

Investor Update

First Quarter FY19



Forward-looking Statements / Non-GAAP

This presentation contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based upon management's current expectations and are subject to various risks and uncertainties including, but not limited to: The ability of the Company to stabilize and grow revenues; The acceptance of, and renewal rates for the All Access Pass; The ability of the Company to hire productive sales professionals; General economic conditions; Competition in the Company's targeted marketplace; Market acceptance of new products or services and marketing strategies; Changes in the Company's market share; Changes in the size of the overall market for the Company's products; Changes in the training and spending policies of the Company's clients, and other factors identified and discussed in the Company's most recent Annual Report on Form 10-K and other periodic reports filed with the Securities and Exchange Commission. Many of these conditions are beyond our control or influence, any one of which may cause future results to differ materially from the Company's current expectations, and there can be no assurance the Company's actual future performance will meet management's expectations. These forward-looking statements are based on management's current expectations and we undertake no obligation to update or revise these forward-looking statements to reflect events or circumstances after the date of today's presentation, except as required by law.

The Securities and Exchange Commission's Regulation G applies to any public disclosure or release of material information that includes a non-GAAP financial measure. In the event of such a disclosure or release, Regulation G requires: (i) the presentation of the most directly comparable financial measure calculated and presented in accordance with GAAP and (ii) a reconciliation of the differences between the non-GAAP financial measure presented and the most directly comparable financial measure calculated and presented in accordance with GAAP. The required presentations and reconciliations are contained herein and can be found at our website at www.franklincovey.com.

FranklinCovey uses the non-GAAP financial measure "earnings before interest, taxes, depreciation and amortization" ("EBITDA") to assess the operating results and effectiveness of the Company's ongoing training and consulting business. In addition, the Company also uses the non-GAAP financial measure "Adjusted EBITDA" as a representation of the Company's operating performance. Adjusted EBITDA is defined as pre-tax net income (loss), plus depreciation and amortization, net interest income (expense), and special charges, such as the gain on the sale of the Japan Products division in Fiscal 2010, restructuring costs, and asset impairment changes. The Company finds these non-GAAP financial measures to be useful when evaluating its operating and financial performance. These non-GAAP financial measures may not be comparable to similar measures used by other companies and should not be used as a substitute for revenue, net income (loss) or other GAAP operating measures.

Revenue from Contracts with Customers (Topic 606)

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. We adopted ASU No. 2014-09 on September 1, 2018 using the “modified retrospective” approach. Under this transition method, we applied the new standard to contracts that were not completed as of the adoption date and recognized a cumulative effect adjustment which reduced retained earnings by \$3.1 million net of tax. The comparative prior period information has not been restated and continues to be presented according to accounting standards in effect for those periods. The impact of the implementation of this standard resulted in the Company recognizing \$1.1 million of additional revenue in the first quarter (which primarily impacted the Education Division) and recording \$1 million more of Adjusted EBITDA (which also primarily impacted the Education Division). See the Appendix for additional information.

Expectations

2018
Reported Adj EBITDA: \$11.9M
+▲ Deferred Revenue: \$23.3M
Net Cash Generated: \$15.0M

2019
Reported Adj EBITDA: \$18-22M
+▲ Deferred Revenue: \$30-34M
Net Cash Generated: \$18-22M

2021
Reported Adj EBITDA: \$35-40M
+▲ Deferred Revenue: \$47-52M
Net Cash Generated: \$35-40M

Note: Adjusted EBITDA and Operating SG&A are non-GAAP financial measures. Please see the appendix for additional information.

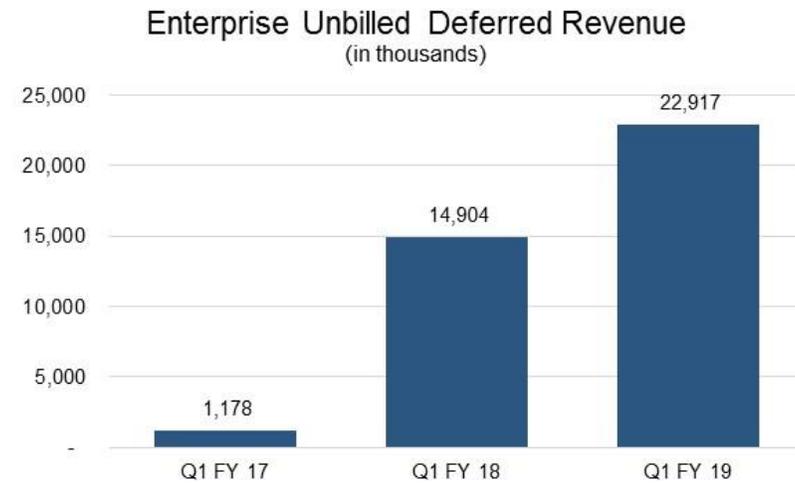
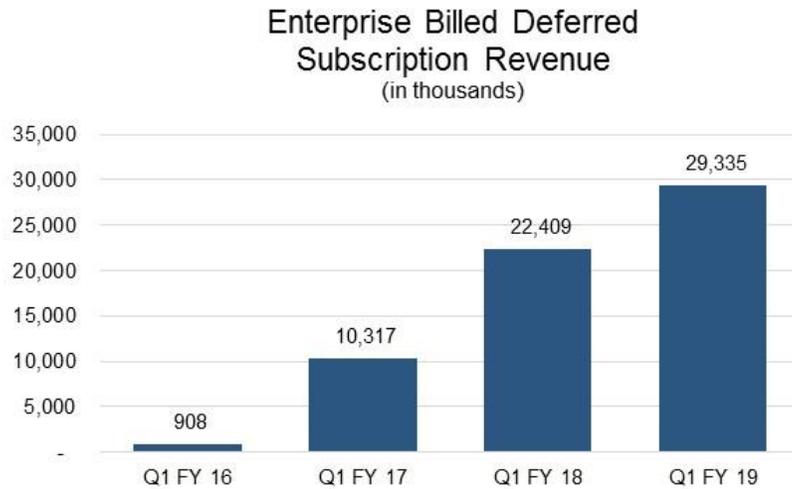
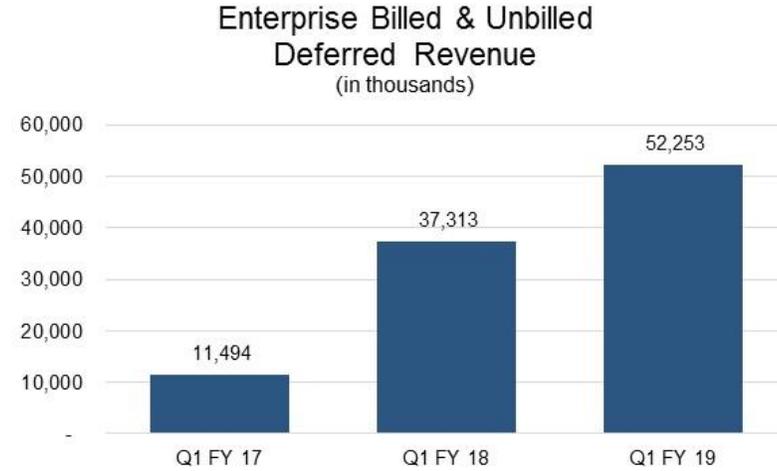
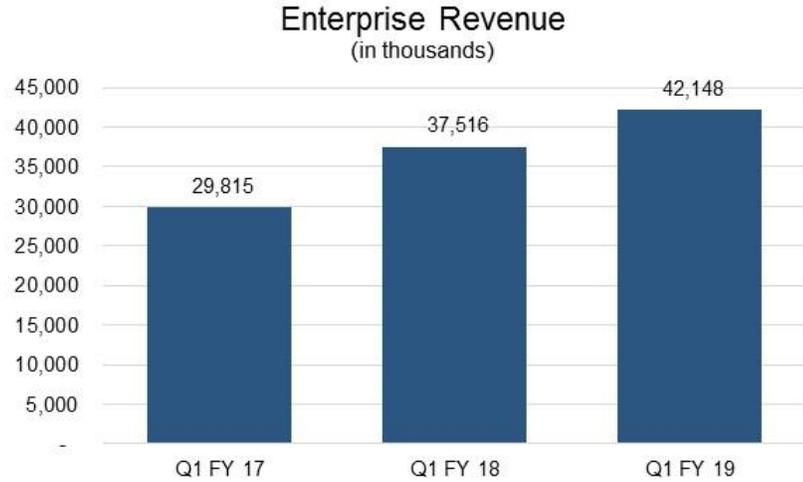
Three Takeaways

1. Strong first quarter results.
2. Strong growth is tangible reflection of continued power and impact of our subscription business model.
3. Growth in Adjusted EBITDA and Net Cash Generated expected to be rapid on absolute basis and relative to most companies.

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Enterprise - Revenue



Enterprise Division - Financial Summary

(in millions)

Financial Summary	Q1 19	Q1 18	Chg	%	LTM Q1 19	LTM Q1 18	Chg	%
Sales	\$42.1	\$37.5	\$4.6	12.3%	\$163.7	\$143.6	\$20.2	14.0%
Cost of Sales	12.2	10.5	1.8	1.7%	42.7	41.8	.9	2.1%
Gross Profit	29.9	27.1	2.9	10.6%	121.0	101.8	19.3	18.9%
Gross Margin %	71.0%	72.1%	110 bps		73.9%	70.9%	300 bps	
Operating SG&A	24.1	22.6	1.6	7.0%	98.9	86.4	12.5	14.5%
Operating SG&A %	57.3%	60.2%	290 bps		60.4%	60.1%	30 bps	
EBITDA	\$5.8	\$4.5	\$1.3	29.0%	\$22.2	\$15.4	\$6.8	43.9%

Key Points

- Revenue grew 12.3% for the quarter and 14.0% for LTM.
- Gross Profit increased 10.6% for the quarter and 18.9% for the LTM.
- Operating SG&A as percent of sales decreased from 60.2% to 57.3% in the quarter.
- Adjusted EBITDA increased 29% for the quarter and 44% for the LTM.

Note: Adjusted EBITDA and Operating SG&A are non-GAAP financial measures. Please see the appendix for additional information.

Education Division - Financial Summary

(in millions)

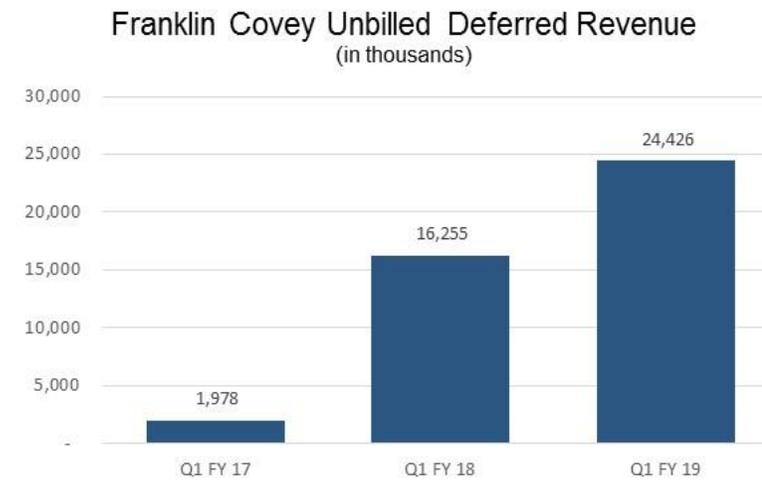
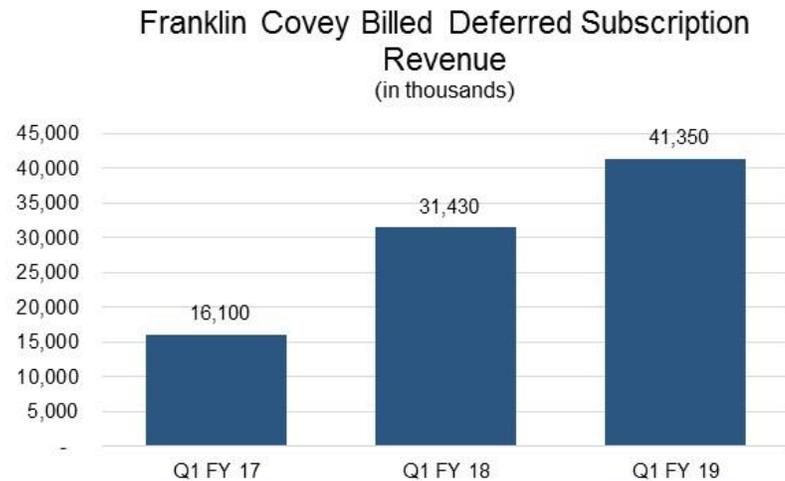
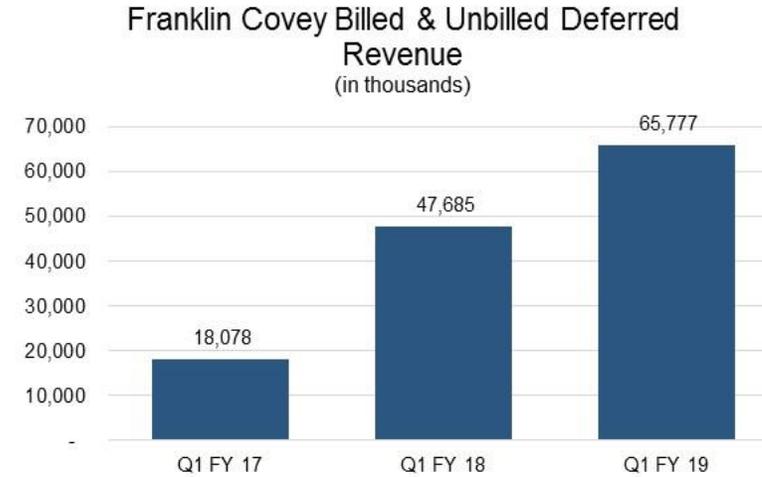
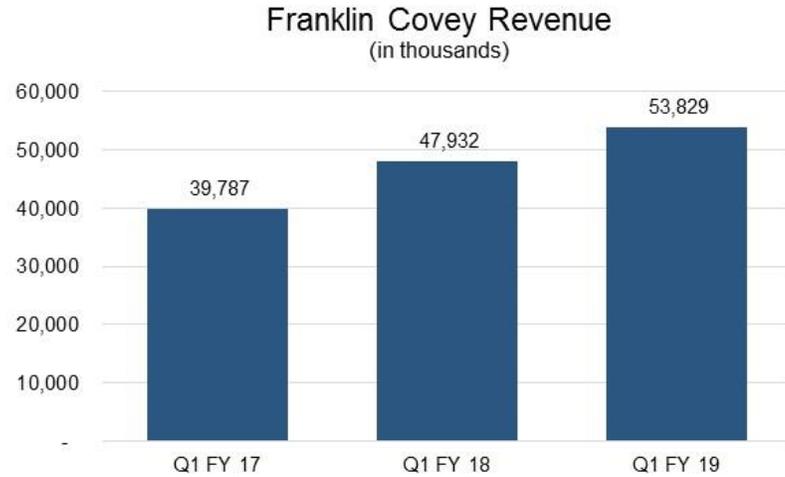
Financial Summary	Q1 19	Q1 18	Chg	%	LTM Q1 19	LTM Q1 18	Chg	%
Sales	\$10.3	\$9.2	\$1.2	12.8%	\$46.4	\$44.6	\$1.9	4.2%
Cost of Sales	3.9	3.7	0.2	5.7%	16.8	16.2	0.6	3.7%
Gross Profit	6.4	5.4	1.0	17.6%	29.6	28.3	1.3	4.6%
Gross Margin %	61.7%	59.2%	256 bps		63.8%	63.6%	20 bps	
Operating SG&A	6.4	6.1	0.3	5.0%	25.4	22.0	3.3	15.1%
Operating SG&A %	61.9%	66.5%	460 bps		54.6%	49.4%	520 bps	
Adjusted EBITDA	0	(0.7)	0.7	N/A	4.3	6.3	(2.0)	-32.4%

Key Points

- Revenue grew 12.8% for the quarter and 4.2% for LTM.
- Gross Margin increased 256 bps for the quarter and 20 bps for the LTM.
- Operating SG&A as a percent of Sales decreased from 66.5% in Q1 FY18 to 61.9% in Q1 FY19.
- Adjusted EBITDA improved \$.7M in the first quarter.

Note: Adjusted EBITDA and Operating SG&A are non-GAAP financial measures. Please see the appendix for additional information.

Total Company - Revenue



Total Company – Financial Summary

(in millions)

Financial Summary	Q1 19	Q1 18	Chg	%	LTM Q1 19	LTM Q1 18	Chg	%
Sales	\$53.8	\$47.9	\$5.9	12.3%	215.7	193.4	22.3	11.5%
Cost of Sales	17.0	15.1	2.0	13.2%	63.5	61.1	2.4	3.9%
Gross Profit	36.8	32.9	3.9	11.9%	152.2	132.3	19.9	15.0%
Gross Margin %	68.3%	68.6%	30 bps		70.6%	68.4%	210 bps	
Operating SG&A	33.6	32.3	1.3	4.2%	137.8	121.2	16.5	13.7%
Operating SG&A %	62.4%	67.3%	490 bps		63.9%	62.7%	120 bps	
Adjusted EBITDA	3.2	0.6	2.6	426%	14.4	11.1	3.3	29.9%

Key Points

- Revenue grew 12.3% for the quarter and 11.5% for LTM.
- Gross Profit increased 11.9% for the quarter and 15.0% for the LTM.
- Operating SG&A/Sales Percent declined to 62.5% from 67.4% in last year's first quarter.
- Adjusted EBITDA grew \$2.6M for the quarter and was positively impacted \$1.0M from the new revenue standard.

Note: Adjusted EBITDA and Operating SG&A are non-GAAP financial measures. Please see the appendix for additional information.

Strong Push Up the Mountain



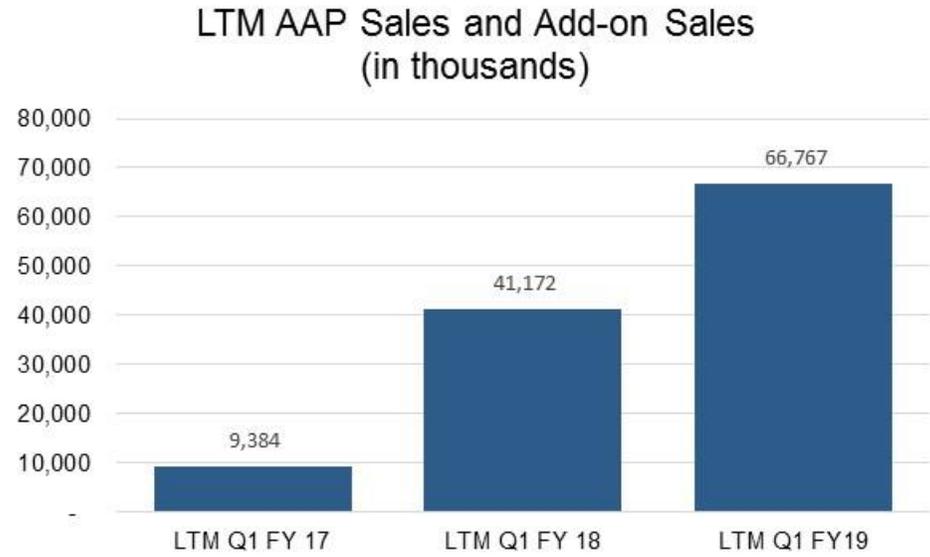
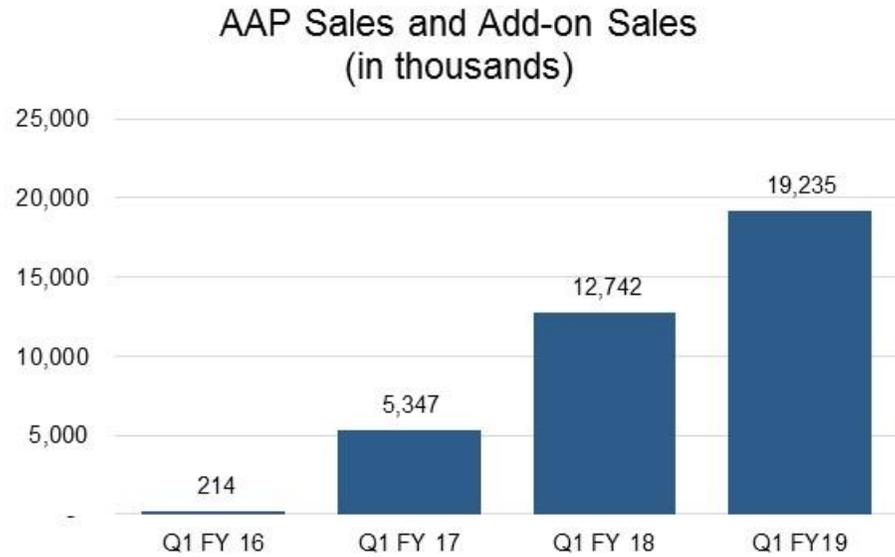
Three Takeaways

1. Strong first quarter results.
2. Strong growth is tangible reflection of continued power and impact of our subscription business model.
3. Growth in Adjusted EBITDA and Net Cash Generated expected to be rapid on absolute basis and relative to most companies.

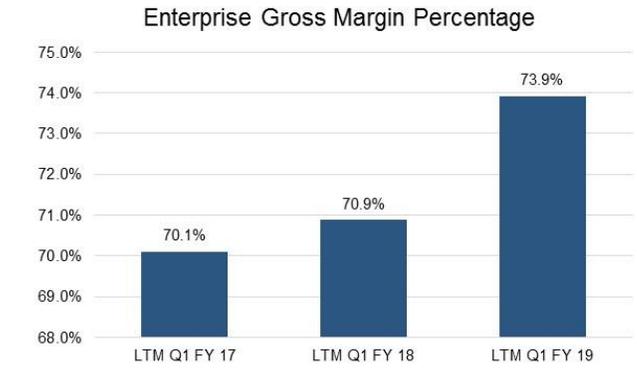
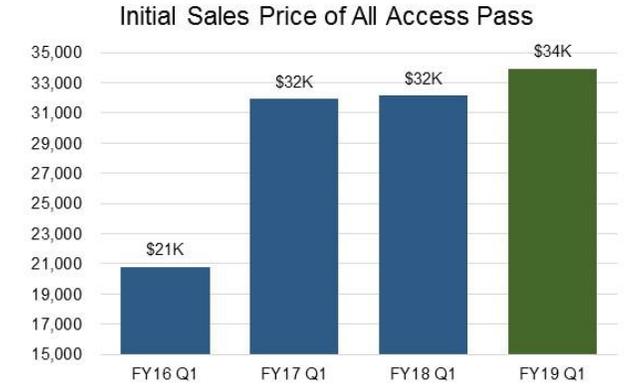
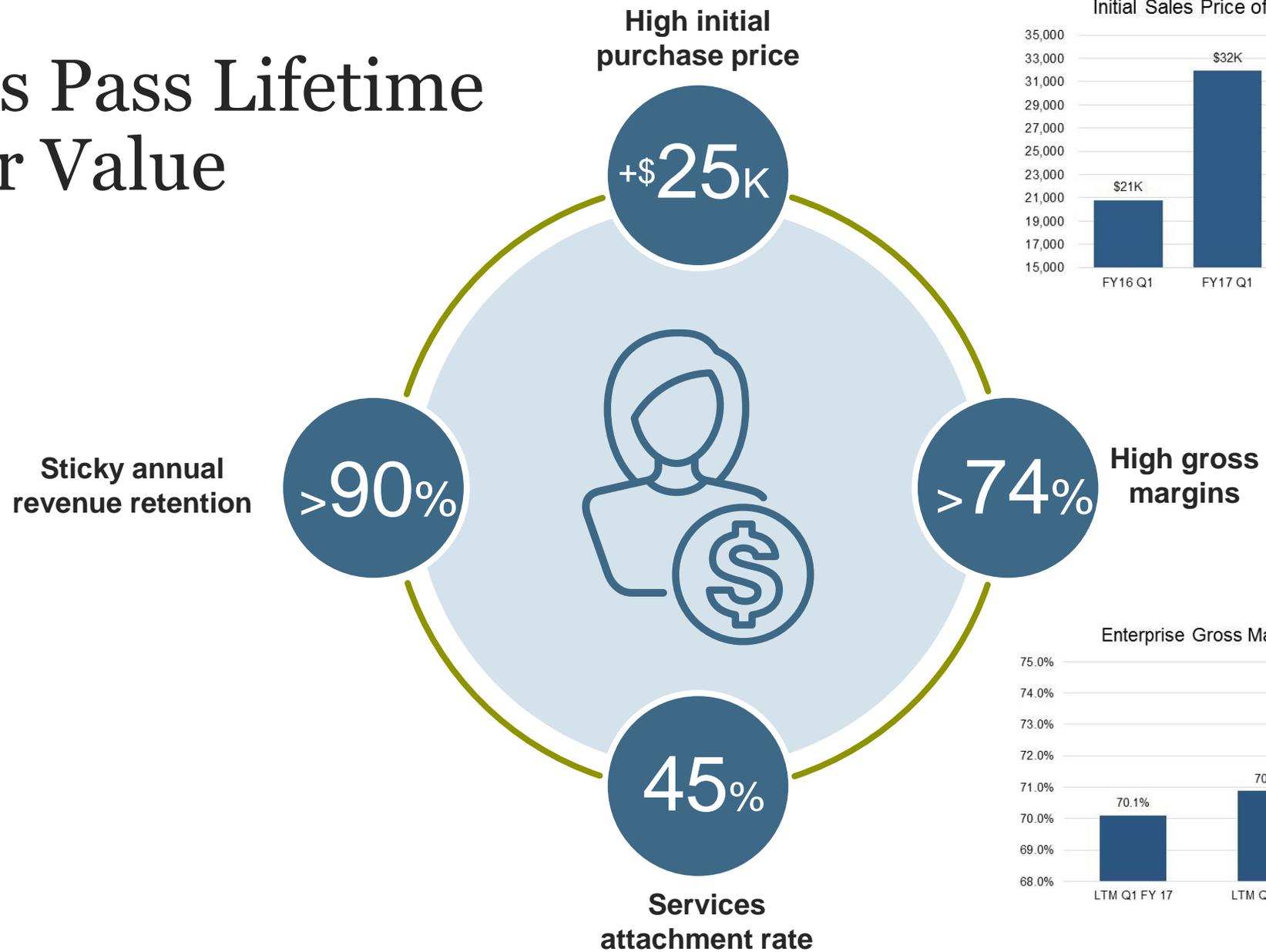
Takeaway 2: Strong growth is tangible reflection of continued power and impact of our subscription business model

- A. Continued strong growth.
- B. Compelling unit level economics creates lifetime customer.
- C. High Annual Revenue Retention rate and strategic & structural durability.
- D. High flow-through of incremental sales to growth in Adjusted EBITDA and Cash Flow which creates compelling sales force expansion economics.

Continued Strong Growth



All Access Pass Lifetime Customer Value



All Access Pass Strategically & Structurally Durable

We help organizations improve engagement, discipline, culture and execution for measurable business outcomes

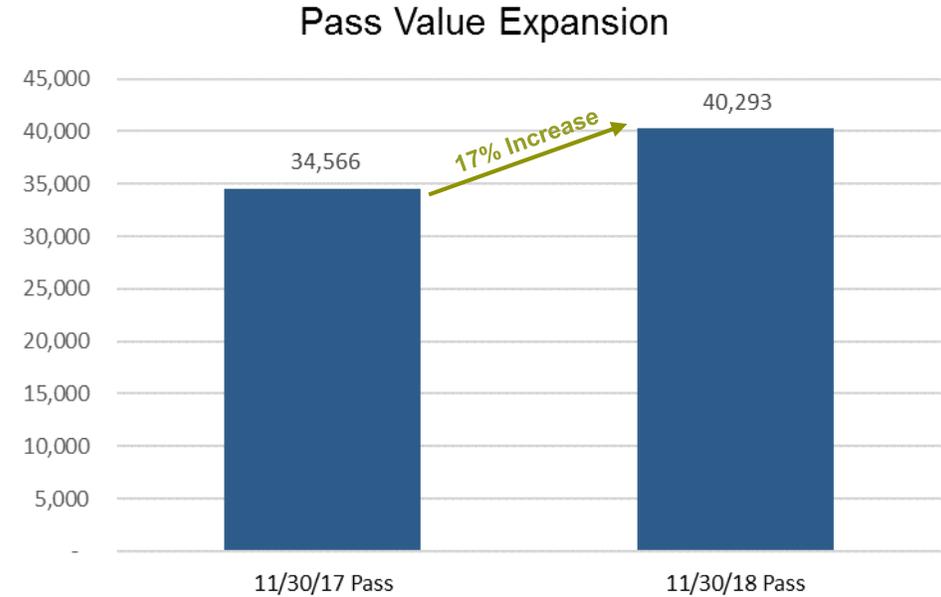
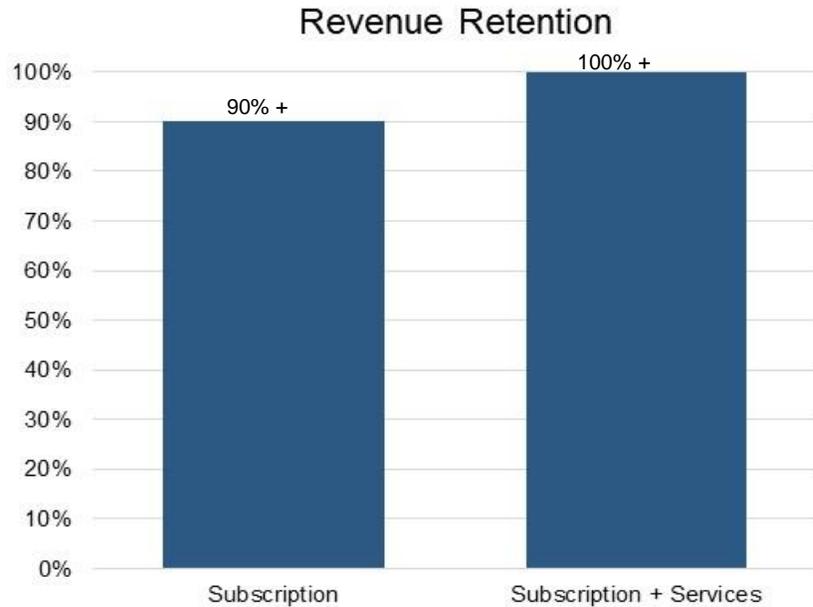


Customers value outcomes, have budgets, and seek out premium content

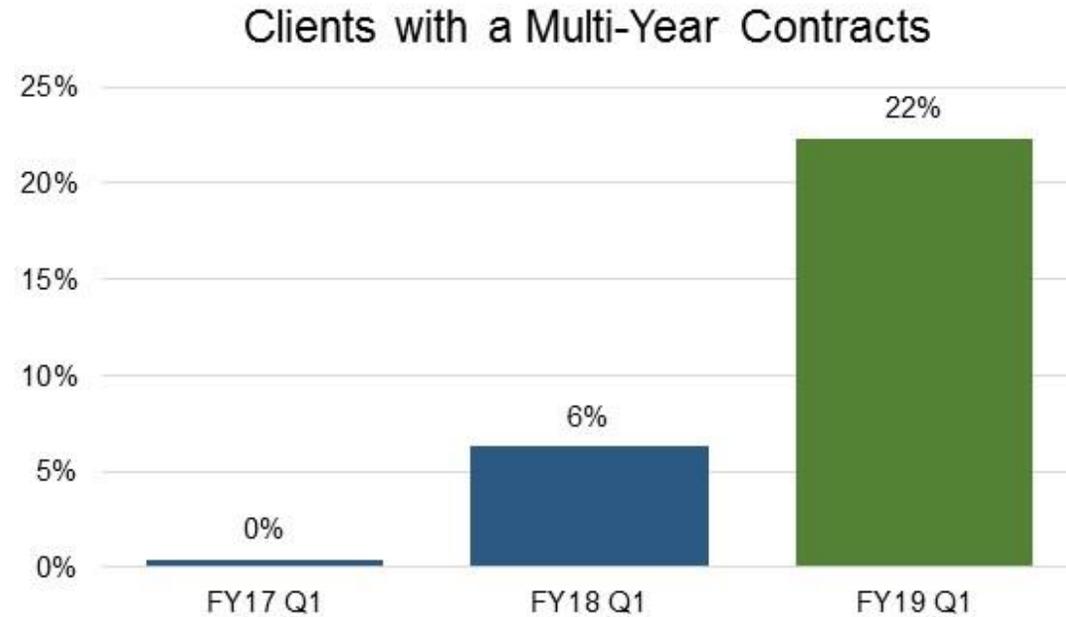


FranklinCovey
Online, DIY skills training

All Access Pass Strategically Durable



All Access Pass Structurally Durable



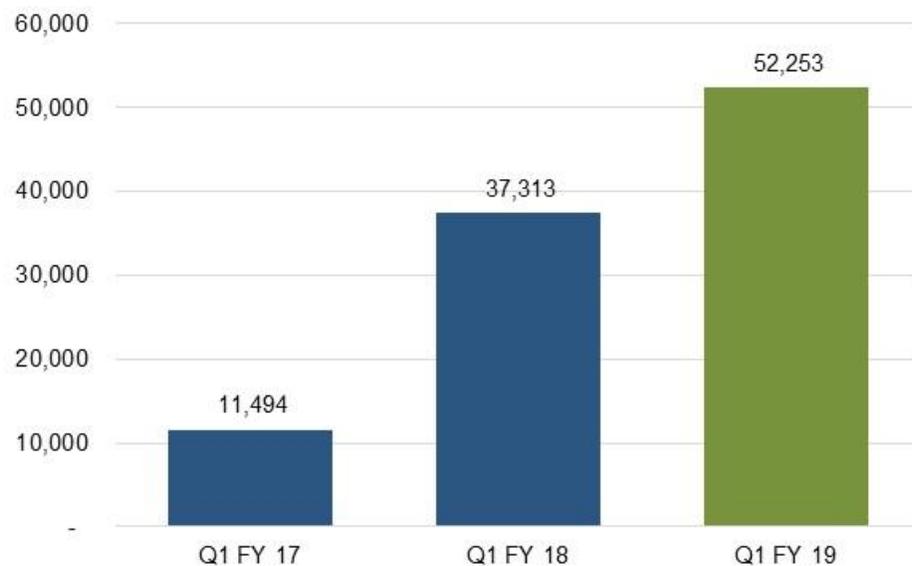
Notes:

- A multi-year contract is a single contract with a duration of at least 24 months.
- Multiple single-year renewals are not counted as multi-year contracts.

Increased Visibility and Predictability of Future Revenue

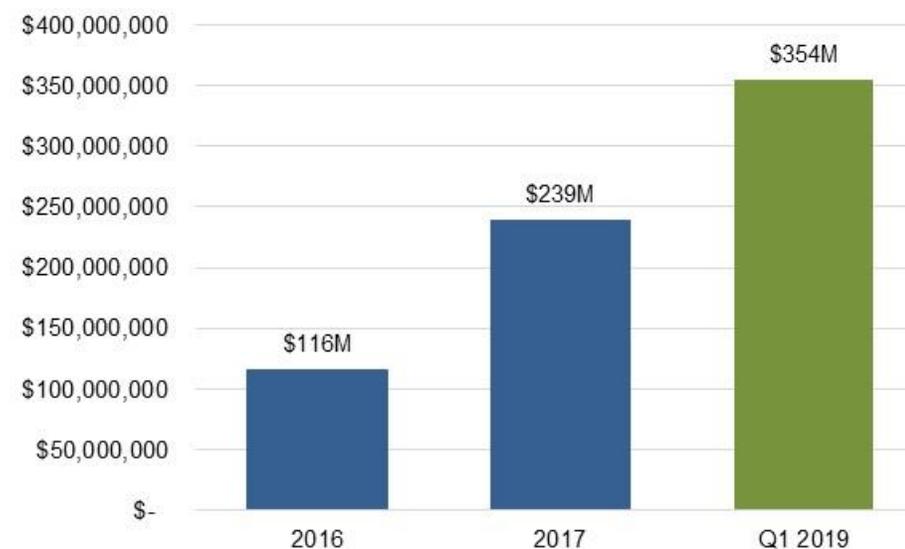
Deferred Revenue (Billed and Unbilled) in Enterprise Division

In \$Thousands



Total NPV of Future All Access Pass Revenue

In \$Millions

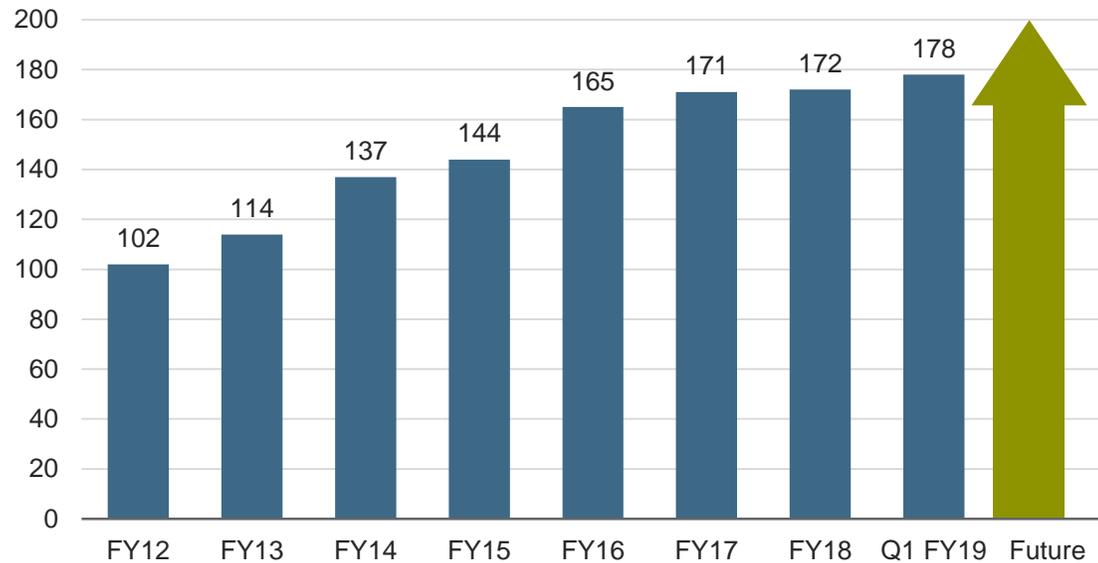


>\$220k Average NPV of revenues from a single average AAP contract

Note: Deferred Revenue (billed and unbilled) is a Non-GAAP operational measure. Deferred Revenue (billed) represents the amount of non-cancellable subscription contracts that have been invoiced to our customers and is considered in our Deferred Revenue account on our Balance Sheet. Deferred Revenue (unbilled) represents the amount of non-cancellable contracts that have not been billed to our customers and are not reflected in our financial statements, but is an important management measure.

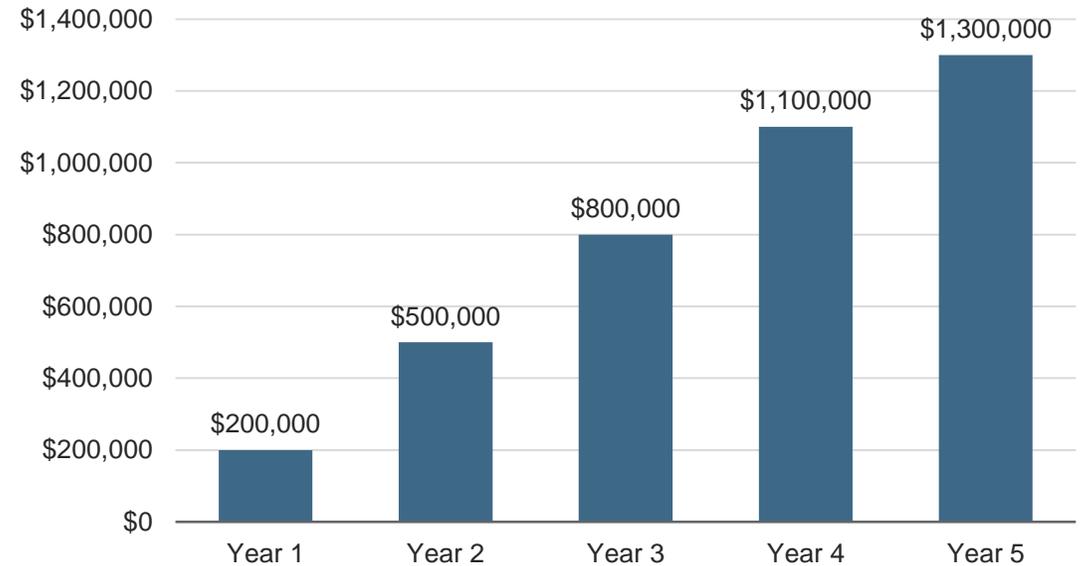
Unit Expansion Economics for Growth

Client Partner Additions – Enterprise Division



Client Partner Ramp Execution

In \$Millions



Time to break even
on investment in
a new client partner

1 Year

Three Takeaways

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3. Growth in Adjusted EBITDA and Net Cash Generated expected to be rapid on absolute basis and relative to most companies.

Guidance

FY2019

Reported Adjusted
EBITDA

\$18M - \$22M
50% - 85%

Reported Adjusted EBITDA +▲
Deferred Revenue

\$30M - \$34M
29% - 46%

Net Cash Generated

\$18M - \$22M
20% - 47%

Note: Adjusted EBITDA and Operating SG&A are non-GAAP financial measures. Please see the appendix for additional information.



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THE ULTIMATE COMPETITIVE ADVANTAGE

Appendix

Other Information

Other Income Statement Information:

- Depreciation: \$5.2M in FY2018, expected to total approximately \$7.0M in FY2019.
- Amortization: \$5.4M in FY2018, expected to total approximately \$5.0M in FY2019.
- Net Interest and Discount: \$2.2M in FY2018, expected to total approximately \$2.6M in FY2019.
- Share-based Compensation, Impaired Assets, Restructuring, ERP Implementation, Accrued Earnout and Other: totaling \$4.7M in FY2018; Share-Based Compensation, Impaired Assets, ERP Implementation, Accrued Earnout, Acquisition Costs and Other, expected to total approximately \$7.5M in FY2019.
- Effective Tax Rate: Our normalized effective tax rate is expected to be 26% to 28% in FY19 before effect of permanent book/tax differences (undetermined) and benefit of re-measuring deferred taxes. Therefore, the tax rate could be a significantly different percentage, and we are not projecting an FY19 effective rate.

Other Information:

- Capital Expenditures: \$6.5M in FY2018, expected to total approximately \$5.5M to \$6.5M in FY2019.
- Capitalized Curriculum excluding acquired content: \$3.0M in FY2018, expected to total approximately \$5.5M to \$6.0M in FY2019, reflecting localization of AAP content, AAP content development, and Education content development.
- Share Count: 13,928K shares outstanding as of December 31, 2018. The Company's share count may increase due to the vesting of share-based awards and purchased by Employees under our Employee Stock Purchase Plan and decrease due to the company buying back shares under its authorized share buy-back program.
- Number of salespersons: 214 on August 31, 2018; 218 on November 30, 2018; expected to be 234 on August 31, 2019.
- Impact of FX in Q1 FY19: decrease to Sales \$.4M, decrease to Adjusted EBITDA \$.2M.

All the above-mentioned estimates are subject to change, perhaps material change, based on actual events and circumstances in the year.

Revenue from Contracts with Customers (Topic 606)

	Enterprise Division			Education Division			Consolidated		
	As Reported	Without ASC 606	Impact of ASC 606	As Reported	Without ASC 606	Impact of ASC 606	As Reported	Without ASC 606	Impact of ASC 606
Sales	42,148	42,216	(68)	10,347	9,207	1,140	53,829	52,757	1,072
Gross Profit	29,966	30,034	(68)	6,359	5,219	1,140	36,783	35,711	1,072
Selling, general and administrative	24,172	24,172		6,377	6,306	71	33,614	33,543	71
Adjusted EBITDA	5,794	5,862	(68)	(18)	(1,087)	1,069	3,169	2,168	1,001
Net Loss							(1,357)	(2,121)	764

Notes:

- Franklin Covey adopted the new accounting standard Topic 606 on September 1, 2018 using the modified retrospective method.
- Adjustment information is based on the best available information and reflects management's best estimate of the impact as a result of the adoption of the new standard.

Net Cash Generated as defined below

(in thousands and unaudited)

	Current Quarter		Last Four Quarters	
	Q1 FY19	Q1 FY18	Q1 FY19	Q1 FY18
Reported Adjusted EBITDA	\$ 3,169	\$ 602	\$ 14,445	\$ 11,120
Adjustments				
Change in Deferred Sales <small>(related to subscription sales)</small>	(8,514)	(5,192)	8,083	14,879
Costs deferred with Deferred Sales	935	422	(835)	(2,778)
Amortization of capitalized development	1,431	1,277	5,434	4,045
Purchases of property and equipment	(1,431)	(2,414)	(5,545)	(7,561)
Capitalized curriculum development costs	(689)	(703)	(2,984)	(6,503)
Cash paid for interest	(651)	(614)	(2,692)	(2,313)
Net Cash Generated	\$ (5,750)	\$ (6,622)	\$ 15,906	\$ 10,889

Notes:

- We expect Net Cash Generated in FY2019 to fall within the range of \$18 million to \$22 million.
- Net Cash Generated is a measure used by management to monitor the amount of available cash generated by the operations of the company. Net Cash Generated includes the items listed above and excludes other cash activities shown on the Consolidated Statements of Cash Flows, such as cash paid for taxes, acquisitions, changes in working capital, other SG&A, and payments on term notes and financing obligations.
- Please refer to the Appendix for the definition of Adjusted EBITDA and for the reconciliation of Adjusted EBITDA to Net Income.
- Please also refer to the Condensed Consolidated Statements of Cash Flows for the quarter ended November 31, 2018.

Enterprise Division – Contracts Signed

(in thousands and unaudited)

	Q1 FY19				Last Four Quarters Ending Q1			
	FY19	FY18	Change	%	FY19	FY18	Change	%
Net Sales (as reported)	\$ 42,148	\$ 37,517	\$ 4,631	12.3%	\$163,748	\$143,583	\$ 20,165	14.0%
Change in Deferred Revenue	(3,343)	(2,226)	(1,117)		6,162	11,045	(4,883)	
Invoiced Amounts	38,805	35,291	3,514	10.0%	169,910	154,628	15,282	9.9%
Change in Unbilled Deferred Revenue	237	(596)	833		8,013	13,726	(5,713)	
Total Contracts Signed	<u>\$ 39,042</u>	<u>\$ 34,695</u>	<u>\$ 4,347</u>	12.5%	<u>\$177,923</u>	<u>\$168,354</u>	<u>\$ 9,569</u>	5.7%

Notes:

- Please compare this information to the Segment Information footnote in Form 10-Q (sum of Direct Offices and Licensees).
- Please refer to Definitions in the Appendix for the definition of Deferred Revenue and Unbilled Deferred Revenue.
- Please refer to the slide Contracts Signed, for the reconciliation of this information to company totals.

Education Division – Contracts Signed

(in thousands and unaudited)

	Q1 FY19				Last Four Quarters Ending Q1			
	FY19	FY18	Change	%	FY19	FY18	Change	%
Net Sales (as reported)	\$ 10,347	\$ 9,176	\$ 1,171	12.8%	\$ 46,443	\$ 44,555	\$ 1,888	4.2%
Change in Deferred Revenue	(5,171)	(2,967)	(2,204)		1,921	3,835	(1,914)	
Invoiced Amounts	5,176	6,209	(1,033)	-16.6%	48,364	48,390	(26)	-0.1%
Change in Unbilled Deferred Revenue	(306)	(300)	(6)		158	551	(393)	
Total Contracts Signed	\$ 4,870	\$ 5,909	\$ (1,039)	-17.6%	\$ 48,522	\$ 48,941	\$ (419)	-0.9%

Notes:

- Please compare this information to the Segment Information footnote in Form 10-Q.
- Please refer to Definitions in the Appendix for the definition of Deferred Revenue and Unbilled Deferred Revenue.
- Please refer to the slide Contracts Signed, for the reconciliation of this information to company totals.
- Net Sale is benefited by \$.9M due to the adoption of Topic 606. Invoiced Amounts and Contracts Signed are not impacted.

FranklinCovey– Contracts Signed

(in millions and unaudited)

<u>Current Quarter - Q1</u>	<u>Enterprise Division</u>				<u>Education Division</u>				<u>Corporate</u>			<u>Total Company</u>			
	<u>FY19</u>	<u>FY18</u>	<u>Change</u>	<u>%</u>	<u>FY19</u>	<u>FY18</u>	<u>Change</u>	<u>%</u>	<u>FY19</u>	<u>FY18</u>	<u>Change</u>	<u>FY19</u>	<u>FY18</u>	<u>Change</u>	<u>%</u>
Sales	42.1	37.5	4.6	12%	10.4	9.2	1.2	13%	1.3	1.2	0.1	53.8	47.9	5.9	12%
Change in Deferred Revenue	(3.3)	(2.2)	(1.1)	50%	(5.2)	(3.0)	(2.2)	73%	-	-	-	(8.5)	(5.2)	(3.3)	63%
Invoiced Amounts	38.8	35.3	3.5	10%	5.2	6.2	(1.0)	-16%	1.3	1.2	0.1	45.3	42.7	2.6	6%
Change in Unbilled Deferred Revenue	0.2	(0.6)	0.8	-	(0.3)	(0.3)	-	0%	-	-	-	(0.1)	(0.9)	0.8	-89%
Total Contracts Signed	<u>39.0</u>	<u>34.7</u>	<u>4.3</u>	<u>12%</u>	<u>4.9</u>	<u>5.9</u>	<u>(1.0)</u>	<u>-17%</u>	<u>1.3</u>	<u>1.2</u>	<u>0.1</u>	<u>45.2</u>	<u>41.8</u>	<u>3.4</u>	<u>8%</u>

Notes:

- Please compare this information to the Segment Information footnote in Form 10-Q.
- Please refer to Definitions in the Appendix for the definition of Deferred Revenue and Unbilled Deferred Revenue.
- Net Sale is benefited by \$1.0M due to the adoption of Topic 606. Invoiced Amounts and Contracts Signed are not materially impacted..

Sales Information

(in thousands and unaudited)

	FY17 Information					FY18 Information					FY19
	Q1	Q2	Q3	Q4	Yr Total	Q1	Q2	Q3	Q4	YTD Total	Q1
Sales											
Reported Net Sales	39,787	42,196	43,751	59,522	185,256	47,932	46,549	50,461	64,818	209,760	53,829
Change in Deferred Sales	702	2,069	5,442	12,562	20,775	(5,193)	211	2,461	13,925	11,404	(8,514)
Invoiced Amount	40,489	44,265	49,193	72,084	206,031	42,739	46,760	52,922	78,743	221,164	45,315
Balance Sheet											
Roll-Forward of Deferred Sales											
Beginning Balance (deferred sales)	15,460	16,096	18,185	23,618	15,460	36,397	31,429	32,067	34,521	36,397	48,432
Subscription Sales	6,306	8,710	13,785	23,026	51,827	7,882	13,941	17,324	30,563	69,710	9,798
Amounts Recorded to Revenue	(5,604)	(6,641)	(8,343)	(10,464)	(31,052)	(13,075)	(13,730)	(14,863)	(16,638)	(58,306)	(18,312)
Change in Deferred Sales	702	2,069	5,442	12,562	20,775	(5,193)	211	2,461	13,925	11,404	(8,514)
FX, 606, and Other Changes	(66)	20	(9)	217	162	225	427	(7)	(14)	631	1,457
Ending Balance (deferred sales)	16,096	18,185	23,618	36,397	36,397	31,429	32,067	34,521	48,432	48,432	41,375
Other Deferred Revenue (606 & Deposits)	4,186	2,933	5,664	5,012	5,012	3,821	4,069	4,669	4,471	4,471	8,170
Balance Sheet Deferred Revenue	20,282	21,118	29,282	41,409	41,409	35,250	36,136	39,190	52,903	52,903	49,545
Unbilled Deferred Contracts											
Beginning Balance (off balance sheet)	2,378	1,978	1,728	2,479	2,378	17,151	16,255	15,463	15,067	17,151	24,495
New Unbilled Contracts	-	-	751	15,600	16,351	1,863	2,149	2,766	13,437	20,215	1,434
Amounts Invoiced	(400)	(250)	-	(928)	(1,578)	(2,759)	(2,941)	(3,162)	(4,009)	(12,871)	(1,503)
Ending Balance (off balance sheet)	1,978	1,728	2,479	17,151	17,151	16,255	15,463	15,067	24,495	24,495	24,426
Breakout of Deferred Sales (above)											
Subscription Sales (Balance Sheet)											
AAP Subscriptions	4,969	7,801	9,189	12,616	34,575	6,822	13,409	11,667	16,895	48,793	8,270
Education Memberships	652	226	4,130	9,766	14,774	893	159	4,978	13,142	19,172	827
Other Subscriptions and Adjustments	685	683	466	644	2,478	167	373	679	526	1,745	701
Total Additions to balance sheet	6,306	8,710	13,785	23,026	51,827	7,882	13,941	17,324	30,563	69,710	9,798

Notes:

- Invoiced Amounts represent the amount billed (invoiced) in the period. The Invoiced Amount is equal to Reported Net Sales, plus the associated change in Deferred Subscription Sales on the balance sheet (adjusted for FX). AAP Subscriptions, Education Memberships, and Other Invoiced Subscriptions are all Invoiced Amounts. Unbilled portions of multi-year agreements are not included.
- The Difference between Change in Deferred Sales, which is added to Reported Net Sales to equal the Invoiced Amount, and the Change in Deferred Sales on the balance sheet is adjustments for FX, acquisitions and other. Q1 of FY2019 also includes the adjustment attributed to the adoption of Topic 606.
- Certain historical amounts have been adjusted by immaterial amounts to conform with the current presentation - including the acquired Jhana Deferred Revenue.
- Deferred Revenue is primarily a current liability. However, a small portion is long-term and recorded as a part of Other Liabilities.

Reconciliation of Net Loss to Adjusted EBITDA

(in thousands and unaudited)

	Quarter Ended	
	November 30, 2018	November 30, 2017
Reconciliation of net loss to Adjusted EBITDA:		
Net loss	\$ (1,357)	\$ (2,392)
Adjustments:		
Interest expense, net	604	488
Income tax provision (benefit)	100	(1,348)
Amortization	1,238	1,395
Depreciation	1,554	901
Stock-based compensation	946	956
Increase in contingent consideration liabilities	24	176
Licensee transition costs	60	-
ERP implementation costs	-	426
Adjusted EBITDA	<u>\$ 3,169</u>	<u>\$ 602</u>
Adjusted EBITDA margin	5.9%	1.3%

Note: Adjusted EBITDA and Operating SG&A are non-GAAP financial measures. Please see the appendix for additional information.

Additional Financial Information

(in thousands and unaudited)

	Quarter Ended	
	November 30, 2018	November 30, 2017
Sales by Division/Segment:		
Enterprise Division:		
Direct offices	\$ 38,471	\$ 34,197
International licensees	3,677	3,320
	<u>42,148</u>	<u>37,517</u>
Education Division	10,347	9,176
Corporate and other	1,334	1,239
	<u>11,681</u>	<u>10,415</u>
Consolidated	<u>\$ 53,829</u>	<u>\$ 47,932</u>
Gross Profit by Division/Segment:		
Enterprise Division:		
Direct offices	\$ 27,082	\$ 24,561
International licensees	2,854	2,503
	<u>29,936</u>	<u>27,064</u>
Education Division	6,389	5,430
Corporate and other	458	374
	<u>6,847</u>	<u>5,804</u>
Consolidated	<u>\$ 36,783</u>	<u>\$ 32,868</u>
Adjusted EBITDA by Division/Segment:		
Enterprise Division:		
Direct offices	\$ 4,111	\$ 3,078
International licensees	1,683	1,412
	<u>5,794</u>	<u>4,490</u>
Education Division	(18)	(670)
Corporate and other	(2,607)	(3,218)
	<u>(2,625)</u>	<u>(3,288)</u>
Consolidated	<u>\$ 3,169</u>	<u>\$ 602</u>

Condensed Consolidated Balance Sheets

(in thousands and unaudited)

	November 30, 2018	August 31, 2018		November 30, 2018	August 31, 2018
<u>Assets</u>			<u>Liabilities and Shareholders' Equity</u>		
Current assets:			Current liabilities:		
Cash	\$ 11,085	\$ 10,153	Current portion of term notes payable	\$ 9,063	\$ 10,313
Accounts receivable, less allowance for doubtful accounts of \$3,929 and \$3,555	55,646	71,914	Current portion of financing obligation	2,151	2,092
Inventories	2,920	3,160	Accounts payable	7,685	9,790
Income taxes receivable	-	179	Income taxes payable	325	-
Prepaid expenses and other current assets	13,841	14,757	Deferred revenue	46,221	51,888
Total current assets	<u>83,492</u>	<u>100,163</u>	Accrued liabilities	16,948	20,761
			Total current liabilities	<u>82,393</u>	<u>94,844</u>
Property and equipment, net	20,691	21,401	Line of credit	8,508	11,337
Intangible assets, net	50,701	51,934	Term notes payable, less current portion	2,187	2,500
Goodwill	24,220	24,220	Financing obligation, less current portion	18,419	18,983
Deferred income tax assets	4,877	3,222	Other liabilities	7,747	5,501
Other long-term assets	12,343	12,935	Deferred income tax liabilities	210	210
	<u>\$ 196,324</u>	<u>\$ 213,875</u>	Total liabilities	<u>119,464</u>	<u>133,375</u>
			Shareholders' equity:		
			Common stock	1,353	1,353
			Additional paid-in capital	212,290	211,280
			Retained earnings	59,069	63,569
			Accumulated other comprehensive income	32	341
			Treasury stock at cost, 13,148 and 13,159 shares	(195,884)	(196,043)
			Total shareholders' equity	<u>76,860</u>	<u>80,500</u>
				<u>\$ 196,324</u>	<u>\$ 213,875</u>

Condensed Consolidated Statements of Operations

(in thousands, except per-share amounts and unaudited)

	Quarter Ended	
	November 30, 2018	November 30, 2017
Net sales	\$ 53,829	\$ 47,932
Cost of sales	<u>17,046</u>	<u>15,064</u>
Gross profit	36,783	32,868
Selling, general, and administrative	34,644	33,824
Depreciation	1,554	901
Amortization	<u>1,238</u>	<u>1,395</u>
Loss from operations	(653)	(3,252)
Interest expense, net	<u>(604)</u>	<u>(488)</u>
Loss before income taxes	(1,257)	(3,740)
Income tax benefit (provision)	<u>(100)</u>	<u>1,348</u>
Net loss	<u>\$ (1,357)</u>	<u>\$ (2,392)</u>
Net loss per common share:		
Basic and diluted	\$ (0.10)	\$ (0.17)
Weighted average common shares:		
Basic and diluted	13,917	13,725
Other data:		
Adjusted EBITDA ⁽¹⁾	<u>\$ 3,169</u>	<u>\$ 602</u>

(1) The term Adjusted EBITDA (earnings before interest, income taxes, depreciation, amortization, stock-based compensation, and certain other items) is a non-GAAP financial measure that the Company believes is useful to investors in evaluating its results. For a reconciliation of this non-GAAP measure to the most comparable GAAP equivalent, refer to the Reconciliation of Net Loss to Adjusted EBITDA as shown below.

Direct Office Revenue

(in thousands and unaudited)

	Q1 FY 19	Q1 FY 18	Change	Percent
All Access Pass*	9,846	7,220	2,626	36%
Onsites	10,128	8,715	1,413	16%
Facilitator	1,803	3,363	(1,560)	-46%
Other	830	1,227	(397)	-32%
Total US/Canada	22,607	20,525	2,082	10%
International Direct Office	9,614	8,873	741	8%
International Licensees	3,677	3,320	358	11%
Other Offices	6,249	4,799	1,451	30%
Total Direct Offices	42,148	37,516	4,631	12%

Notes:

- This does not include AAP that was sold in Government Services, Australia, Japan and The U.K.
- Higher Education in the Education practice also had a small amount of AAP sales.

Definitions

- “Deferred Revenue” primarily consists of billings or payments received in advance of revenue recognition from subscription services and is recognized as the revenue recognition criteria are met. The Company generally invoices customers in annual installments upon execution of a contract. The deferred revenue balance is influenced by several factors, including seasonality, the compounding effects of renewals, contract duration, invoice timing and contract size. When Management refers to Deferred Revenue or the change in Deferred Revenue it is primarily referring to the subscription related portion and not the customer deposits and other portions.
- “Unbilled Deferred Revenue” is an operational measure that represents future billings under our non-cancelable subscription agreements that have not been invoiced and, accordingly are not recorded in our recognized revenue or deferred revenue.
- “Operating SG&A” is non-GAAP financial measure. It generally excludes stock-based compensation, changes to contingent earn-out liability and unusual or one-time charges. See the Reconciliation of Net Income or Loss to Adjusted EBITDA in additional financial information.

Definitions

- “Adjusted EBITDA” (earnings before interest, income taxes, depreciation, amortization, stock-based compensation, and certain other items) is a non-GAAP financial measure that the Company believes is useful to investors in evaluating its results. A reconciliation of “Adjusted EBITDA,” to consolidated net income (loss), the most comparable GAAP financial measure is provided within this presentation. The Company references this non-GAAP financial measure in its 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. We are unable to provide a reconciliation of forward-looking estimates of non-GAAP Adjusted EBITDA to GAAP measures because certain information needed to make a reasonable forward-looking estimate is difficult to estimate and dependent on future events which may be uncertain or out of our control, including the amount of AAP contracts invoiced, the number of AAP contracts that are renewed, necessary costs to deliver our offerings such as unanticipated content development costs, and other potential variables. Accordingly, a reconciliation is not available without unreasonable effort.
- “Invoiced Amounts” is the sum of reported Net Sales plus the change in Deferred Revenue reported on the balance sheet (a portion of which is recorded as a current liability and a portion as a long-term liability and represents the amount of billings during the period).
- “Contracts Signed” is the sum of Invoiced Amounts plus the Change in Unbilled Deferred Revenue (not recorded on the balance sheet) and, as the term reflects represents, the total amount of contracts with customers that were entered into during the period.