent per annum.
- **Financial Covenants –** The Restated Credit Agreement requires us to be in compliance with specified financial covenants, including (a) a funded debt to EBITDAR (earnings before interest, taxes, depreciation, amortization, and rental expense) ratio of less than 3.00 to 1.00; (b) a fixed charge coverage ratio greater than 1.15 to 1.0; (c) an annual limit on capital expenditures (not including capitalized curriculum development) of $8.0 million; and (d) outstanding borrowings on the Revolving Line of Credit may not exceed 150 percent of consolidated accounts receivable.

In the event of noncompliance with these financial covenants and other defined events of default, the lender is entitled to certain remedies, including acceleration of the repayment of any amounts outstanding on the Restated Credit Agreement. At August 31, 2017, we believe that we were in compliance with the terms and covenants applicable to the Eighth Modification Agreement. We had $4.4 million outstanding on our revolving line of credit at August 31, 2017, and had no borrowings outstanding on August 31, 2016.

6. Financing Obligation

In connection with the sale and leaseback of our corporate headquarters facility located in Salt Lake City, Utah, we entered into a 20-year master lease agreement with the purchaser, an unrelated private investment group. The 20-year master lease agreement also contains six five-year renewal options that will allow us to maintain our operations at the current location for up to 50 years. Although the corporate headquarters facility was sold and the Company has no legal ownership of the property, under applicable accounting guidance we were prohibited from recording the transaction as a sale since we have subleased a significant portion of the property that was sold. Accordingly, we account for the sale as a financing transaction, which requires us to continue reporting the corporate headquarters facility as an asset and to record a financing obligation for the sale price.

The financing obligation on our corporate campus was comprised of the following (in thousands):

AUGUST 31,	2017	2016
Financing obligation payable in monthly installments of $297 at August 31, 2017, including principal and interest, with two percent annual increases (imputed interest at 7.7%), through June 2025	$22,943	$24,605
Less current portion	(1,868)	(1,662)
Total financing obligation, less current portion	$21,075	$22,943

Future principal maturities of our financing obligation were as follows at August 31, 2017 (in thousands):

YEAR ENDING AUGUST 31,	
2018	$ 1,868
2019	2,092
2020	2,335
2021	2,600
2022	2,887
Thereafter	11,161
	$22,943

Our remaining future minimum payments under the financing obligation in the initial 20-year lease term are as follows (in thousands):

YEAR ENDING AUGUST 31,	
2018	$ 3,579
2019	3,651
2020	3,724
2021	3,798
2022	3,874
Thereafter	11,283
Total future minimum financing obligation payments	29,909
Less interest	(8,278)
Present value of future minimum financing obligation payments	$21,631

The $1.3 million difference between the carrying value of the financing obligation and the present value of the future minimum financing obligation payments represents the carrying value of the land sold in the financing transaction, which is not depreciated. At the conclusion of the master lease agreement, the remaining financing obligation and carrying value of the land will be offset and written off of our consolidated financial statements.

7. Operating Leases

Lease Expense

In the normal course of business, we lease office space and warehouse and distribution facilities under non-cancelable operating lease agreements. We rent office space, primarily for international and domestic regional sales administration offices, in commercial office complexes that are conducive to sales and administrative operations. We also rent warehousing and distribution facilities that are designed to provide secure storage and efficient distribution of our training products, books, and accessories. These operating lease agreements often contain renewal options that may be exercised at our discretion after the completion of the base rental term. In addition, many of the rental agreements provide for regular increases to the base rental rate at specified intervals, which usually occur on an annual basis. At August 31, 2017, we had operating leases with remaining terms ranging from less than one year to approximately eight years. The following table summarizes our future minimum lease payments under operating lease agreements at August 31, 2017 (in thousands):

YEAR ENDING AUGUST 31,	
2018	$ 866
2019	321
2020	84
2021	84
2022	84
Thereafter	268
	$1,707

We recognize lease expense on a straight-line basis over the life of the lease agreement. Contingent rent expense is recognized as it is incurred and was insignificant for the periods presented. Total rent expense recorded in selling, general, and administrative expense from operating lease agreements was $1.8 million, $2.2 million, and $2.3 million for the fiscal years ended August 31, 2017, 2016, and 2015.

Lease Income

We have subleased the majority of our corporate headquarters campus located in Salt Lake City, Utah to multiple, unrelated tenants as well as to FC Organizational Products (FCOP, refer to Note 18). We recognize sublease income on a straight-line basis over the life of the sublease agreement. The cost basis of our corporate campus was $34.1 million, which had a carrying value of $7.9 million at August 31, 2017. The following future minimum lease payments due to us from our sublease agreements at August 31, 2017 include lease income of approximately $0.7 million per year from FCOP. The majority of contracted lease income after fiscal 2021 is from FCOP (in thousands):

YEAR ENDING AUGUST 31,	
2018	$ 3,648
2019	3,359
2020	3,448
2021	1,814
2022	638
Thereafter	1,767
	$14,674

Sublease revenue totaled $3.6 million, $4.4 million, and $4.4 million during the fiscal years ended August 31, 2017, 2016, and 2015.

8. Commitments And Contingencies

Information Systems and Warehouse Outsourcing Contract

Prior to July 2016, we had an outsourcing contract with HP Enterprise Services to provide information technology system support and product warehousing and distribution services. Effective July 1, 2016, we entered into a new warehousing services agreement with an independent warehouse and distribution company to provide product kitting, warehousing, and order fulfillment services at a facility in Des Moines, Iowa. Under the terms of the new contract, we pay a fixed charge of $18,000 per month for account management services and variable charges for other warehousing services based on specified activities, including shipping charges. The warehouse charges may be increased each year of the contract based upon changes in the Employment Cost Index. The new warehousing and distribution contract expires on June 30, 2019.

During fiscal years 2017, 2016, and 2015, we expensed $2.6 million, $3.8 million, and $4.9 million for services provided under the terms of our warehouse and distribution outsourcing contract. The total amount expensed each year under these contracts include freight charges, which are billed to the Company based upon activity. Freight charges included in the warehouse and distribution outsourcing costs totaled $1.5 million, $1.8 million, and $1.9 million during the fiscal years ended August 31, 2017, 2016, and 2015. Because of the variable component of the agreement, our payments for warehouse and distribution services may fluctuate in future periods based upon sales and levels of specified activities.

Purchase Commitments

During the normal course of business, we issue purchase orders to various vendors for products and services. At August 31, 2017, we had open purchase commitments totaling $6.6 million for products and services to be delivered primarily in fiscal 2018. The increase over prior years is primarily due to commitments for enterprise risk planning software and AAP portal development activities. Other purchase commitments for materials, supplies, and other items incidental to the ordinary conduct of business were immaterial, both individually and in aggregate, to the Company's operations at August 31, 2017.

Letters of Credit

At August 31, 2017 and 2016, we had standby letters of credit totaling $0.1 million. These letters of credit were primarily required to secure commitments for certain insurance policies and expire in January 2018. No amounts were drawn on the letters of credit at either August 31, 2017 or August 31, 2016.

Legal Matters and Loss Contingencies

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

9. Shareholders' Equity

Preferred Stock

We have 14.0 million shares of preferred stock authorized for issuance. At August 31, 2017 and 2016, no shares of preferred stock were issued or outstanding.

Treasury Stock

Open Market Purchases

On January 23, 2015, our Board of Directors approved a new plan to repurchase up to $10.0 million of the Company's outstanding common stock. All previously existing common stock repurchase plans were canceled and the new common share repurchase plan does not have an expiration date. On March 27, 2015, our Board of Directors increased the aggregate value of shares of Company common stock that may be purchased under the January 2015 plan to $40.0 million so long as we have either $10.0 million in cash and cash equivalents or have access to debt financing of at least $10.0 million. Through August 31, 2017, we have purchased 1,539,828 shares of our common stock for $26.8 million under the terms of this expanded common stock repurchase plan. The actual timing, number, and value of common shares repurchased under this plan will be determined at our discretion and will depend on a number of factors, including, among others, general market and business conditions, the trading price of our common shares, and applicable legal requirements. The Company has no obligation to repurchase any common shares under the authorization, and the repurchase plan may be suspended, discontinued, or modified at any time for any reason.

The cost of common stock purchased for treasury as shown on our consolidated statement of cash flows for the year ending August 31, 2017 includes the cost of 51,156 shares that were withheld for minimum statutory taxes on stock-based compensation awards issued to participants during the fiscal 2017. The withheld shares were valued at the market price on the date the shares were distributed to participants, which totaled $0.9 million. For the fiscal years ended August 31, 2016 and 2015, we withheld 2,260 shares and 17,935 shares for minimum statutory taxes on stock-based compensation awards, which had a total value of $38,000 and $0.3 million, respectively.

Fiscal 2016 Tender Offer

On December 8, 2015, we announced that our Board of Directors approved a modified Dutch auction tender offer for up to $35.0 million in value of shares of our common stock at a price within (and including) the range of $15.50 to $17.75 per share. The tender offer commenced on December 14, 2015, and expired at 11:59 p.m. Eastern time, on January 12, 2016. The tender offer was fully subscribed and we acquired 1,971,832 shares of our common stock at $17.75 per share. Including fees to complete the tender offer, the total cost of the tendered shares was $35.3 million, which was financed by existing cash and proceeds from our revolving line of credit facility. For further information regarding the terms and conditions of this completed tender offer, refer to information in the Tender Offer Statement on Schedule TO filed with Securities and Exchange Commission on December 14, 2015 and subsequent amendments thereto.

10. Fair Value Of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. The accounting standards related to fair value measurements include a hierarchy for information and valuations used in measuring fair value that is broken down into the following three levels based on reliability:

- Level 1 valuations are based on quoted prices in active markets for identical instruments that the Company can access at the measurement date.
- Level 2 valuations are based on inputs other than quoted prices included in Level 1 that are observable for the instrument, either directly or indirectly, for substantially the full term of the asset or liability including the following:
  a. quoted prices for similar, but not identical, instruments in active markets;
  b. quoted prices for identical or similar instruments in markets that are not active;
  c. inputs other than quoted prices that are observable for the instrument; or
  d. inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 valuations are based on information that is unobservable and significant to the overall fair value measurement.

The book value of our financial instruments at August 31, 2017 and 2016 approximated their fair values. The assessment of the fair values of our financial instruments is based on a variety of factors and assumptions. Accordingly, the fair values may not represent the actual values of the financial instruments that could have been realized at August 31, 2017 or 2016, or that will be realized in the future, and do not include expenses that could be incurred in an actual sale or settlement. The following methods and assumptions were used to determine the fair values of our financial instruments, none of which were held for trading or speculative purposes:

Cash, Cash Equivalents, and Accounts Receivable – The carrying amounts of cash, cash equivalents, and accounts receivable approximate their fair values due to the liquidity and short-term maturity of these instruments.

Other Assets – Our other assets, including notes receivable, were recorded at the net realizable value of estimated future cash flows from these instruments.

Debt Obligations – At August 31, 2017, our debt obligations consisted of variable-rate term notes payable and borrowings on our variable-rate revolving line of credit. The term notes payable and revolving line of credit (Note 5) are negotiated components of our Restated Credit Agreement, which is renewed on a regular basis to maintain the long-term borrowing capability of the agreement. Accordingly, the applicable interest rates on the term loans and revolving line of credit are reflective of current market conditions, and the carrying value of term loan and revolving line of credit obligations therefore approximate their fair value.

Contingent Consideration Liabilities from Business Acquisitions

We have contingent consideration liabilities resulting from our business acquisitions. We measure the fair values of the contingent consideration liabilities at each reporting date based on various valuation models as described below. Changes to the fair value of the contingent consideration liabilities are recorded as components of our selling, general, and administrative expenses in the accompanying consolidated statements of operations in the period of adjustment.

Robert Gregory Partners – On May 15, 2017, we acquired the assets of RGP (Note 2). The purchase price included contingent consideration payments to the former owners of RGP of up to $4.5 million, based on the achievement of specified levels of earnings before interest, income taxes, depreciation, and amortization expense (EBITDA) and the delivery of "add-on coaching services content" for our AAP as set forth in the purchase agreement. The specified levels of EBITDA include measures for RGP coaching services plus earnings from add-on coaching services sold through the AAP. The fair value of the contingent consideration on the acquisition date was $1.4 million, of which $0.5 was paid during the fourth quarter for the successful delivery of the add-on coaching services content. The fair value of the RGP contingent liability is estimated using a Monte Carlo simulation method, which considers numerous potential financial outcomes using estimated variables such as expected revenues, growth rates, and a discount rate. This fair value measurement is considered a Level 3 measurement because we estimate revenues and corresponding expected growth rates each period. The

following range of growth rates were used to calculate the initial fair value of the contingent consideration:

	Likely	Minimum	Maximum
RGP growth rate – Year 1	14.8%	(12.0)%	35.0%
RGP growth rate – Year 2	10.0%	(12.0)%	35.0%
RGP growth rate – Year 3	10.0%	(12.0)%	35.0%
Add-on services growth rate – Year 1	60.0%	(20.0)%	130.0%
Add-on services growth rate – Year 2	50.0%	(20.0)%	130.0%
Add-on services growth rate – Year 3	40.0%	(20.0)%	130.0%

At August 31, 2017, the estimated fair value of the RGP contingent consideration was $0.9 million, which was recorded as a component of other long-term assets.

Jhana Education – On July 11, 2017, we acquired the stock of Jhana Education (Note 2). The purchase price included potential contingent consideration of $7.2 million through the measurement period, which ends in July 2026. The first two payments of $1.0 million each are payable during the first half of fiscal 2018, based on specified dates and objectives. The payment of the remaining $5.2 million is based on a percentage of consolidated Company and total AAP sales. The fair value of the contingent consideration was calculated using a probability weighted expected return methodology, which is a Level 3 measurement because we estimate projected consolidated Company and AAP sales over the measurement period. Probabilities were applied to each potential sales outcome and the resulting values were discounted using a rate that considered Jhana's weighted average cost of capital and specific risk premiums associated with the potential contingent consideration. At August 31, 2017, the fair value of the contingent consideration was $6.1 million, with $2.7 million recorded in accrued liabilities and the remaining $3.4 million recorded in other long-term liabilities.

Ninety Five 5, LLC – In fiscal 2013, we acquired Ninety Five 5, LLC (NinetyFive5). The purchase price included contingent consideration payments to the former owners up to a maximum of $8.5 million, based on cumulative EBITDA as set forth in the purchase agreement. The contingent consideration measurement period ended on August 31, 2017. During the measurement period, we reassessed the fair value of the contingent consideration liability each period using the probability weighted expected return method. This fair value measurement is considered a Level 3 measurement because we estimated projected earnings during measurement period utilizing various potential pay-out scenarios. Probabilities were applied to each potential scenario and the resulting values were discounted using a rate that considered Ninety Five 5's weighted average cost of capital as well as a specific risk premium associated with the riskiness of the contingent consideration itself, the related projections, and the overall business.

Based on achieved EBITDA results through the first half of fiscal 2016, we paid the former owners of NinetyFive5 $2.2 million in the third quarter of fiscal 2016. No further contingent consideration payments were made or are expected to be made to the former owners of NinetyFive5 since the measurement period ended on August 31, 2017. During the fiscal years ended August 31, 2017 and 2016, the NinetyFive5 contingent consideration liability was comprised of the following activity (in thousands):

Contingent consideration liability at August 31, 2015	$ 2,565
Payment of first contingent consideration award	(2,167)
Increase in contingent consideration liability	1,538
Contingent consideration liability at August 31, 2016	1,936
Decrease in contingent consideration liability	(1,936)
Contingent consideration liability at August 31, 2017	$ –

11. Stock-Based Compensation Plans

Overview

We utilize various stock-based compensation plans as integral components of our overall compensation and associate retention strategy. Our shareholders have approved various stock incentive plans that permit us to grant performance awards, unvested share awards, stock options, and employee stock purchase plan (ESPP) shares. In addition, our Board of Directors and shareholders may, from time to time, approve fully vested stock awards. The Organization and Compensation Committee of the Board of Directors (the Compensation Committee) has responsibility for the approval and oversight of our stock-based compensation plans.

On January 23, 2015, our shareholders approved the 2015 Omnibus Incentive Plan (the 2015 Plan), which authorized an additional 1.0 million shares of common stock for issuance to employees and members of the Board of Directors as stock-based payments. We believe that the 2015 Plan will provide sufficient available shares to grant awards over the next several years, based on current expectations of grants in future periods. A more detailed description of the 2015 Plan is set forth in the Company's Proxy Statement filed with the SEC on December 22, 2014. At August 31, 2017, the 2015 Plan had approximately 494,000 shares available for future grants.

On May 31, 2017, our Board of Directors approved the 2017 Employee Stock Purchase Plan (the 2017 ESPP Plan). The 2017 ESPP Plan authorized a new tranche of 1,000,000 shares to be issued to ESPP participants and modernized some aspects of the ESPP (e.g., allowing for electronic communication with participants), but all other key terms and conditions of the 2017 ESPP Plan remain consistent with the prior plan (e.g., discount percentage, purchase date, etc.). We intend to submit the 2017 ESPP Plan to a vote of shareholders at our next annual shareholders' meeting, which is expected to be held in January 2018. At August 31, 2017, the 2017 ESPP Plan had approximately 987,000 shares remaining for purchase by plan participants.

The total compensation expense of our stock-based compensation plans was as follows (in thousands):

YEAR ENDED AUGUST 31,	2017	2016	2015
Performance awards	$2,902	$2,492	$1,890
Unvested stock awards	500	450	400
Fully vested stock awards	135	60	125
Compensation cost of the ESPP	121	119	121
	$3,658	$3,121	$2,536

The compensation expense of our stock-based compensation plans was included in selling, general, and administrative expenses in the accompanying consolidated statements of operations, and no stock-based compensation was capitalized during fiscal years 2017, 2016, or 2015. During fiscal 2017, we issued 217,581 shares of our common stock from shares held in treasury for various stock-based compensation plans. Certain of our stock-based compensation plans allow recipients to have shares withheld from the award to pay minimum statutory tax liabilities. We withheld 51,156 shares of our common stock for minimum statutory taxes during fiscal 2017.

The following is a description of our stock-based compensation plans.

Performance Awards

Due to the significant change in our business resulting sales of the All Access Pass, on October 18, 2016, the Compensation Committee approved a modification to the fiscal 2012 through fiscal 2016 performance awards to include the change in deferred revenue, less certain costs, in adjusted earnings before interest, taxes, depreciation, and amortization (Adjusted EBITDA) in the vesting calculations. Our share price on October 18, 2016 was less than the share prices used to recognize stock-based compensation expense on the fiscal 2012 through fiscal 2015 performance awards and no incremental stock-based compensation expense was recognized from this modification for those awards. The incremental compensation expense recorded in fiscal 2017 as a result of this modification for the fiscal 2016 LTIP award was approximately $0.6 million.

In fiscal 2015, the Compensation Committee approved a modification to exclude the effects of foreign exchange on the measurement of performance criteria on the outstanding tranches of our long-term incentive plan (LTIP) awards. Accordingly, we calculated incremental compensation expense based upon the fair value of (closing price) our common stock on the modification date, which totaled $0.7 million. We recognized $0.5 million of the incremental compensation expense during fiscal 2015 for service provided in the current and previous fiscal years associated with the modification.

Each of the LTIP performance awards described below have a maximum life of six years and compensation expense is recognized as we determine it is probable that the shares will vest. Adjustments to compensation expense to reflect the timing of and the number of shares expected to be awarded are made on a cumulative basis at the date of the adjustment. Award tranches that have vested and shares distributed to participants are marked as "vested" in the tables below. Tranches that have met the performance criteria, but are awaiting Compensation Committee approval are marked as "criteria met," and tranches that have been determined to not be probable of vesting are marked as "not probable" in the tables below. The status for the tranches presented in the tables below is as of August 31, 2017.

Fiscal 2017 LTIP Award – On October 18, 2016, the Compensation Committee granted performance-based awards for our executive officers and members of senior management. A total of 183,381 shares may be earned by the participants based on six individual vesting conditions that are divided into two performance measures, trailing four-quarter Adjusted EBITDA and trailing four-quarter gross All Access Pass sales as shown below.

Adjusted EBITDA		
Award Goal (millions)	Number of Shares	Tranche Status
$36.7	42,789	amortizing
$41.8	42,789	amortizing
$47.7	42,789	amortizing
	128,367	

All Access Pass Sales		
Award Goal (millions)	Number of Shares	Tranche Status
$30.1	18,338	vested
$35.4	18,338	vested
$40.8	18,338	vested
	55,014	

Fiscal 2016 LTIP Award – On November 12, 2015, the Compensation Committee granted performance-based awards for our executive officers and members of senior management. A total of 231,276 shares may be awarded to the participants based on six individual vesting conditions that are divided into two performance measures, trailing four-quarter Adjusted EBITDA and increased sales of Organizational Development Suite (OD Suite) offerings as shown below. The OD Suite is defined as Leadership, Productivity, and Trust practice sales.

Adjusted EBITDA		
Award Goal (millions)	Number of Shares	Tranche Status
$36.0	53,964	amortizing
$40.0	53,964	amortizing
$44.0	53,964	amortizing
	161,892	

OD Suite Sales		
Award Goal (millions)	Number of Shares	Tranche Status
$107.0	23,128	vested
$116.0	23,128	criteria met
$125.0	23,128	criteria met
	69,384	

Fiscal 2015 LTIP Award – During fiscal 2015, the Compensation Committee granted a performance-based award for our executive officers and certain members of senior management. A total of 112,464 shares may be awarded to the participants based on six individual vesting conditions that are divided into two performance measures, trailing four-quarter Adjusted EBITDA and increased sales of OD Suite sales as shown below.

Adjusted EBITDA		
Award Goal (millions)	Number of Shares	Tranche Status
$39.6	26,241	amortizing
$45.5	26,241	amortizing
$52.3	26,241	not probable
	78,723	

OD Suite Sales		
Award Goal (millions)	Number of Shares	Tranche Status
$107.0	11,247	vested
$118.0	11,247	criteria met
$130.0	11,247	amortizing
	33,741	

Fiscal 2014 LTIP Award – During the first quarter of fiscal 2014, the Compensation Committee granted performance-based equity awards for our executive officers. A total of 89,418 shares may be awarded to the participants based on six individual vesting conditions that are divided into two performance measures, trailing four-quarter Adjusted EBITDA and trailing four-quarter increased sales of courses related to *The 7 Habits of Highly Effective People* (the *7 Habits*).

Adjusted EBITDA		
Award Goal (millions)	Number of Shares	Tranche Status
$37.0	20,864	vested
$43.0	20,864	amortizing
$49.0	20,864	not probable
	62,592	

7 Habits Increased Sales		
Award Goal (millions)	Number of Shares	Tranche Status
$ 5.0	8,942	vested
$10.0	8,942	vested
$12.5	8,942	criteria met
	26,826	

Fiscal 2013 LTIP Award – During the first quarter of fiscal 2013, the Compensation Committee granted a performance-based equity award for the Chief Executive Officer (CEO), Chief Financial Officer (CFO), and the Chief People Officer (CPO). A total of 68,085 shares may be issued to the participants based on six individual vesting conditions that are divided into two performance measures, trailing four-quarter Adjusted EBITDA and Productivity Practice sales.

Adjusted EBITDA		
Award Goal (millions)	Number of Shares	Tranche Status
$33.0	15,887	vested
$40.0	15,887	amortizing
$47.0	15,887	not probable
	47,661	

Productivity Practice Sales		
Award Goal (millions)	Number of Shares	Tranche Status
$23.5	6,808	vested
$26.5	6,808	not probable
$29.5	6,808	not probable
	20,424	

Fiscal 2012 LTIP Award – During fiscal 2012, the Compensation Committee granted a performance-based equity award for the CEO, CFO, and CPO similar to the fiscal 2013 executive award described above. A total of 106,101 shares may be issued to the participants based on six individual vesting conditions that are divided into two performance measures, Adjusted EBITDA and Productivity Practice sales. The fiscal 2012 LTIP award measurement period ended on August 31, 2017.

Adjusted EBITDA		
Award Goal (millions)	Number of Shares	Tranche Status
$26.0	24,757	vested
$33.0	24,757	vested
$40.0	24,757	not vested
	74,271	

Productivity Practice Sales		
Award Goal (millions)	Number of Shares	Tranche Status
$20.5	10,610	vested
$23.5	10,610	vested
$26.5	10,610	not vested
	31,830	

Unvested Stock Awards

The annual Board of Director unvested stock award, which is administered under the terms of the Franklin Covey Co. 2015 Omnibus Incentive Plan, is designed to provide our non-employee directors, who are not eligible to participate in our employee stock purchase plan, an opportunity to obtain an interest in the Company through the acquisition of shares of our common stock. Each eligible director is entitled to receive a whole-share grant equal to $75,000 with a one-year vesting period, which is generally granted in January (following the Annual Shareholders' Meeting) of each year. Shares granted under the terms of this annual award are ineligible to be voted or participate in any common stock dividends until they are vested.

Under the terms of this program, we issued 29,834 shares, 25,032 shares, and 24,210 shares of our common stock to eligible members of the Board of Directors during the fiscal years ended August 31, 2017, 2016, and 2015. The fair value of shares awarded to the directors was $0.5 million in each of those years as calculated on the grant date of the awards. The corresponding compensation cost is recognized over the vesting period of the awards, which is one year. The cost of the common stock issued from treasury for these awards was $0.4 million in fiscal 2017, and $0.3 million in each of the fiscal years ended August 31, 2016 and 2015. The following information applies to our unvested stock awards for the fiscal year ended August 31, 2017:

	Number of Shares	Weighted-Average Grant-Date Fair Value Per Share
Unvested stock awards at August 31, 2016	25,032	$17.98
Granted	29,834	17.60
Forfeited	–	–
Vested	(25,032)	17.98
Unvested stock awards at August 31, 2017	29,834	$17.60

At August 31, 2017, there was $0.2 million of unrecognized compensation cost related to unvested stock awards, which is expected to be recognized over the remaining weighted-average vesting period of approximately four months. The total recognized tax benefit from unvested stock awards totaled $0.2 million for fiscal 2017 and $0.1 million for each of the fiscal years ended August 31,

2016 and 2015. The intrinsic value of our unvested stock awards at August 31, 2017 was $0.6 million.

Stock Options

We have an incentive stock option plan whereby options to purchase shares of our common stock may be issued to key employees at an exercise price not less than the fair market value of the Company's common stock on the date of grant. Information related to our stock option activity during the fiscal year ended August 31, 2017 is presented below:

	Number of Stock Options	Weighted Avg. Exercise Price Per Share	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (thousands)
Outstanding at August 31, 2016	631,250	$11.41		
Granted	–	–		
Exercised	(62,500)	9.00		
Forfeited	–	–		
Outstanding at August 31, 2017	568,750	$11.67	2.8	$4,055
Options vested and exercisable at August 31, 2017	568,750	$11.67	2.8	$4,055

During fiscal 2017, we had 62,500 stock options exercised on a net share basis, which had an aggregate intrinsic value of $0.5 million. At August 31, 2017, there was no remaining unrecognized compensation expense related to our stock options and no options were exercised during either fiscal 2016 or 2015.

The following additional information applies to our stock options outstanding at August 31, 2017:

Exercise Prices	Number Outstanding at August 31, 2017	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Options Exercisable at August 31, 2017	Weighted Average Exercise Price
$ 9.00	62,500	3.4	$ 9.00	62,500	$ 9.00
$10.00	168,750	2.8	$10.00	168,750	$10.00
$12.00	168,750	2.8	$12.00	168,750	$12.00
$14.00	168,750	2.8	$14.00	168,750	$14.00
	568,750			568,750	

Fully Vested Stock Awards

Client Partner and Consultant Award – During fiscal 2011, we implemented a new fully vested stock-based award program that is designed to reward our client partners and training consultants for exceptional long-term performance. The program grants shares of our common stock with a total value of $15,000 to each client partner who has sold over $20.0 million in cumulative sales or training consultant who has delivered over 1,500 days of training during their career. During fiscal 2017, nine individuals qualified for this award; four individuals qualified for this award in fiscal 2016; and five individuals earned this award in fiscal 2015.

In the fourth quarter of fiscal 2015, the Compensation Committee approved a fully vested award equal to $10,000 for each general manager or area director that achieved a specified sales goal. Five individuals achieved their sales goals and qualified for the award. This award was only for fourth quarter fiscal 2015 sales performance and no additional awards may be granted under the terms of this award.

Employee Stock Purchase Plan

We have an employee stock purchase plan that offers qualified employees the opportunity to purchase shares of our common stock at a price equal to 85 percent of the average fair market value of our common stock on the last trading day of each quarter. We issued a total of 43,199 shares, 49,375 shares, and 42,687 shares to ESPP participants during the fiscal years ended August 31, 2017, 2016, and 2015, which had a corresponding cost basis of $0.6 million, $0.7 million, and $0.6 million, respectively. We received

cash proceeds for these shares from ESPP participants totaling $0.7 million in each of the fiscal years ended August 31, 2017, 2016, and 2015.

12. Impaired Assets

Our impaired asset charges during fiscal 2015 consisted of the following (in thousands):

Long-term receivables from FCOP	$ 541
Capitalized curriculum	414
Investment cost method subsidiary	220
Prepaid expenses and other long-term assets	127
	$1,302

The following is a description of the circumstances regarding the impairment of these long-lived assets.

Long-Term Receivables From FCOP – We determined that the operating agreements between the Company and FCOP allow us to collect reimbursement for certain rental expenses prior to the annual required distribution of earnings to FCOP's creditors. Such rents were previously treated as lower in priority and therefore, were considered long-term receivables. Although this determination improved our cash flows and collections of rents receivable from FCOP in the short term, it reduced the amount of cash we were expecting to receive from the required distribution of earnings to pay long-term receivable balances. After this determination was made, the present value of our previously recorded long-term receivables was more than the present value of expected corresponding cash flows. Accordingly, we recalculated our discount on the long-term receivables and impaired the remaining balance.

Capitalized Curriculum – During fiscal 2015, we determined that it would be beneficial to discontinue a component of one of our existing offerings and we received legal notice that another offering contained names trademarked by another entity. Since we currently offer a similar program, the decision was made to discontinue the offering rather than modify the curriculum as required by applicable trademark law. Accordingly, we impaired the remaining unamortized carrying value of these offerings. These items were classified as components of other long-term assets on our consolidated balance sheets.

Investment in Cost Method Subsidiary – In the fourth quarter of fiscal 2015, we became aware of financial difficulties at an entity in which we had an investment accounted for under the cost method. Based on discussions with management of the entity, we determined that the investment in this subsidiary would not be recoverable in future periods due to going concern considerations. Accordingly, we impaired the carrying value of the investment in this entity. The investment in this entity was previously classified as a component of other long-term assets in our consolidated balance sheets.

Prepaid Expenses and Other Long-Term Assets – In connection with a component of one of our offerings that was discontinued (as described above), we had prepaid royalties to an unrelated developer. Based on the decision to impair the content, we determined that the probability of receiving cash flows sufficient to recover the prepaid royalties was remote and we expensed the carrying value of these prepaid assets. Approximately $60,000 of this balance was previously included in other long-term assets.

13. Contract Termination And Restructuring Costs

Contract Termination Costs

During fiscal 2017, we entered into a new 10-year license agreement for Education practice content in a foreign country, with minimum required royalties payable to us totaling $16.1 million (at current exchange rates) over the life of the arrangement. Under a previously existing profit-sharing agreement, we would have been obligated to pay one-third of the new minimum royalty stream, or $5.4 million, plus one-third of any royalties in excess of the contractual minimums to the licensee that owns the rights for that country. In exchange for a $1.5 million payment, we terminated the previously existing profit-sharing agreement and we will not owe any further profit sharing-payments to the international licensee. For example, during fiscal 2017, we received $0.9 million of royalty revenues from this agreement. Under the previous profit sharing arrangement, we would have been required to pay $0.3 million to the licensee. Based on the guidance for contract termination costs, we expensed the $1.5 million payment during the second quarter of fiscal 2017.

Restructuring Costs

Fiscal 2017 Restructuring Costs

During the third quarter of fiscal 2017, we determined to exit the publishing business in Japan and restructured our U.S./Canada direct office operations in order to support new sales and renewals of the All Access Pass. We expensed $3.6 million related to these changes during fiscal 2017 as described below. The majority of these costs were attributable to our Direct Offices operating segment.

Exit Japan Publishing Business

Due to a change in strategy designed to focus resources and efforts on sales of the All Access Pass in Japan, and declining sales and profitability of the publishing business, we decided to exit the publishing business in Japan. As a result of this determination, we wrote off the majority of our book inventory located in Japan for $2.1 million, which was recorded as a component of product cost of sales in the accompanying consolidated statements of operations for fiscal 2017.

U.S./Canada Direct Office Restructuring

We restructured the operations of our U.S/Canada direct offices to create new smaller regional teams which are focused on selling the All Access Pass, helping clients strategically implement the AAP, and providing services to further develop long-term client relationships. Accordingly, we determined that our three remaining sales offices located in Atlanta, Georgia; Irvine, California; and Chicago, Illinois were unnecessary since most client partners work from home-based offices; restructured the operations of the Sales Performance and Winning Customer Loyalty Practices; and eliminated certain functions to reduce costs in future periods. The $1.5 million restructuring charge associated with these operational changes was comprised of the following (in thousands):

Description	Amount
Severance costs	$ 986
Office closure costs	496
	$1,482

As of August 31, 2017, all of the severance costs have been paid and the remaining office closure cost accrual totaled $0.5 million, which is included as a component of accrued liabilities on the accompanying consolidated balance sheet.

Fiscal 2016 Restructuring Costs

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

We also restructured the operations of our Australian direct office. The restructuring was designed to reduce ongoing operating costs by closing the sales offices in Brisbane, Sydney, and Melbourne, and by reducing headcount for administrative and certain sales support functions. Our remaining sales and support personnel in Australia now work from home offices, similar to many of our sales personnel located in the U.S. and Canada. The Australia office restructure cost $0.4 million and was primarily comprised of office closure costs, including remaining lease expense on the offices that were closed, and for employee severance costs. The severance costs included the restructuring charge totaled less than $40,000. As of August 31, 2017 substantially all of the remaining accrued restructuring costs were paid.

Fiscal 2015 Restructuring Costs

During the fourth quarter of fiscal 2015, we realigned our regional sales offices that serve the United States and Canada. As a result of this realignment, we closed our northeastern regional sales office located in Pennsylvania and created new geographic sales regions. In connection with this restructuring, we incurred costs related to involuntary severance and office closure costs. The restructuring charge taken during the fiscal year ended August 31, 2015 was comprised of the following (in thousands):

Description	Amount
Severance costs	$570
Office closure costs	17
	$587

The majority of these costs were paid prior to August 31, 2015 and there were no remaining costs from the fiscal 2015 restructuring accrued as of August 31, 2017.

14. Employee Benefit Plans

Profit Sharing Plans

We have defined contribution profit sharing plans for our employees that qualify under Section 401(k) of the Internal Revenue Code. These plans provide retirement benefits for employees meeting minimum age and service requirements. Qualified participants may contribute up to 75 percent of their gross wages, subject to certain limitations. These plans also provide for matching contributions to the participants that are paid by the Company. The matching contributions, which were expensed as incurred, totaled $1.9 million, $1.9 million, and $1.7 million during the fiscal years ended August 31, 2017, 2016, and 2015. We do not sponsor or participate in any defined-benefit pension plans.

Deferred Compensation Plan

We had a non-qualified deferred compensation (NQDC) plan that provided certain key officers and employees

the ability to defer a portion of their compensation until a later date. Deferred compensation amounts used to pay benefits were held in a "rabbi trust," which invested in insurance contracts, various mutual funds, and shares of our common stock as directed by the plan participants. However, due to legal changes resulting from the American Jobs Creation Act of 2004, we determined to cease compensation deferrals to the NQDC plan after December 31, 2004. Following the cessation of deferrals to the NQDC plan, the number of participants remaining in the plan declined steadily, and our Board of Directors decided to partially terminate the NQDC plan. Following this decision, all of the plan's assets were liquidated, the plan's liabilities were paid, and the only remaining items in the NQDC plan are shares of our common stock owned by the remaining plan participants. At August 31, 2017 and 2016, the cost basis of the shares of our common stock held by the rabbi trust was $0.4 million.

15. Income Taxes

Our benefit (provision) for income taxes consisted of the following (in thousands):

YEAR ENDED AUGUST 31,	2017	2016	2015
Current:			
Federal	$ 69	$ (380)	$ (220)
State	(71)	(197)	(208)
Foreign	(2,320)	(2,553)	(2,691)
	(2,322)	(3,130)	(3,119)
Deferred:			
Federal	(1,227)	(1,584)	(3,239)
State	(17)	70	(138)
Foreign	468	50	200
Operating loss carryforward	6,964	–	–
Valuation allowance	(129)	(301)	–
	6,059	(1,765)	(3,177)
	$ 3,737	$(4,895)	$(6,296)

The allocation of our total income tax benefit (provision) is as follows (in thousands):

YEAR ENDED AUGUST 31,	2017	2016	2015
Net income (loss)	$3,737	$(4,895)	$(6,296)
Other comprehensive income	37	115	52
	$3,774	$(4,780)	$(6,244)

Income (loss) before income taxes consisted of the following (in thousands):

YEAR ENDED AUGUST 31,	2017	2016	2015
United States	$(10,126)	$ 9,328	$15,073
Foreign	(783)	2,583	2,339
	$(10,909)	$11,911	$17,412

The differences between income taxes at the statutory federal income tax rate and the consolidated income tax rate reported in our consolidated statements of operations were as follows:

YEAR ENDED AUGUST 31,	2017	2016	2015
Federal statutory income tax rate	35.0%	(35.0)%	(35.0)%
State income taxes, net of federal effect	2.3	(1.9)	(2.3)
Valuation allowance	(1.2)	(2.5)	–
Foreign jurisdictions tax differential	(1.9)	0.6	(1.2)
Tax differential on income subject to both U.S. and foreign taxes	0.4	(1.9)	(0.5)
Effect of claiming foreign tax credits instead of deductions for prior years	–	–	3.2
Uncertain tax positions	4.4	0.4	0.9
Non-deductible executive compensation	(1.6)	–	(0.2)
Non-deductible meals and entertainment	(2.2)	(1.6)	(1.1)
Other	(0.9)	0.8	–
	34.3%	(41.1)%	(36.2)%

In prior fiscal years, we elected to take deductions on our U.S. federal income tax returns for foreign income taxes paid, rather than claiming foreign tax credits. During those years we either generated or used net operating loss carryforwards and were therefore unable to utilize foreign tax credits. In fiscal 2011, we began claiming foreign tax credits on our U.S. federal income tax returns. Although we could not utilize the credits we claimed for fiscal 2012 and fiscal 2011 in those respective years, we concluded it was more likely than not that these foreign tax credits will be utilized in the future.

Our overall U.S. taxable income and foreign source income for fiscal 2014 and 2013 were sufficient to utilize all of the foreign tax credits generated during those fiscal years, plus additional credits generated in prior years. Accordingly, we amended our U.S. federal income tax returns from

fiscal 2003 through fiscal 2010 to claim foreign tax credits instead of foreign tax deductions. In fiscal 2015, we finalized the calculations of the impact of amending previously filed federal income tax returns to realize foreign tax credits previously treated as expired under the tax positions taken in the original returns. The income tax benefit recognized from these foreign tax credits totaled $0.6 million in fiscal 2015.

We recognized tax benefits from deductions for stock-based compensation in excess of the corresponding expense recorded for financial statement purposes. Instead of reducing our income tax expense for these benefits, we recorded $0.2 million and $0.1 million for the fiscal years ending August 31, 2017 and 2015. Tax expense related to stock-based compensation recorded in additional paid-in capital for fiscal 2016 was insignificant. Following the adoption of ASU 2016-09 in fiscal 2018, the benefits and deductions resulting from stock-based compensation in excess of the corresponding book expense will be recorded as a component of our income tax provision or benefit for the period.

The significant components of our deferred tax assets and liabilities were comprised of the following (in thousands):

AUGUST 31,	2017	2016
Deferred income tax assets:		
Net operating loss carryforward	$10,310	$ –
Sale and financing of corporate headquarters	8,420	9,013
Foreign income tax credit carryforward	4,382	2,784
Stock-based compensation	2,954	2,674
Inventory and bad debt reserves	1,643	1,147
Bonus and other accruals	1,574	1,017
Deferred revenue	510	405
Other	337	617
Total deferred income tax assets	30,130	17,657
Less: valuation allowance	(612)	(301)
Net deferred income tax assets	29,518	17,356

AUGUST 31,	2017	2016
Deferred income tax liabilities:		
Intangibles step-ups – indefinite lived	(8,539)	(8,528)
Intangibles step-ups – definite lived	(7,607)	(6,003)
Intangible asset impairment and amortization	(4,875)	(4,505)
Property and equipment depreciation	(4,960)	(3,367)
Deferred commissions	(2,195)	–
Unremitted earnings of foreign subsidiaries	(492)	(574)
Other	(236)	(399)
Total deferred income tax liabilities	(28,904)	(23,376)
Net deferred income taxes	$ 614	$ (6,020)

Deferred income tax amounts are recorded as follows in our consolidated balance sheets (in thousands):

AUGUST 31,	2017	2016
Other long-term assets	$ 1,647	$ 650
Long-term liabilities	(1,033)	(6,670)
Net deferred income tax liability	$ 614	$(6,020)

As of August 31, 2016, we had utilized all of our U.S. federal net operating loss carryforwards. However, we incurred a federal net operating loss of $17.5 million in fiscal 2017 and acquired a federal net operating loss carryforward of $7.7 million in connection with the purchase of the stock of Jhana Education (Note 2) in fiscal 2017. Our U.S. federal net operating loss carryforwards were comprised of the following at August 31, 2017 (in thousands):

Loss Carryforward for Year Ended	Loss Carryforward Expires August 31,	Amount	Loss Deductions in Prior Years	Loss Deductions in Current Year	Operating Loss Carried Forward
December 31, 2012	2031	$ 243	$ –	$ –	$ 243
December 31, 2013	2032	553	–	–	553
December 31, 2014	2033	1,285	–	–	1,285
December 31, 2015	2034	1,491	–	–	1,491
December 31, 2016	2035	3,052	–	–	3,052
July 15, 2017	2036	1,117	–	–	1,117
Acquired NOL		7,741	–	–	7,741
August 31, 2017	2037	17,500	–	–	17,500
		$25,241	$ –	$ –	$25,241

We have U.S. state net operating loss carryforwards generated in fiscal 2009 and before in various jurisdictions that expire primarily between September 1, 2017 and August 31, 2029. The U.S. state net operating loss carryforwards generated in fiscal 2017 primarily expire on August 31, 2037. The state net operating loss carryforwards acquired through the purchase of Jhana Education stock expire between August 31, 2031 and August 31, 2036.

Our U.S. foreign income tax credit carryforwards were comprised of the following at August 31, 2017 (in thousands):

Credit Generated in Fiscal Year Ended August 31,	Credit Expires August 31,	Credits Generated	Credits Used in Prior Years	Credits Used in Fiscal 2017	Credits Carried Forward
2011	2021	$ 3,445	$ (859)	$ –	$2,586
2012	2022	2,563	(2,563)	–	–
2013	2023	2,815	(2,815)	–	–
2014	2024	1,378	(1,378)	–	–
2015	2025	1,422	(1,422)	–	–
2016	2026	1,569	(1,569)	–	–
2017	2027	1,796	–	–	1,796
		$14,988	$(10,606)	$ –	$4,382

During the year ended August 31, 2016, we determined it was more likely than not that deferred tax assets of a foreign subsidiary would not be realized. Accordingly, we recorded a $0.3 million valuation allowance against these deferred tax assets in fiscal 2016. During fiscal 2017, we increased this valuation allowance by $0.1 million to $0.4 million, which reduced our income tax benefit for the year by $0.1 million.

We acquired federal and state net operating loss carryforwards in connection with the purchase of Jhana Education stock during fiscal 2017. Section 382 of the Internal Revenue Code limits our ability to use these acquired losses. Accordingly, we recorded valuation allowances in the amount of $0.2 million against the related deferred tax assets. Our income tax benefit for fiscal 2017 was unaffected by this valuation allowance.

We have determined that projected future taxable income is adequate to allow for realization of all deferred tax assets, except for the assets subject to the valuation allowances. We considered sources of taxable income, including future reversals of taxable temporary differences, future taxable income exclusive of reversing temporary differences and carryforwards, and reasonable, practical tax-planning strategies to generate additional taxable income. Based on the factors described above, we concluded that realization of our deferred tax assets, except those subject to the valuation allowance as described above, is more likely than not at August 31, 2017.

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows (in thousands):

YEAR ENDED AUGUST 31,	2017	2016	2015
Beginning balance	$3,024	$3,115	$3,491
Additions based on tax positions related to the current year	10	199	244
Additions for tax positions in prior years	85	3	144
Reductions for tax positions of prior years resulting from the lapse of applicable statute of limitations	(634)	(212)	(339)
Other reductions for tax positions of prior years	(126)	(81)	(425)
Ending balance	$2,359	$3,024	$3,115

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is $1.6 million at August 31, 2017, and $2.1 million at August 31, 2016. Included in the ending balance of gross unrecognized tax benefits at August 31, 2017 is $2.4 million related to individual states' net operating loss carryforwards. Interest and penalties related to uncertain tax positions are recognized as components of income tax expense. The net accruals and reversals of interest and penalties increased or decreased our income tax expense by an insignificant amount in each of fiscal 2017, fiscal 2016 and fiscal 2015. The balance of interest and penalties included in other liabilities on our consolidated balance sheets at August 31, 2017 and 2016 was $0.3 million at each date.

During the next 12 months, we expect a decrease in unrecognized tax benefits totaling $0.2 million relating to state net operating loss deductions upon the lapse of the applicable statute of limitations.

We file United States federal income tax returns as well as income tax returns in various states and foreign jurisdictions. The tax years that remain subject to examinations for our major tax jurisdictions are shown below.

2010 – 2017	Canada and Australia
2012 – 2017	Japan and the United Kingdom
2013 – 2017	United States – state and local income tax
2014 – 2017	United States – federal income tax
2016 – 2017	China
2017	Singapore

16. Earnings (Loss) Per Share

The following is a reconciliation from basic earnings (loss) per share (EPS) to diluted EPS (in thousands, except per-share amounts).

YEAR ENDED AUGUST 31,	2017	2016	2015
Numerator for basic and diluted earnings per share:			
Net income (loss)	$ (7,172)	$ 7,016	$11,116
Denominator for basic and diluted earnings per share:			
Basic weighted average shares outstanding	13,819	14,944	16,742
Effect of dilutive securities:			
Stock options and other stock-based awards	–	132	181
Diluted weighted average shares outstanding	13,819	15,076	16,923
EPS Calculations:			
Net income (loss) per share:			
Basic	$ (0.52)	$ 0.47	$ 0.66
Diluted	(0.52)	0.47	0.66

Since we incurred a net loss for the fiscal year ended August 31, 2017, no potentially dilutive securities were included in the calculation of our earnings per share because the inclusion of these securities would be antidilutive. The number of dilutive securities that would have been included at August 31, 2017 would have been approximately 0.2 million shares. Other securities, including performance stock-based compensation instruments, may have a dilutive effect on our EPS calculation in future periods if our financial results reach specified targets (Note 11).

17. Segment Information

Reportable Segments

Our revenues are primarily obtained from the sale of training and consulting services and related products. During fiscal 2017, we managed our business based on the following four operating segments:

- ***Direct Offices*** – This division includes our geographic sales offices that serve the United States and Canada; our international sales offices located in Japan, China, the United Kingdom, and Australia; and our public programs group.
- ***Strategic Markets*** – This division includes our government services office, the Sales Performance practice, the Customer Loyalty practice, and the "Global 50" group, which is specifically focused on sales to large, multi-national organizations.
- ***Education practice*** – This division includes our domestic and international Education practice operations, which are centered on sales to educational institutions.
- ***International Licensees*** – This division is primarily comprised of our international licensees' royalty revenues.

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 calculated by other companies. For reporting purposes, our consolidated Adjusted EBITDA can be calculated as our income or loss from operations excluding stock-based compensation, contract termination costs, restructuring charges, depreciation expense, amortization expense, and certain other items such as impaired asset charges and adjustments for changes in the fair value of contingent consideration liabilities from business acquisitions.

Our operations are not capital intensive and we do not own any manufacturing facilities or equipment. Accordingly, we do not allocate assets to the divisions for analysis purposes. Interest expense and interest income are primarily generated at the corporate level and are not allocated. Income taxes are likewise calculated and paid on a corporate level (except for entities that operate in foreign jurisdictions) and are not allocated for analysis purposes.

All prior period segment information has been revised to conform to our current organizational structure, assigned responsibilities, and primary internal reports. We account for our segment information on the same basis as the accompanying consolidated financial statements.

Fiscal Year Ended August 31, 2017	Sales to External Customers	Gross Profit	Adjusted EBITDA
Direct offices	$ 96,662	$ 65,950	$ 6,134
Strategic markets	22,974	13,601	(2,005)
Education practice	44,122	27,916	6,043
International licensees	13,571	10,483	6,005
Total	177,329	117,950	16,177
Corporate and eliminations	7,927	4,717	(8,478)
Consolidated	$185,256	$122,667	$ 7,699

Fiscal Year Ended August 31, 2016	Sales to External Customers	Gross Profit	Adjusted EBITDA
Direct offices	$103,605	$ 74,632	$17,791
Strategic markets	29,819	18,791	3,559
Education practice	40,844	24,513	4,787
International licensees	17,113	13,152	8,646
Total	191,381	131,088	34,783
Corporate and eliminations	8,674	4,066	(7,889)
Consolidated	$200,055	$135,154	$26,894

Fiscal Year Ended August 31, 2015	Sales to External Customers	Gross Profit	Adjusted EBITDA
Direct offices	$113,087	$ 81,057	$18,801
Strategic markets	37,039	21,680	8,418
Education practice	33,681	19,350	3,084
International licensees	16,547	12,343	6,645
Total	200,354	134,430	36,948
Corporate and eliminations	9,587	3,659	(5,090)
Consolidated	$209,941	$138,089	$31,858

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

YEAR ENDED AUGUST 31,	2017	2016	2015
Enterprise Adjusted EBITDA	$ 16,177	$34,783	$36,948
Corporate expenses	(8,478)	(7,889)	(5,090)
Consolidated Adjusted EBITDA	7,699	26,894	31,858
Stock-based compensation	(3,658)	(3,121)	(2,536)
Reduction (increase) in contingent consideration liability	1,936	(1,538)	(35)
Costs to exit Japan publishing business	(2,107)	–	–
Contract termination costs	(1,500)	–	–
Restructuring costs	(1,482)	(776)	(587)
ERP system implementation costs	(1,404)	(448)	–
China office start-up costs	(505)	(222)	–
Business acquisition costs	(442)	–	–
Impaired assets	–	–	(1,302)
Depreciation	(3,879)	(3,677)	(4,142)
Amortization	(3,538)	(3,263)	(3,727)
Income (loss) from operations	(8,880)	13,849	19,529
Interest income	379	325	383
Interest expense	(2,408)	(2,263)	(2,137)
Discount on related party receivable	–	–	(363)
Income (loss) before income taxes	(10,909)	11,911	17,412
Benefit (provision) for income taxes	3,737	(4,895)	(6,296)
Net income (loss)	$ (7,172)	$ 7,016	$11,116

Geographic Information

Our revenues are derived primarily from the United States. However, we also operate wholly owned offices or contract with licensees to provide our services in various

countries throughout the world. Our consolidated revenues were derived from the following countries/regions (in thousands):

YEAR ENDED AUGUST 31,	2017	2016	2015
United States	$137,219	$155,153	$162,594
Japan	14,482	14,997	14,446
China	11,552	3,884	2,424
United Kingdom	4,754	7,716	8,997
Canada	4,372	4,357	6,460
Australia	2,704	3,404	3,774
Western Europe	1,679	1,503	1,364
Thailand	1,147	1,226	1,055
Denmark/Scandinavia	775	863	729
Mexico/Central America	751	917	974
Middle East	723	584	670
Singapore	722	1,143	1,397
India	701	677	708
Central/Eastern Europe	638	644	492
Indonesia	614	579	651
Brazil	410	319	321
Malaysia	364	384	511
The Philippines	324	332	327
Others	1,325	1,373	2,047
	$185,256	$200,055	$209,941

At August 31, 2017, we had wholly owned direct offices in Australia, China, Japan, and the United Kingdom. Our China direct offices opened on September 1, 2016. Our long-lived assets, excluding intangible assets, goodwill, and the long-term portion of the related party receivable were held in the following locations for the periods indicated (in thousands):

AUGUST 31,	2017	2016
United States/Canada	$33,146	$27,288
Japan	2,350	2,045
Australia	466	349
China	301	–
United Kingdom	240	114
Singapore	152	–
	$36,655	$29,796

Inter-segment sales were immaterial and were eliminated in consolidation.

18. Related Party Transactions

Knowledge Capital Investment Group

Knowledge Capital Investment Group (Knowledge Capital) held a warrant to purchase 5.9 million shares of our common stock, exercised its warrant at various dates according to the terms of a fiscal 2011 exercise agreement, and received a total of 2.2 million shares of our common stock from shares held in treasury. Two members of our Board of Directors, including our CEO, have an equity interest in Knowledge Capital.

Pursuant to a fiscal 2011 warrant exercise agreement with Knowledge Capital, we filed a registration statement with the SEC on Form S-3 to register shares held by Knowledge Capital. This registration statement was declared effective on January 26, 2015. On May 20, 2015, Knowledge Capital sold 400,000 shares of our common stock on the open market and we did not purchase any of these shares. At each of August 31, 2017 and 2016, Knowledge Capital held 2.8 million shares of our common stock.

FC Organizational Products

During the fourth quarter of fiscal 2008, we joined with Peterson Partners to create a new company, FC Organizational Products, LLC. This new company purchased substantially all of the assets of our consumer solutions business unit with the objective of expanding the worldwide sales of FCOP as governed by a comprehensive license agreement between us and FCOP. On the date of the sale closing, we invested approximately $1.8 million to purchase a 19.5 percent voting interest in FCOP, and made a $1.0 million priority capital contribution with a 10 percent return. At the time of the transaction, we determined that FCOP was not a variable interest entity.

As a result of FCOP's structure as a limited liability company with separate owner capital accounts, we determined that our investment in FCOP is more than minor and that we are required to account for our investment in FCOP using the equity method of accounting. We have not recorded our share of FCOP's losses in the accompanying consolidated statements of operations because we have impaired and written off investment balances, as defined within the applicable accounting guidance, in previous periods in excess of our share of FCOP's losses through August 31, 2017.

Based on changes to FCOP's debt agreements and certain other factors in fiscal 2012, we reconsidered whether FCOP was a variable interest entity as defined under FASC 810, and determined that FCOP was a variable interest entity. Although the changes to the debt agreements did not modify the governing documents of FCOP, the changes were substantial enough to raise doubts regarding the sufficiency of FCOP's equity investment at risk. We

further determined that we are not the primary beneficiary of FCOP because we do not have the ability to direct the activities that most significantly impact FCOP's economic performance, which primarily consist of the day-to-day sale of planning products and related accessories, and we do not have an obligation to absorb losses or the right to receive benefits from FCOP that could potentially be significant. Our voting rights and management board representation approximate our ownership interest and we are unable to exercise control through voting interests or through other means.

The operations of FCOP are primarily financed by the sale of planning products and accessories, and our primary exposure related to FCOP is from amounts owed to us by FCOP. We receive reimbursement from FCOP for certain operating costs and rental payments for the office space that FCOP occupies.

We classify our receivables from FCOP based upon expected payment. Long-term receivable balances are discounted at 15 percent, which was the estimated risk-adjusted borrowing rate of FCOP. This rate was based on a variety of factors including, but not limited to, current market interest rates for various qualities of comparable debt, discussions with FCOP's lenders, and an evaluation of the realizability of FCOP's future cash flows. In fiscal 2013, we began to accrete this long-term receivable and the majority of our interest income from fiscal 2015 through fiscal 2017 is attributable to the accretion of interest on long-term receivables.

During fiscal 2015, we determined that we will receive payment from FCOP for certain rent expenses earlier than previously estimated and we recognized additional leasing revenues from FCOP totaling $0.2 million due to the change in the priority of the payment of these items. Although we were able to record additional leasing revenues and our cash flows on current related party receivables will improve in the short term, the present value of our share of cash distributions to cover remaining long-term receivables was reduced and was less than the present value of the receivables previously recorded and accordingly, the Company recalculated its discount on the long-term receivables and impaired the remaining balance, which totaled $0.5 million.

At August 31, 2017 and 2016, we had $1.7 million (net of $0.7 million discount) and $3.2 million (net of $0.8 million discount) receivable from FCOP, which have been classified in current assets and long-term assets in our consolidated balance sheets based on expected payment dates. We also owed FCOP approximately $9,000 and $0.1 million at August 31, 2017 and 2016, respectively, for items purchased in the ordinary course of business. These liabilities were classified in accounts payable in the accompanying consolidated balance sheets.

CoveyLink Acquisition and Contractual Payments

During fiscal 2009, we acquired the assets of CoveyLink Worldwide, LLC (CoveyLink). CoveyLink conducts training and provides consulting based upon the book *The Speed of Trust* by Stephen M.R. Covey, who is the brother of one of our executive officers.

We accounted for the acquisition of CoveyLink using the guidance found in Statement of Financial Accounting Standards No. 141, *Business Combinations*. The previous owners of CoveyLink were entitled to earn annual contingent payments based upon earnings growth during the five years following the acquisition. During fiscal 2015, we completed a review of the contingent consideration payments and determined that we owed the former owners of CoveyLink an additional $0.3 million for performance during the measurement period. We do not anticipate any further payments related to the acquisition of CoveyLink. The annual contingent payments were classified as goodwill in our consolidated balance sheets under the accounting guidance applicable at the time of the acquisition.

Prior to the acquisition date, CoveyLink had granted us a non-exclusive license for content related to *The Speed of Trust* book and related training courses for which we paid CoveyLink specified royalties. As part of the CoveyLink acquisition, an amended and restated license for intellectual property was signed that granted us an exclusive, perpetual, worldwide, transferable, royalty-bearing license to use, reproduce, display, distribute, sell, prepare derivative works of, and perform the licensed material in any format or medium and through any market or distribution channel. We are required to pay the brother of one of our executive officers royalties for the use of certain intellectual property developed by him. The amount expensed for these royalties totaled $1.5 million, $1.4 million, and $1.4 million during the fiscal years ended August 31, 2017, 2016, and 2015. As part of the acquisition of CoveyLink, we signed an amended license agreement as well as a speaker services agreement. Based on the provisions of the speakers' services agreement, we pay the brother of one of our executive officers a portion of the speaking revenues received for his presentations. We expensed $1.2 million, $1.3 million, and $1.0 million for payment on these presentations during fiscal years 2017, 2016 and 2015. We had $0.7 million accrued for these royalties and speaking fees at each of August 31, 2017 and 2016, which were included as components of accrued liabilities in our consolidated balance sheets.

Acquired License Rights for Intellectual Property

During the third quarter of fiscal 2017, we acquired the license rights for certain intellectual property owned by Higher Moment, LLC for $0.8 million. The intellectual property is in part based on works authored and developed by Dr. Clayton Christensen, a well-known author and lecturer, who is a member of our Board of Directors. However, Dr. Christensen does not have an ownership interest in Higher Moment, LLC. The initial license period is five years and the agreement may be renewed for successive five-year periods for $0.8 million at each renewal date. The agreement may be terminated by either party at any time, but if we choose to terminate the agreement prior to the third renewal date, we are required to pay $0.3 million to Higher Moment, LLC.

Other Related Party Transactions

We pay an executive officer of the Company a percentage of the royalty proceeds received from the sales of certain books authored by him in addition to his annual salary. During the fiscal years ended August 31, 2017, 2016, and 2015, we expensed $0.2 million, $0.3 million, and $0.2 million for these royalties, and we had $0.1 million and $0.2 million accrued at August 31, 2017 and 2016 as payable under the terms of these arrangements. These amounts are included as a component of accrued liabilities in our consolidated balance sheets.

We pay the estate of the late Dr. Stephen R. Covey a percentage of the royalty proceeds received from the sale of certain books that were authored by him. We expensed $0.1 million in each of fiscal 2016 and fiscal 2015 for royalties under these agreements. At August 31, 2016, we had $0.2 million accrued for payment to the estate of the former Vice-Chairman under these royalty agreements. Amounts payable to the estate of Dr. Stephen R. Covey are included as components of accrued liabilities in our consolidated balance sheets.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Disclosure controls and procedures are designed with the objective of ensuring that information required to be disclosed in the Company's reports filed under the Exchange Act, such as this report, is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures are also designed with the objective of ensuring that such information is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Evaluation of Disclosure Controls and Procedures

An evaluation was conducted under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act, as of the end of the period covered by this report.

Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

Management's Report on Internal Control Over Financial Reporting

The management of Franklin Covey Co. is responsible for establishing and maintaining adequate internal control over financial reporting for the Company (including its consolidated subsidiaries) and all related information appearing in the Company's annual report on Form 10-K. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes those policies and procedures that:

1. pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
2. provide reasonable assurance that the transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with the authorization of management and/or of our Board of Directors; and
3. provide reasonable assurance regarding the prevention or timely detection of any unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

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

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting using the criteria set forth in *Internal Control – Integrated Framework* as issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 COSO Framework). Based upon this evaluation, our management concluded that our internal control over financial reporting was effective as of the end of the period covered by this annual report on Form 10-K.

Our independent registered public accounting firm, Deloitte & Touche LLP, has audited the consolidated financial statements included in this annual report on Form 10-K and, as part of their audit, has issued an audit report, included herein, on the effectiveness of our internal control over financial reporting. Their report is included in Item 8 of this Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) or 15d-15(f)) during the fourth quarter ended August 31, 2017 that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Certain information required by this Item is incorporated by reference to the sections entitled "Nominees for Election to the Board of Directors," "Section 16(a) Beneficial Ownership Reporting Compliance," "Corporate Governance," and "Board of Director Meetings and Committees" in our definitive Proxy Statement for the annual meeting of shareholders, which is scheduled to be held on January 26, 2018. The definitive Proxy Statement will be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended. Executive officer biographies may be found in Item 1, under the section entitled "Executive Officers," of this report on Form 10-K.

The Board of Directors has determined that one of the Audit Committee members, Mr. Michael Fung, is a "financial expert" as defined in Regulation S-K 407(d)(5) adopted under the Securities Exchange Act of 1934, as amended. Our Board of Directors has also determined that Mr. Fung is an "independent director" as defined by the New York Stock Exchange (NYSE).

We have adopted a code of ethics for our senior financial officers that include the Chief Executive Officer, the Chief Financial Officer, and other members of our financial leadership team. This code of ethics is available on our website at www.franklincovey.com. We intend to satisfy any disclosure requirements under Item 5.05 of Form 8-K regarding amendment to, or waiver from, a provision of this Code of Business Conduct and Ethics by posting such information on our web site at the address and location specified above.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the sections entitled "Compensation Discussion and Analysis," "Compensation Committee Interlocks and Insider Participation," and "Compensation Committee Report" in our definitive Proxy Statement for the annual meeting of shareholders, which is scheduled to be held on January 26, 2018.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Plan Category	[a] Number of securities to be issued upon exercise of outstanding options, warrants, and rights	[b] Weighted-average exercise price of outstanding options, warrants, and rights	[c] Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column [a])
	(in thousands)		*(in thousands)*
Equity compensation plans approved by security holders(1)(4)	1,129(2)	$11.41	1,481(3)

(1) Excludes 29,834 shares of unvested (restricted) stock awards and stock units that are subject to forfeiture.

(2) Amount includes 560,110 performance share awards that may be awarded under the terms of various long-term incentive plans. The number of shares eventually awarded to participants through our long-term incentive plans is variable and based upon the achievement of specified financial goals. The weighted average exercise price of outstanding options, warrants, and rights does not include the impact of performance awards. For further information on our share-based compensation plans, refer to the notes to our financial statements as presented in Item 8 of this report.

(3) Amount is based upon the number of performance-based plan shares expected to be awarded at August 31, 2017 and may change in future periods based upon the achievement of specified goals and revisions to estimates.

(4) At August 31, 2017, we had approximately 987,000 shares authorized for purchase by participants in our Employee Stock Purchase Plan.

The remaining information required by this Item is incorporated by reference to the section entitled "Principal Holders of Voting Securities" in our definitive Proxy Statement for the annual meeting of shareholders, which is scheduled to be held on January 26, 2018.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated by reference to the section entitled "Certain Relationships and Related Transactions" and "Corporate Governance" in our definitive Proxy Statement for the annual meeting of shareholders, which is scheduled to be held on January 26, 2018.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated by reference to the section entitled "Principal Accountant Fees" in our definitive Proxy Statement for the annual meeting of shareholders, which is scheduled to be held on January 26, 2018.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

a. List of documents filed as part of this report:

1. *Financial Statements.* The consolidated financial statements of the Company and Report of Independent Registered Public Accounting Firm thereon included in the Annual Report to Shareholders on Form 10-K for the year ended August 31, 2017, are as follows:

    Report of Independent Registered Public Accounting Firm

    Consolidated Balance Sheets at August 31, 2017 and 2016

    Consolidated Statements of Operations and Statements of Comprehensive Income (Loss) for the fiscal years ended August 31, 2017, 2016, and 2015

    Consolidated Statements of Cash Flows for the fiscal years ended August 31, 2017, 2016, and 2015

    Consolidated Statements of Shareholders' Equity for the fiscal years ended August 31, 2017, 2016, and 2015

    Notes to Consolidated Financial Statements

2. *Financial Statement Schedules.*

    Other financial statement schedules are omitted because they are not required or applicable, or the required information is shown in the financial statements or notes thereto, or contained in this report.

3. *Exhibit List.*

Exhibit No.	Exhibit	Incorporated By Reference	Filed Herewith
2.1	Master Asset Purchase Agreement between Franklin Covey Products, LLC and Franklin Covey Co. dated May 22, 2008	(9)	
2.2	Amendment to Master Asset Purchase Agreement between Franklin Covey Products, LLC and Franklin Covey Co. dated May 22, 2008	(10)	
3.1	Articles of Restatement dated March 4, 2005 amending and restating the Company's Articles of Incorporation	(4)	
3.2	Amendment to Amended and Restated Articles of Incorporation of Franklin Covey (Appendix C)	(7)	
3.3	Amended and Restated Bylaws of Franklin Covey Co.	(16)	

Exhibit No.	Exhibit	Incorporated By Reference	Filed Herewith
4.1	Specimen Certificate of the Registrant's Common Stock, par value $.05 per share	(2)	
4.2	Stockholder Agreements, dated May 11, 1999 and June 2, 1999	(3)	
4.3	Registration Rights Agreement, dated June 2, 1999	(3)	
4.4	Amended and Restated Shareholders Agreement, dated as of March 8, 2005, between the Company and Knowledge Capital Investment Group	(4)	
4.5	Amended and Restated Registration Rights Agreement, dated as of March 8, 2005, between the Company and Knowledge Capital Investment Group	(4)	
10.1*	Amended and Restated 2004 Employee Stock Purchase Plan	(8)	
10.2*	Forms of Nonstatutory Stock Options	(1)	
10.3	Master Lease Agreement, dated June 17, 2005, between Franklin SaltLake LLC (Landlord) and Franklin Development Corporation (Tenant)	(5)	
10.4	Purchase and Sale Agreement and Escrow Instructions between Levy Affiliated Holdings, LLC (Buyer) and Franklin Development Corporation (Seller) and Amendments	(5)	
10.5	Redemption Extension Voting Agreement between Franklin Covey Co. and Knowledge Capital Investment Group, dated October 20, 2005	(6)	
10.6	Master License Agreement between Franklin Covey Co. and Franklin Covey Products, LLC	(11)	
10.7	Supply Agreement between Franklin Covey Products, LLC and Franklin Covey Product Sales, Inc.	(11)	
10.8	Master Shared Services Agreement between The Franklin Covey Products Companies and the Shared Services Companies	(11)	
10.9	Amended and Restated Operating Agreement of Franklin Covey Products, LLC	(11)	
10.10	Sublease Agreement between Franklin Development Corporation and Franklin Covey Products, LLC	(11)	
10.11	Sub-Sublease Agreement between Franklin Covey Co. and Franklin Covey Products, LLC	(11)	
10.12	Asset Purchase Agreement by and Among Covey/Link, LLC, CoveyLink Worldwide LLC, Franklin Covey Co., and Franklin Covey Client Sales, Inc. dated December 31, 2008	(12)	
10.13	Amended and Restated License of Intellectual Property by and Among Franklin Covey Co. and Covey/Link, LLC, dated December 31, 2008	(12)	
10.14*	Franklin Covey Co. Second Amended and Restated 1992 Stock Incentive Plan	(13)	

Exhibit No.	Exhibit	Incorporated By Reference	Filed Herewith
10.15	Amended and Restated Credit Agreement by and between JPMorgan Chase Bank, N.A. and Franklin Covey Co., dated March 14, 2011	(14)	
10.16	Amended and Restated Security Agreement by and among Franklin Covey Co., Franklin Development Corporation, Franklin Covey Travel, Inc., Franklin Covey Client Sales, Inc., and JPMorgan Chase Bank, N.A., dated March 14, 2011	(14)	
10.17	Amended and Restated Repayment Guaranty by and among Franklin Development Corporation, Franklin Covey Travel, Inc., Franklin Covey Client Sales, Inc., and JPMorgan Chase Bank, N.A., dated March 14, 2011	(14)	
10.18	Agreement dated July 26, 2011, between Franklin Covey Co., and Knowledge Capital Investment Group	(15)	
10.19	First Modification Agreement by and among JPMorgan Chase Bank, N.A. and Franklin Covey Co., dated March 13, 2012	(17)	
10.20	Second Modification Agreement by and among JPMorgan Chase Bank, N.A. and Franklin Covey Co., dated June 15, 2012	(18)	
10.21*	Form of Change in Control Severance Agreement	(19)	
10.22	Asset Purchase Agreement made as of March 11, 2013 by and among NinetyFive 5 LLC and Franklin Covey Client Sales, Inc. and other parties thereto	(20)	
10.23	Third Modification Agreement by and among JPMorgan Chase Bank, N.A. and Franklin Covey Co. dated March 25, 2013	(21)	
10.24*	Franklin Covey Co. 2015 Omnibus Incentive Plan	(22)	
10.25	Fourth Modification Agreement by and among JPMorgan Chase Bank, N.A. and Franklin Covey Co. dated March 31, 2015	(23)	
10.26	Fifth Modification Agreement by and among JPMorgan Chase Bank, N.A., Franklin Covey Co., and the subsidiary guarantors signatory thereto, dated May 24, 2016	(24)	
10.27	Secured Promissory Note between Franklin Covey Co. and JPMorgan Chase Bank, N.A., for $15 million term loan, dated May 24, 2016	(24)	
10.28	Sixth Modification Agreement by and among JPMorgan Chase Bank, N.A., Franklin Covey Co., and the subsidiary guarantors signatory thereto, dated February 28, 2017	(25)	
10.29	Seventh Modification Agreement by and among JPMorgan Chase Bank, N.A., Franklin Covey Co., and the subsidiary guarantors signatory thereto, dated May 31, 2017	(26)	
10.30	Eighth Modification Agreement by and among JPMorgan Chase Bank, N.A., Franklin Covey Co., and the subsidiary guarantors signatory thereto, dated August 29, 2017	(27)	

Exhibit No.	Exhibit	Incorporated By Reference	Filed Herewith
10.31	Consent and Agreement of Guarantor by and between JPMorgan Chase Bank, N.A., Franklin Covey Co., and the subsidiary guarantors signatory thereto, dated August 29, 2017	(27)	
21	Subsidiaries of the Registrant		★★
23.1	Consent of Independent Registered Public Accounting Firm		★★
23.2	Consent of Independent Registered Public Accounting Firm		★★
31.1	Rule 13a-14(a) Certification of the Chief Executive Officer		★★
31.2	Rule 13a-14(a) Certification of the Chief Financial Officer		★★
32	Section 1350 Certifications		★★
101.INS	XBRL Instance Document		★★
101.SCH	XBRL Taxonomy Extension Schema		★★
101.CAL	XBRL Taxonomy Extension Calculation Linkbase		★★
101.DEF	XBRL Taxonomy Extension Definition Linkbase		★★
101.LAB	XBRL Taxonomy Extension Label Linkbase		★★
101.PRE	XBRL Extension Presentation Linkbase		★★

(1) Incorporated by reference to Registration Statement on Form S-1 filed with the Commission on April 17, 1992, Registration No. 33-47283.

(2) Incorporated by reference to Amendment No. 1 to Registration Statement on Form S-1 filed with the Commission on May 26, 1992, Registration No. 33-47283.

(3) Incorporated by reference to Schedule 13D (CUSIP No. 534691090 as filed with the Commission on June 14, 1999). Registration No. 005-43123.

(4) Incorporated by reference to Report on Form 8-K filed with the Commission on March 10, 2005.**

(5) Incorporated by reference to Report on Form 8-K filed with the Commission on June 27, 2005.**

(6) Incorporated by reference to Report on Form 8-K filed with the Commission on October 24, 2005.**

(7) Incorporated by reference to Definitive Proxy Statement on Form DEF 14A filed with the Commission on December 12, 2005.**

(8) Incorporated by reference to Definitive Proxy Statement on Form DEF 14A (Appendix A) filed with the Commission on February 1, 2005.**

(9) Incorporated by reference to Report on Form 8-K/A filed with the Commission on May 29, 2008.**

(10) Incorporated by reference to Report on Form 10-Q filed July 10, 2008, for the Quarter ended May 31, 2008.**

(11) Incorporated by reference to Report on Form 8-K filed with the Commission on July 11, 2008.**

(12) Incorporated by reference to Report on Form 10-Q filed with the Commission on April 9, 2009.**

(13) Incorporated by reference to Definitive Proxy Statement on Form DEF 14A (Appendix A) filed with the Commission on December 15, 2010.**

(14) Incorporated by reference to Report on Form 8-K filed with the Commission on March 17, 2011.**

(15) Incorporated by reference to Report on Form 8-K filed with the Commission on July 28, 2011.**

(16) Incorporated by reference to Report on Form 8-K filed with the Commission on February 1, 2012.**

(17) Incorporated by reference to Report on Form 8-K filed with the Commission on March 15, 2012.**

(18) Incorporated by reference to Report on Form 8-K filed with the Commission on June 19, 2012.**

(19) Incorporated by reference to Report on Form 8-K filed with the Commission on March 14, 2012.**

(20) Incorporated by reference to Report on Form 8-K filed with the Commission on March 14, 2013.**

(21) Incorporated by reference to Report on Form 8-K filed with the Commission on March 27, 2013.**

(22) Incorporated by reference to Definitive Proxy Statement on Form DEF 14A (Appendix A) filed with the Commission on December 22, 2014.**

(23) Incorporated by reference to Report on Form 8-K filed with the Commission on April 2, 2015.**

(24) Incorporated by reference to Report on Form 8-K filed with the Commission on May 24, 2016.**

(25) Incorporated by reference to Report on Form 8-K filed with the Commission on March 3, 2017.**

(26) Incorporated by reference to Report on Form 8-K filed with the Commission on June 1, 2017.**

(27) Incorporated by reference to Report on Form 8-K filed with the Commission on August 29, 2017.**

★★ Filed herewith and attached to this report.

* Indicates a management contract or compensatory plan or agreement.

** Registration No. 001-11107.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on November 14, 2017.

FRANKLIN COVEY CO.

By: /s/ ROBERT A. WHITMAN
Robert A. Whitman
Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ ROBERT A. WHITMAN Robert A. Whitman	Chairman of the Board and Chief Executive Officer	November 14, 2017
/s/ ANNE H. CHOW Anne H. Chow	Director	November 14, 2017
/s/ CLAYTON M. CHRISTENSEN Clayton M. Christensen	Director	November 14, 2017
/s/ MICHAEL FUNG Michael Fung	Director	November 14, 2017
/s/ DENNIS G. HEINER Dennis G. Heiner	Director	November 14, 2017
/s/ DONALD J. MCNAMARA Donald J. McNamara	Director	November 14, 2017
/s/ JOEL C. PETERSON Joel C. Peterson	Director	November 14, 2017
/s/ E. KAY STEPP E. Kay Stepp	Director	November 14, 2017
/s/ STEPHEN D. YOUNG Stephen D. Young	Chief Financial Officer and Chief Accounting Officer	November 14, 2017

Section 302 Certification

I, Robert A. Whitman, certify that:

1. I have reviewed this yearly report on Form 10-K of Franklin Covey Co.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2017

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

Section 302 Certification

I, Stephen D. Young, certify that:

1. I have reviewed this yearly report on Form 10-K of Franklin Covey Co.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2017

/s/ STEPHEN D. YOUNG
Stephen D. Young
Chief Financial Officer

Certification

In connection with the yearly report of Franklin Covey Co. (the "Company") on Form 10-K for the period ended August 31, 2017, as filed with the Securities and Exchange Commission (the "Report"), we, Robert A. Whitman, President and Chief Executive Officer of the Company, and Stephen D. Young, Chief Financial Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of our knowledge:

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

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

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

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

Date: November 14, 2017

/s/ STEPHEN D. YOUNG
Stephen D. Young
Chief Financial Officer

Date: November 14, 2017

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Executive Team

Robert A. Whitman
Chairman of the Board of Directors and Chief Executive Officer

Stephen D. Young
Chief Financial Officer and Corporate Secretary

M. Sean Covey
President
Education Division

Paul S. Walker
President
Enterprise Division

C. Todd Davis
Executive Vice President
Chief People Officer

Colleen Dom
Executive Vice President of Operations

Scott J. Miller
Executive Vice President
Global Business Development and Marketing

Board of Directors

Robert A. Whitman
Chairman of the Board of Directors

Anne H. Chow
Director

Clayton M. Christensen
Director

Michael Fung
Director

Dennis G. Heiner
Director

Donald J. McNamara
Director

Joel C. Peterson
Director

E. Kay Stepp
Director

Shareholder Information

Annual Meeting
We invite shareholders to attend our Annual Meeting of Shareholders at 8:30 a.m. on Friday, January 26, 2018, at the Hyrum W. Smith Auditorium on the Franklin Covey Co. headquarters campus,
2200 West Parkway Boulevard,
Salt Lake City, Utah 84119.

Independent Registered Public Accountants
Deloitte & Touche, LLP
111 Main Street #1500
Salt Lake City, Utah 84111

Counsel
Dorsey & Whitney LLP
111 S. Main Street
Salt Lake City, Utah 84111

Jones Day Reavis & Pogue
222 East 41st Street
New York, New York 10017-6702

Registrar and Transfer Agent
Zions Bank, N.A.
Stock Transfer Department
One South Main Street
Salt Lake City, Utah 84111

Common Stock
The Company's Common Stock is traded on the New York Stock Exchange under the ticker symbol FC. There were approximately 571 shareholders of record on the Company's record date of November 30, 2017.

Certifications
The certifications required by Section 302 of the Sarbanes-Oxely Act have been filed as exhibits to the Company's SEC Form 10-K. The most recent certification required by Section 303A.12(a) of the New York Stock Exchange Listed Company Manual has been filed with the New York Stock Exchange without qualification.

Dividend
No dividends have been paid or declared on the Company's common stock.

Requests for Additional Information
Additional financial information is available to shareholders. Requests should be directed to the attention of Investor Relations, Franklin Covey Co., 2200 West Parkway Boulevard, Salt Lake City, Utah 84119-2331, or call at 801-817-1776. Additional information on the Company is available on the Internet at http://www.franklincovey.com.

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Leadership	Execution	Productivity	Trust	Sales Performance	Customer Loyalty	Education

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