

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

FORM 10-Q

(Mark One)

[

] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended November 30, 2023

[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number: 001-11107



FRANKLIN COVEY CO.

(Exact name of registrant as specified in its charter)

| | |
|---|--|
| Utah (State or other jurisdiction of incorporation or organization) | 87-0401551 (I.R.S. employer identification no.) |
| 2200 West Parkway Boulevard Salt Lake City, Utah (Address of principal executive offices) | 84119-2099 (Zip Code) |
| Registrant's telephone number, Including area code | (801) 817-1776 |

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

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

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

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

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

| | | | |
|-------------------------|--------------------------|---------------------------|--------------------------|
| Large Accelerated Filer | <input type="checkbox"/> | Accelerated Filer | <input type="checkbox"/> |
| Non-accelerated Filer | <input type="checkbox"/> | Smaller Reporting Company | <input type="checkbox"/> |
| Emerging Growth Company | <input type="checkbox"/> | | |

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

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

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

13,286,172
shares of Common Stock, \$0.05 par value per share, as of December 31, 2023

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

FRANKLIN COVEY CO.

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

| | November 30, 2023 | August 31, 2023 |
|--|----------------------|--------------------|
| | (unaudited) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 33,959 | \$ 38,230 |
| Accounts receivable, less allowance for doubtful accounts of \$ 3,753 and \$ 3,790 | 59,860 | 81,935 |
| Inventories | 4,117 | 4,213 |
| Prepaid expenses and other current assets | 19,306 | 20,639 |
| Total current assets | 117,242 | 145,017 |
| Property and equipment, net | 9,517 | 10,039 |
| Intangible assets, net | 39,443 | 40,511 |
| Goodwill | 31,220 | 31,220 |
| Deferred income tax assets | 1,679 | 1,661 |
| Other long-term assets | 19,721 | 17,471 |
| | <hr/> \$ 218,822 | <hr/> \$ 245,919 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current portion of notes payable | \$ 4,585 | \$ 5,835 |
| Current portion of financing obligation | 3,627 | 3,538 |
| Accounts payable | 5,667 | 6,501 |
| Deferred subscription revenue | 83,484 | 95,386 |
| Other deferred revenue | 16,023 | 12,137 |
| Accrued liabilities | 21,300 | 28,252 |
| Total current liabilities | 134,686 | 151,649 |
| Notes payable, less current portion | 1,556 | 1,535 |
| Financing obligation, less current portion | 3,478 | 4,424 |

| | | |
|---|------------|------------|
| Other liabilities | 7,590 | 7,617 |
| Deferred income tax liabilities | 1,011 | 2,040 |
| Total liabilities | 148,321 | 167,265 |
| Shareholders' equity: | | |
| Common stock, \$0.05 par value; | | |
| 40,000 shares authorized, | 1,353 | 1,353 |
| 27,056 shares issued | | |
| Additional paid-in capital | 224,701 | 232,373 |
| Retained earnings | 104,653 | 99,802 |
| Accumulated other comprehensive loss | (936) | (987) |
| Treasury stock at cost, 13,782 shares and 13,974 shares | (259,270) | (253,887) |
| Total shareholders' equity | 70,501 | 78,654 |
| | \$ 218,822 | \$ 245,919 |

See notes to condensed consolidated financial statements

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

| | Quarter Ended | |
|--|----------------------|----------------------|
| | November 30, 2023 | November 30, 2022 |
| | (unaudited) | |
| Net sales | \$ 68,399 | \$ 69,369 |
| Cost of sales | 16,122 | 16,627 |
| Gross profit | 52,277 | 52,742 |
| Selling, general, and administrative | 44,786 | 44,012 |
| Depreciation | 1,091 | 1,246 |
| Amortization | 1,071 | 1,092 |
| Income from operations | 5,329 | 6,392 |
| Interest income | 288 | 81 |
| Interest expense | (341) | (410) |
| Income before income taxes | 5,276 | 6,063 |
| Income tax provision | (425) | (1,396) |
| Net income | <hr/> \$ 4,851 | <hr/> \$ 4,667 |
| Net income per share: | | |
| Basic | \$ 0.37 | \$ 0.34 |
| Diluted | 0.36 | 0.32 |
| Weighted average number of common shares: | | |
| Basic | 13,244 | 13,877 |
| Diluted | 13,636 | 14,507 |
| COMPREHENSIVE INCOME | | |
| Net income | \$ 4,851 | \$ 4,667 |
| Foreign currency translation adjustments, net of income taxes of \$ | | |
| 0 and \$ 0 | (51) | (130) |

| | | |
|----------------------|----------|----------|
| Comprehensive income | \$ 4,902 | \$ 4,537 |
|----------------------|----------|----------|

See notes to condensed consolidated financial statements

FRANKLIN COVEY CO.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

| | Quarter Ended | |
|---|----------------------|----------------------|
| | November 30, 2023 | November 30, 2022 |
| | (unaudited) | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 4,851 | \$ 4,667 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 2,162 | 2,338 |
| Amortization of capitalized curriculum costs | 691 | 843 |
| Stock-based compensation | 2,897 | 2,735 |
| (| | |
| Deferred income taxes | 1,048 | 393 |
|) | | |
| Change in fair value of contingent consideration liabilities | - 7 | 7 |
| Amortization of right-of-use operating lease assets | 199 | 203 |
| Changes in assets and liabilities: | | |
| Decrease in accounts receivable, net | 22,097 | 15,144 |
| Decrease in inventories | 100 | 38 |
| Decrease in prepaid expenses and other assets | 996 | 2,306 |
| (| | |
| Decrease in accounts payable and accrued liabilities | 7,984 | 14,098 |
|) | | |
| Decrease in deferred revenue | 7,981 | 11,501 |
|) | | |
| Increase in income taxes payable | 557 | 31 |
| (| | |
| Decrease in other long-term liabilities | 99 | 89 |
|) | | |
| Net cash provided by operating activities | 17,438 | 3,017 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property and equipment | 1,072 | 1,240 |
| Curriculum development costs | 2,668 | 974 |
| Net cash used for investing activities | 3,740 | 2,214 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Principal payments on notes payable | 1,250 | 1,250 |
| Principal payments on financing obligation | 855 | 774 |
| Purchases of common stock for treasury | 16,308 | 835 |

| | | | |
|--|-----------|-----------|-------|
| Payment of contingent consideration liabilities | - | - | (429) |
| Proceeds from sales of common stock held in treasury | 356 | 367 | |
| Net cash used for financing activities | (18,057) | (2,921) | |
| Effect of foreign currency exchange rates on cash and cash equivalents | 88 | 247 | |
| Net decrease in cash and cash equivalents | (4,271) | (2,365) | |
| Cash and cash equivalents at the beginning of the period | 38,230 | 60,517 | |
| Cash and cash equivalents at the end of the period | \$ 33,959 | \$ 58,152 | |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid for income taxes | \$ 822 | \$ 836 | |
| Cash paid for interest | 337 | 372 | |
| Non-cash investing and financing activities: | | | |
| Purchases of property and equipment financed by accounts payable | \$ 45 | \$ 213 | |
| Acquisition of right-of-use operating lease assets for operating lease liabilities | 121 | 128 | |

See notes to condensed consolidated financial statements

FRANKLIN COVEY CO.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands and unaudited)

| | Common Stock Shares | Common Stock Amount | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Treasury Stock Shares | Treasury Stock Amount |
|--|---------------------------|---------------------------|----------------------------------|----------------------|---|-----------------------------|-----------------------------|
| Balance at August 31, 2023 | 27,056 | \$ 1,353 | \$ 232,373 | \$ 99,802 | \$ 987 | (13,974) | \$ 253,887 |
| Issuance of common stock from treasury | | | | (10,569) | | 601 | 10,925 |
| Purchases of common shares for treasury | | | | | | (409) | 16,308 |
| Stock-based compensation | | | | 2,897 | | | |
| Cumulative translation adjustments | | | | | 51 | | |
| Net income | | | | | 4,851 | | |
| Balance at November 30, 2023 | 27,056 | \$ 1,353 | \$ 224,701 | \$ 104,653 | \$ 936 | (13,782) | \$ 259,270 |

FRANKLIN COVEY CO.

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

| | Common Stock Shares | Common Stock Amount | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Treasury Stock Shares | Treasury Stock Amount |
|--|---------------------------|---------------------------|----------------------------------|----------------------|---|-----------------------------|-----------------------------|
| Balance at August 31, 2022 | 27,056 | \$ 1,353 | \$ 220,246 | \$ 82,021 | \$ 542 | (13,203) | \$ 220,264 |
| Issuance of common stock from treasury | | | | (568) | | 56 | 935 |
| Purchases of common shares for treasury | | | | | | (18) | 835 |
| Stock-based compensation | | | | 2,735 | | | |
| Cumulative translation adjustments | | | | | (130) | | |
| Net income | | | | | 4,667 | | |
| Balance at November 30, 2022 | 27,056 | \$ 1,353 | \$ 222,413 | \$ 86,688 | \$ 672 | (13,165) | \$ 220,164 |

See notes to condensed consolidated financial statements

FRANKLIN COVEY CO.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1 – BASIS OF PRESENTATION

Franklin Covey Co. (hereafter referred to as us, we, our, or the Company) is a global company focused on organizational performance improvement. Our mission is to “enable greatness in people and organizations everywhere,” and our global structure is designed to help individuals and organizations achieve sustained superior performance through changes in human behavior. We are fundamentally a content and solutions company, and we believe that our offerings and services create the connection between capabilities and results. We have a wide range of content delivery options, including: the All Access Pass (AAP) subscription, the *Leader in Me* membership, and other intellectual property licenses; digital online learning; onsite training; training led through certified facilitators; blended learning; and organization-wide transformational processes, including consulting and coaching. We believe our investments in digital delivery modalities over the past few years have enabled us to deliver our content to clients in a high-quality learning environment whether those clients are working remotely or meeting in a centralized location. We believe that our clients are able to utilize our content to create cultures whose hallmarks are high-performing, collaborative individuals, led by effective, trust-building leaders who execute with excellence and deliver measurably improved results for all of their key stakeholders.

We have some of the best-known offerings in the training industry, including a suite of individual-effectiveness and leadership-development training content based on the best-selling books, *The 7 Habits of Highly Effective People*, *The Speed of Trust*, *The Leader in Me*, *The 4 Disciplines of Execution*, and *Multipliers*, and proprietary content in the areas of Leadership, Execution, Productivity, Educational Improvement, and Sales Performance. Our offerings are described in further detail at www.franklincovey.com. The information posted on our website is not incorporated into this report.

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

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

The results of operations for the quarter ended November 30, 2023 are not necessarily indicative of results expected for the entire fiscal year ending August 31, 2024, or for any future periods.

NOTE 2 – INVENTORIES

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

| | November 30, 2023 | August 31, 2023 |
|----------------|----------------------|--------------------|
| Finished goods | \$ 4,109 | \$ 4,204 |
| Raw materials | 8 | 9 |
| | <hr/> \$ 4,117 | <hr/> \$ 4,213 |

NOTE 3 – PURCHASES OF COMMON STOCK FOR TREASURY

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

| | Shares | Cost |
|--|------------|------------------|
| Shares withheld for taxes on stock-based compensation awards | 252 | \$ 10,333 |
| Open market purchases | 157 | 5,975 |
| | 409 | \$ 16,308 |

On February 14, 2023, our Board of Directors approved a new plan to purchase up to \$

50.0

million of our outstanding common stock. The previously existing common stock purchase plan was canceled, and the new common share purchase plan does not have an expiration date. The actual timing, number, and value of common shares purchased under our board-approved plan will be determined at our discretion and will depend on a number of factors, including, among others, general market and business conditions, the trading price of common shares, and applicable legal requirements. We have no obligation to purchase any of our common shares under the authorization, and the purchase plan may be suspended, discontinued, or modified at any time for any reason. On November 30, 2023, we had \$

9.8

million remaining on this Board approved purchase plan.

NOTE 4 – REVENUErecognition

Contract Balances

Our deferred revenue totaled \$

103.3

million at November 30, 2023 and \$

111.2

million at August 31, 2023, of which \$

3.8

million and \$

3.7

million were classified as components of other long-term liabilities at November 30, 2023, and August 31, 2023, respectively. The amount of deferred revenue that was generated from subscription offerings totaled \$

87.2

million at November 30, 2023 and \$

99.0

million at August 31, 2023. During the quarter ended November 30, 2023, we recognized \$

36.6

million of previously deferred subscription revenue.

Deferred subscription revenue primarily consists of billings or payments received in advance of revenue being recognized from subscription services. Deferred revenue is recognized in sales as the applicable revenue recognition criteria are met. We generally invoice customers in annual installments upon execution of a contract. With the *Leader in Me* offering, the contract includes both a subscription membership and onsite consulting which can be invoiced to the client in one lump sum. In this circumstance, the entire lump sum is included in deferred subscription revenue. The deferred subscription revenue related to the *Leader in Me* membership is recognized as revenue over the life of the contract whereas the consulting is recognized when the service takes place.

Remaining Performance Obligations

Whenever possible, we enter into multi-year non-cancellable contracts which are invoiced either upon execution of the contract or at the beginning of each annual contract period. Remaining transaction price represents contracted revenue that has not yet been recognized, including unearned revenue and unbilled amounts that will be recognized as revenue in future periods. Transaction price is influenced by factors such as inflation, the average length of the contract term, and the ability of the Company to continue to enter into multi-year non-cancellable contracts. At November 30, 2023, we had \$

169.7

million of remaining performance obligations, including our deferred subscription revenue. The remaining performance obligation does not include other deferred revenue, as amounts included in other deferred revenue contain items such as deposits that are generally refundable at the client's request prior to the satisfaction of the obligation.

Disaggregated Revenue Information

Refer to Note 7, *Segment Information*, to these condensed consolidated financial statements for our disaggregated revenue information.

NOTE 5 – STOCK-BASED COMPENSATION

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

| | Quarter Ended | |
|---------------------------------|----------------------|----------------------|
| | November 30, 2023 | November 30, 2022 |
| Long-term incentive awards | \$ 2,464 | \$ 2,339 |
| Strive acquisition compensation | 195 | 166 |
| Unvested stock awards | 180 | 165 |
| Employee stock purchase plan | 58 | 65 |
| | <hr/> | <hr/> |
| | \$ 2,897 | \$ 2,735 |
| | <hr/> | <hr/> |

During the quarter ended November 30, 2023, we issued

600,717 shares of our common stock under various stock-based compensation arrangements, including our employee stock purchase plan (ESPP).

Fiscal 2024 Long-Term Incentive Plan Award

On October 6, 2023, the Compensation Committee granted a new Long-Term Incentive Plan (the 2024 LTIP) award to our executive officers and members of senior management. The fiscal 2024 LTIP award has

two tranches,

one with a time-based vesting condition and

one with a performance-based vesting condition as described below:

Time-Based Award Shares –

Twenty-five percent of the 2024 LTIP award shares vest to participants on August 31, 2026. The number of shares that may be earned by participants at the end of the service period totals

28,272 shares. The number of shares awarded in this tranche does not fluctuate based on the achievement of financial measures.

Performance-Based Award Shares – The remaining shares of the fiscal 2024 LTIP award are earned based on the highest rolling four-quarter level of qualified Adjusted EBITDA achieved in the three-year measurement period ending on August 31, 2026. The number of shares that will vest to participants for this tranche is variable and may be

50 % of the award (minimum award threshold) or up to

200 % of the participant's award (maximum threshold) depending on the level of qualified Adjusted EBITDA achieved. The number of shares that may be earned for achieving

100 % of the performance-based objective totals

84,784 shares. The maximum number of shares that may be awarded in connection with the performance-based tranche of the 2024 LTIP totals

169,568 shares.

Annual Long-Term Incentive Performance and Retention Plan

In fiscal 2023, we introduced a new long-term equity incentive plan for client partners, managing directors, and certain other associates that we believe are critical to our long-term success. These awards are generally based on the achievement of specified sales goals, are granted following the completion of the fiscal year, and one-third of the shares vest on August 31 of each year following the grant. We granted a total of

48,740

unvested share units in the first quarter of fiscal 2024 to participants in this long-term incentive plan for achievements in fiscal 2023, which will vest over the next three years. The compensation cost of these awards is included in the long-term incentive awards category in the preceding table.

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

% of the average fair market value of our common stock on the last trading day of each fiscal quarter. During the quarter ended November 30, 2023, we issued

9,697

shares of our common stock to participants in the ESPP.

NOTE 6 – NET INCOME PER SHARE

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

| | Quarter Ended | |
|--|----------------------|----------------------|
| | November 30, 2023 | November 30, 2022 |
| Numerator for basic and diluted income per share: | | |
| Net income | \$ 4,851 | \$ 4,667 |
| Denominator for basic and diluted income per share: | | |
| Basic weighted average shares | | |
| outstanding | 13,244 | 13,877 |
| Effect of dilutive securities: | | |
| Stock-based compensation awards | 392 | 630 |
| Diluted weighted average | | |
| shares outstanding | 13,636 | 14,507 |
| EPS Calculations: | | |
| Net income per share: | | |
| Basic | \$ 0.37 | \$ 0.34 |
| Diluted | 0.36 | 0.32 |

NOTE 7 – SEGMENT INFORMATION

Segment Information

Our sales are primarily comprised of training and consulting services and our internal reporting and operating structure is currently organized around

two divisions: the Enterprise Division, which consists of our Direct Office and International Licensee segments and the Education Division, which is comprised of our Education practice. Based on the applicable guidance, our operations consist of

three reportable segments and

one corporate services group. The following is a brief description of our reportable segments:

- Direct Offices** – Our Direct Office segment has a depth of expertise in helping organizations solve problems that require changes in human behavior, including leadership, productivity, execution, trust, and sales performance. We have a variety of principle-based offerings that help build winning and profitable cultures. This segment includes our sales personnel that serve the United States and Canada; our international direct sales offices; our government services sales channel; and our book and audio sales.
- International Licensees** – Our independently owned international licensees provide our offerings and services in countries where we do not have a directly-owned office. These licensee partners allow us to expand the reach of our services to large multinational organizations as well as smaller organizations in their countries. This segment's sales are primarily comprised of royalty revenues received from these licensees.
- Education Practice** – Centered around the principles found in *The Leader in Me*, the Education practice is dedicated to helping educational institutions build a culture that will produce great results. We believe these results are manifested by increases in student performance, improved school culture, decreased disciplinary issues, and increased teacher engagement and parental involvement. This segment includes our domestic and

international Education practice operations, which are focused on sales to educational institutions such as elementary schools, high schools, and colleges and universities.

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

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

Our operations are not capital intensive and we do not own any manufacturing facilities or equipment. Accordingly, we do not allocate assets to the reportable segments for analysis purposes. Interest expense and interest income are primarily generated at the corporate level and are not allocated. Income taxes are likewise calculated and paid on a corporate level (except for entities that operate in foreign jurisdictions) and are not allocated for analysis purposes.

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

| <u>Quarter Ended November 30, 2023</u> | Sales to External Customers | Gross Profit | Adjusted EBITDA |
|--|-----------------------------------|--------------|--------------------|
| Enterprise Division: | | | |
| Direct offices | \$ 49,215 | \$ 39,501 | \$ 11,687 |
| International licensees | 3,378 | 3,052 | 1,896 |
| | 52,593 | 42,553 | 13,583 |
| Education practice | 14,744 | 9,380 | 42 |
| Corporate and eliminations | 1,062 | 344 | (2,656) |
| Consolidated | \$ 68,399 | \$ 52,277 | \$ 10,969 |
| <u>Quarter Ended November 30, 2022</u> | | | |
| Enterprise Division: | | | |
| Direct offices | \$ 50,167 | \$ 39,921 | \$ 11,250 |
| International licensees | 3,278 | 2,977 | 1,831 |
| | 53,445 | 42,898 | 13,081 |
| Education practice | 14,350 | 9,175 | 281 |
| Corporate and eliminations | 1,574 | 669 | (1,890) |
| Consolidated | \$ 69,369 | \$ 52,742 | \$ 11,472 |

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

| | Quarter Ended | |
|---|----------------------|----------------------|
| | November 30, 2023 | November 30, 2022 |
| Segment Adjusted EBITDA | \$ 13,625 | \$ 13,362 |
| Corporate expenses | (2,656) | (1,890) |
| Consolidated Adjusted EBITDA | 10,969 | 11,472 |
| Stock-based compensation | (2,897) | (2,735) |
| Restructuring | 581 | - |
| Increase in the fair value of contingent consideration liabilities | - | (7) |
| Depreciation | (1,091) | (1,246) |
| Amortization | 1,071 | 1,092 |
| Income from operations | 5,329 | 6,392 |
| Interest income | 288 | 81 |
| Interest expense | (341) | (410) |
| Income before income taxes | 5,276 | 6,063 |
| Income tax provision | (425) | (1,396) |
| Net income | \$ 4,851 | \$ 4,667 |

Revenue by Category

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

| | Quarter Ended | |
|---------------------------|----------------------|----------------------|
| | November 30, 2023 | November 30, 2022 |
| Americas | \$ 56,357 | \$ 56,743 |
| Asia Pacific | 7,221 | 7,458 |
| Europe/Middle East/Africa | 4,821 | 5,168 |
| | \$ 68,399 | \$ 69,369 |

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

| Quarter Ended <u>November 30, 2023</u> | Services and Products | Subscriptions | Royalties | Leases and Other | Consolidated |
|---|--|----------------------|------------------|-----------------------------------|---------------------|
| Enterprise Division: | | | | | |
| Direct offices | \$ 22,126 | \$ 26,498 | \$ 591 | \$ - | \$ 49,215 |
| International licensees | 231 | 332 | 2,815 | - | 3,378 |
| | 22,357 | 26,830 | 3,406 | - | 52,593 |
| Education practice | 3,734 | 9,757 | 1,253 | - | 14,744 |
| Corporate and eliminations | - | - | 313 | 749 | 1,062 |
| Consolidated | \$ 26,091 | \$ 36,587 | \$ 4,972 | \$ 749 | \$ 68,399 |
| Quarter Ended <u>November 30, 2022</u> | | | | | |
| Enterprise Division: | | | | | |
| Direct offices | \$ 26,217 | \$ 23,490 | \$ 460 | \$ - | \$ 50,167 |
| International licensees | 143 | 352 | 2,783 | - | 3,278 |
| | 26,360 | 23,842 | 3,243 | - | 53,445 |
| Education practice | 4,500 | 9,183 | 667 | - | 14,350 |
| Corporate and eliminations | - | - | 315 | 1,259 | 1,574 |
| Consolidated | \$ 30,860 | \$ 33,025 | \$ 4,225 | \$ 1,259 | \$ 69,369 |

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

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

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

Non-GAAP Measures

This Management's Discussion and Analysis includes the concept of Adjusted EBITDA which is a non-GAAP financial measure. We define Adjusted EBITDA as net income excluding the impact of interest, income taxes, intangible asset amortization, depreciation, stock-based compensation expense, and certain other items, including infrequently occurring items such as restructuring costs. We reference this non-GAAP measure in our decision making because it provides supplemental information that facilitates consistent internal comparisons to the historical operating performance of prior periods and we believe it provides investors with greater transparency to evaluate operational activities and financial results. For a reconciliation of our segment Adjusted EBITDA to net income, a related GAAP measure, refer to Note 7, *Segment Information*, to our condensed consolidated financial statements.

RESULTS OF OPERATIONS

Overview

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

Our consolidated sales for the quarter ended November 30, 2023, exceeded previous expectations and totaled \$68.4 million compared with \$69.4 million in the first quarter of fiscal 2023. First quarter sales performance included the following:

- o Subscription and subscription services sales reached \$54.8 million, a 4% increase over the first quarter of fiscal 2023. For the rolling four quarters ended November 30, 2023, subscription and subscription service sales reached a record level of \$224.7 million, a \$13.6 million, or 6%, increase over the corresponding period of the prior year.
- o All Access Pass (AAP) subscription sales grew 13% compared with the first quarter of fiscal 2023 and AAP subscription and subscription services sales grew 5% compared with the prior year. For the rolling four quarters ended November 30, 2023, AAP subscription and subscription services sales increased 6% to \$160.0 million compared with \$151.0 million for the rolling four quarters ended November 30, 2022. During the first quarter of fiscal 2024, AAP subscription revenue retention levels in the United States and Canada remained strong and were greater than 90%.
- o Education Division revenues grew 3% to \$14.7 million in the first quarter of fiscal 2024 primarily due to increased international education royalties and increased membership subscription revenues in the quarter.

Education membership subscription revenue increased 6% compared with the prior year primarily due to increased annual membership sales recognized and the delivery of contracted coaching and training days from new schools engaged in fiscal 2023. During the first quarter of fiscal 2024, the Education Division delivered nearly 200 more training and coaching days than the prior year, which are recognized as they are delivered.

- o The sum of billed subscription and unbilled deferred subscription revenue at November 30, 2023 grew 12%, or over \$18 million, to \$169.7 million, compared with \$151.6 million at November 30, 2022. We continue to be pleased with the growth of multi-year contracts and the overall increase in deferred subscription revenue, which provide a strong base for future sales growth. At November 30, 2023, 54% of our AAP contracts are for at least two years, compared with 48% at November 30, 2022, and the percentage of contracted amounts represented by multi-year contracts increased to 60% from 55% in the first quarter of the prior year.
- o Lease revenues on our corporate campus decreased by \$0.5 million as certain tenants' leases expired in mid-fiscal 2023. We are actively seeking new tenants for available space at our corporate headquarters campus.

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

- Sales** – Our consolidated sales for the first quarter of fiscal 2024 were essentially even with the prior year at \$68.4 million. Increased AAP subscription sales in the first quarter through the Company's Direct Office segment were offset by decreased add-on services revenue and legacy onsite programs compared with the prior year's record-breaking add-on services revenue and delivered days. Direct Office sales for the first quarter of fiscal 2024 were \$49.2 million compared with \$50.2 million in the prior year. International licensee revenues increased 3% compared with the prior year primarily due to increased AAP sales and royalty revenue. Foreign exchange rates had an immaterial impact on the Company's sales and operating results during the first quarter of fiscal 2024. Education Division revenues increased 3% to \$14.7 million compared with \$14.4 million in fiscal 2023. This growth was primarily due to increased international royalties and increased membership subscription revenues in the quarter and was partially offset by decreased sales of certain materials which are now included in the *Leader in Me* membership. We have initiated a corresponding price increase which is expected to more than offset the inclusion of these materials in the membership. Education membership subscription revenue increased 6% compared with the prior year primarily due to increased Annual Membership sales recognized and contracted coaching and training days delivered from new schools engaged in fiscal 2023. During the first quarter of fiscal 2024, the Education Division delivered nearly 200 more training and coaching days than the prior year, which are recognized as they are delivered. Subleasing revenues on our corporate campus decreased \$0.5 million due to the expiration of third-party leases during the second half of fiscal 2023.

At November 30, 2023, we had \$87.2 million of deferred subscription revenue on our balance sheet, a 14%, or \$10.5 million, increase compared with deferred subscription revenue at November 30, 2022. On November 30, 2023, we had \$82.5 million of unbilled deferred revenue compared with \$74.9 million of unbilled deferred revenue on November 30, 2022. Unbilled deferred revenue represents business that is contracted but unbilled (primarily from multiyear subscription contracts) and excluded from our balance sheet.

- **Cost of Sales/Gross Profit** – For the quarter ended November 30, 2023, our cost of sales totaled \$16.1 million compared with \$16.6 million in the first quarter of the prior year. Gross profit for the first quarter of fiscal 2024 was \$52.3 million compared with \$52.7 million in the first quarter of fiscal 2023. Our gross margin for the first quarter of fiscal 2024 remained strong and increased to 76.4% of sales compared with 76.0% in the prior year. Cost of goods sold and gross profit each decreased primarily due to lower sales as previously described.
- **Operating Expenses** – Our operating expenses for the first quarter of fiscal 2024 increased \$0.6 million compared with the prior year, which was due to a \$0.8 million increase in selling, general, and administrative (SG&A) expenses. Increased SG&A expense was partially offset by decreased depreciation and amortization expense compared with the prior year. Our SG&A expenses increased primarily due to \$0.6 million of severance costs related to restructuring activity and \$0.2 million of increased non-cash stock-based compensation expense. The increase in stock-based compensation is primarily due to increased use of equity-based compensation to attract and retain key personnel.
- **Income Taxes** – Our income tax expense for the quarter ended November 30, 2023, was \$0.4 million on pre-tax income of \$5.3 million, which resulted in an effective tax rate of 8.1%, compared with an effective rate of 23.0% in the first quarter of fiscal 2023. Our effective tax rate for the first quarter of fiscal 2024 was lower than the effective rate in the prior year primarily due to a \$3.2 million tax benefit for stock-based compensation deductions that exceeded the corresponding expense for book purposes, which was partially offset by \$2.1 million of tax expense for the non-deductible portion of stock-based compensation paid to executives. These factors produced a net benefit of \$1.1 million or 21% in the first quarter of fiscal 2024.
- **Operating Income, Net Income, and Adjusted EBITDA** – Our income from operations for the quarter ended November 30, 2023, was \$5.3 million compared with \$6.4 million in the prior year, which reflected the above noted factors. Due to the reduced effective income tax rate discussed above, our net income for the first quarter of fiscal 2024 increased 4% to \$4.9 million, or \$0.36 per diluted share, compared with \$4.7 million, or \$0.32 per diluted share, in fiscal 2023. Our Adjusted EBITDA for the quarter ended November 30, 2023, was \$11.0 million, compared with \$11.5 million in the first quarter of the prior year.
- **Cash Flows** - Our cash flows from operating activities increased to \$17.4 million compared with \$3.0 million in the first quarter of fiscal 2023. The increase was primarily due to favorable changes in working capital and featured strong collections of accounts receivable.
- **Purchases of Common Stock** – During the first quarter of fiscal 2024, we purchased 408,596 shares of our common stock for \$16.3 million, including 251,686 shares withheld for income taxes on stock-based compensation awards and 156,910 shares purchased on the open market under the terms of a Board of Director approved purchase plan (see Note 3, *Purchases of Common Stock for Treasury*, to our condensed consolidated financial statements).
- **Liquidity and Financial Position** – Even after the purchase of \$16.3 million of common stock during the first quarter of 2024, and \$51.0 million over the rolling four quarters ended November 30, 2023, our liquidity and financial position remained strong. At November 30, 2023, we had nearly \$100 million of available liquidity which consisted of \$34.0 million of cash and our undrawn \$62.5 million line of credit.

Further details regarding our results for the quarter ended November 30, 2023 are provided throughout the following management's discussion and analysis.

Quarter Ended November 30, 2023 Compared with the Quarter Ended November 30, 2022

Enterprise Division

Direct Offices Segment

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

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

| | Quarter Ended November 30, 2023 | % of Sales | Quarter Ended November 30, 2022 | % of Sales | Change |
|-----------------|---------------------------------------|---------------|---------------------------------------|---------------|----------|
| Sales | \$ 49,215 | 100.0 | \$ 50,167 | 100.0 | \$ (952) |
| Cost of sales | 9,714 | 19.7 | 10,246 | 20.4 | (532) |
| Gross profit | 39,501 | 80.3 | 39,921 | 79.6 | (420) |
| SG&A expenses | 27,814 | 56.5 | 28,671 | 57.2 | (857) |
| Adjusted EBITDA | \$ 11,687 | 23.7 | \$ 11,250 | 22.4 | \$ 437 |

For the first quarter of fiscal 2024, our Direct Office segment revenue was \$49.2 million compared with \$50.2 million in the prior year. Our AAP subscription sales grew 13% compared with the first quarter of fiscal 2023. For the rolling four quarters ended November 30, 2023, AAP subscription and subscription services sales increased 6% to \$160.0 million compared with \$151.0 million for the rolling four quarters ended November 30, 2022. During the first quarter of fiscal 2024, AAP subscription revenue retention levels remained strong and were greater than 90%. However, subscription sales growth in the first quarter was offset by decreased add-on services and legacy onsite presentation revenue in the Company's domestic and international offices. Add-on services and days delivered reached record high levels in the first quarter of fiscal 2023. We remain confident that the strength and durability of our AAP offering, our principle-based content, and our subscription business model will help our clients solve difficult issues and will continue to drive growth in future periods. The sum of deferred subscription revenue on our balance sheet combined with unbilled multi-year contracts entered into, increased 12%, or over \$18 million, to \$169.7 million, compared with \$151.6 million at November 30, 2022. We believe the continued increase in invoiced AAP and other subscription sales, which are initially recognized on the balance sheet, provide a strong base for revenue growth in future periods. The fluctuation of foreign exchange rates had an immaterial impact on our Direct Office sales and operating results for the quarter ended November 30, 2023.

Gross Profit. Gross profit decreased primarily due to decreased sales as previously described. Direct Office gross margin remained strong and was 80.3% compared with 79.6% in the prior year. Our Direct Office gross margin improved primarily due to the mix of services and products sold to clients compared with the prior year.

SG&A Expense. Direct Office SG&A expense decreased primarily due to decreased associate costs resulting from lower variable compensation resulting from decreased sales in the quarter.

International Licensees Segment

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

| | Quarter Ended November 30, 2023 | % of Sales | Quarter Ended November 30, 2022 | % of Sales | Change |
|-----------------|---------------------------------------|---------------|---------------------------------------|---------------|--------|
| Sales | \$ 3,378 | 100.0 | \$ 3,278 | 100.0 | \$ 100 |
| Cost of sales | 326 | 9.7 | 301 | 9.2 | 25 |
| Gross profit | 3,052 | 90.3 | 2,977 | 90.8 | 75 |
| SG&A expenses | 1,156 | 34.2 | 1,146 | 35.0 | 10 |
| Adjusted EBITDA | \$ 1,896 | 56.1 | \$ 1,831 | 55.9 | \$ 65 |

Sales. International licensee sales are primarily comprised of royalty revenues. In the first quarter of fiscal 2024, our international licensees' revenue grew 3%, which was primarily attributable to increased AAP sales, royalty revenues, and service sales as certain of our licensee partners had increased sales during the quarter. While we remain optimistic that our licensees' sales and our corresponding royalty revenues will grow during fiscal 2024, difficult macroeconomic conditions, such as slowing economic growth and regional conflicts may negatively impact our licensees' operations and

our royalty revenues in future periods. Foreign exchange rates had an immaterial impact on international licensee sales and operating results during the quarter ended November 30, 2023.

Gross Profit. Gross profit increased primarily due to increased licensee revenues as previously described. Gross margin remained strong at 90.3% compared with 90.8% in the first quarter of fiscal 2023.

SG&A Expense. International licensee SG&A expenses were essentially even with the prior year.

Education Division

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

| | Quarter Ended November 30, 2023 | % of Sales | Quarter Ended November 30, 2022 | % of Sales | Change |
|-----------------|---------------------------------------|---------------|---------------------------------------|---------------|----------|
| Sales | \$ 14,744 | 100.0 | \$ 14,350 | 100.0 | \$ 394 |
| Cost of sales | 5,364 | 36.4 | 5,175 | 36.1 | 189 |
| Gross profit | 9,380 | 63.6 | 9,175 | 63.9 | 205 |
| SG&A expenses | 9,338 | 63.3 | 8,894 | 62.0 | 444 |
| Adjusted EBITDA | \$ 42 | 0.3 | \$ 281 | 2.0 | \$ (239) |

Sales. Education Division sales for the quarter ended November 30, 2023, increased 3%, or \$0.4 million, compared with the prior year. This growth was primarily due to increased international royalties and increased membership subscription revenues in the quarter and was partially offset by decreased sales of certain materials which are now included in the *Leader in Me* membership. We have initiated a corresponding price increase which is expected to more than offset the inclusion of these materials in the membership. Education membership subscription revenue increased 6% compared with the prior year primarily due to increased annual membership sales recognized and delivery of contracted coaching and training days from new schools engaged in fiscal 2023. During the first quarter of fiscal 2024, the Education Division delivered nearly 200 more training and coaching days than the prior year, which are recognized as they are delivered. We continue to be pleased with the strength and momentum of our Education Division, which added a record 791 new *Leader in Me* schools during fiscal 2023. We believe this positive momentum generated in fiscal 2023 and in the first quarter of fiscal 2024 will continue through the remainder of fiscal 2024.

Gross Profit. Education Division gross profit increased primarily due to sales growth as previously described. Education segment gross margin remained strong at 63.6% of sales compared with 63.9% in the prior year.

SG&A Expenses. Education SG&A expenses increased primarily due to increased associate expenses from new personnel and changes to compensation plans.

Other Operating Expense Items

Depreciation – Depreciation expense for the quarter ended November 30, 2023, was \$1.1 million compared with \$1.2 million in the corresponding quarter of fiscal 2023, and decreased primarily due to the full depreciation of certain assets. We currently expect depreciation expense will total approximately \$5.8 million in fiscal 2024. Our estimated depreciation expense is somewhat dependent on leasehold improvements that may be necessary on our corporate campus as we approach the end of the master lease agreement in fiscal 2025. Therefore, our fiscal 2024 depreciation expense may fluctuate from current expectations.

Amortization – Amortization expense during the first quarter of fiscal 2024 was consistent with the prior year at \$1.1 million. We currently expect definite-lived intangible asset amortization expense will total \$4.2 million during fiscal 2024.

Interest Income – Our interest income increased over the first quarter of fiscal 2023 primarily due to increased interest rates.

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

Income Taxes

Our income tax expense for the quarter ended November 30, 2023, was \$0.4 million on pre-tax income of \$5.3 million, for an effective tax rate of 8.1%, compared with an effective rate of 23.0% in the first quarter of the prior year when we recorded income tax expense of \$1.4 million on pre-tax income of \$6.1 million.

Our effective tax rate for the first quarter of fiscal 2024 was lower than the effective rate for the first quarter of fiscal 2023 primarily due to a \$3.2 million tax benefit for stock-based compensation deductions in the first quarter of fiscal 2024 exceeding the corresponding expense for book purposes, which was partially offset by \$2.1 million of tax expense for the non-deductible portion of stock-based compensation paid to executives. These factors produced a net benefit of \$1.1 million or 21% in the first quarter of fiscal 2024.

We currently expect our effective income tax rate for the full fiscal 2024 year to be approximately 30%, including a net benefit of 2% for stock-based compensation, compared with the net benefit of 21% for stock-based compensation recognized in the first quarter.

We paid \$0.8 million in cash for income taxes during the first quarter of fiscal 2024. We anticipate that our total cash paid for income taxes over the coming one to two years will be less than our total income tax provision to the extent we are able to utilize net operating loss carryforwards, foreign tax credit carryforwards, and other deferred income tax assets.

LIQUIDITY AND CAPITAL RESOURCES

Introduction

At November 30, 2023, our cash and cash equivalents totaled \$34.0 million, with no borrowings on our \$62.5 million revolving credit facility. Of our \$34.0 million of cash at November 30, 2023, \$12.3 million was held at our foreign subsidiaries. We routinely repatriate cash from our foreign subsidiaries and consider cash generated from foreign activities a key component of our overall liquidity position. Our primary sources of liquidity are cash flows from the sale of services in the normal course of business and available proceeds from our revolving line of credit facility. Our primary uses of liquidity include payments for operating activities, purchases of common stock, debt payments, capital expenditures (including curriculum development), and working capital expansion.

In fiscal 2023, we entered into a new credit agreement (the 2023 Credit Agreement) with KeyBank National Association (KeyBank) leading a group of financial institutions (collectively, the Lenders), which replaced our previous credit agreement. The 2023 Credit Agreement provides up to \$70.0 million in total credit, of which \$7.5 million was used to replace the outstanding term loan balance from the previous credit agreement. The remaining \$62.5 million is available as a revolving line of credit or for future term loans. Principal payments on our current term loan consist of quarterly payments totaling \$1.25 million that are due and payable on the last business day of each March, June, September, and December until the term loan obligation is repaid. The 2023 Credit Agreement matures on March 27, 2028, and interest on term loan borrowings under the 2023 Credit Agreement is due and payable when the term loan principal payments are due and payable. Interest on all other borrowings is due and payable on the last day of each month. The interest rate for borrowings on the 2023 Credit Agreement is based on the Secured Overnight Financing Rate (SOFR) and is a tiered structure that varies according to the Leverage Ratio as defined 2023 Credit Agreement.

As defined in the 2023 Credit Agreement, we are (i) required to maintain a Leverage Ratio of less than 3.00 to 1.00 and a Fixed Charge Coverage Ratio greater than 1.15 to 1.00; and (ii) we are restricted from making certain distributions to stockholders, including repurchases of common stock. However, we are permitted to make distributions, including through purchases of outstanding common stock, provided that we are in compliance with the Leverage Ratio and Fixed Charge Coverage Ratio financial covenants before and after such distribution. At November 30, 2023, we believe that we were in compliance with the terms and covenants contained in the 2023 Credit Agreement.

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

The following discussion is a description of the primary factors affecting our cash flows and their effects upon our liquidity and capital resources during the quarter ended November 30, 2023.

Cash Flows Provided By Operating Activities

Our primary source of cash from operating activities was the sale of services to our customers in the normal course of business. Our primary uses of cash for operating activities were payments for SG&A expenses, payments for direct costs necessary to conduct training programs, to fund working capital changes, and payments to suppliers for materials used in training manuals sold. Our cash provided by operating activities during the first quarter of fiscal 2024 increased \$14.4 million to \$17.4 million compared with \$3.0 million in the first quarter of the prior year. The difference was primarily attributable to favorable changes in working capital during the first quarter related to strong collections of accounts receivable, less cash used to pay seasonally high year-end accounts payable and accrued liabilities, and a smaller first-quarter change in deferred revenue compared with the prior year. Through November 30, 2023, our collection of accounts receivable remained strong and provided the necessary cash to support our operations, pay our obligations, and make critical investments. We currently anticipate that our cash flows from operating activities will remain strong during the remainder of fiscal 2024.

Cash Flows Used For Investing Activities and Capital Expenditures

During the first quarter of fiscal 2024, our cash used for investing activities totaled \$3.7 million. Our primary uses of cash for investing activities consisted of additional investments in the development of our offerings and purchases of property and equipment in the normal course of business.

In the quarter ended November 30, 2023, we spent \$2.7 million on the development of our various offerings and related content. We are expecting to launch new and significantly refurbished offerings related to *The 7 Habits of Highly Effective People* and *The Speed of Trust* in fiscal 2024. We believe continued investment in our offerings and content is key to future growth and the development of our subscription offerings. We currently expect that our capital spending for curriculum development will total \$7.1 million in fiscal 2024.

Our purchases of property and equipment in the first quarter of fiscal 2024 consisted primarily of computer software and hardware, and leasehold improvements on our corporate campus. We currently anticipate that our purchases of property and equipment may total as much as \$8.0 million in fiscal 2024. Our purchases of property and equipment in fiscal 2024 are highly dependent upon leasehold improvements that may be necessary on our corporate campus as we approach the end of the master lease in fiscal 2025. Therefore, our capital expenditures for property and equipment may fluctuate from current expectations.

Cash Flows Used For Financing Activities

During the quarter ended November 30, 2023, our net cash used for financing activities totaled \$18.1 million. Our primary use of financing cash was \$16.3 million used to purchase shares of our common stock, including \$10.3 million used for shares withheld for income taxes on stock-based compensation awards which were distributed during the quarter ended November 30, 2023 (refer to Note 3, *Purchases of Common Stock for Treasury*, to our condensed consolidated financial statements). We also used \$2.1 million of cash for principal payments on our notes payable and financing obligation during the quarter. Partially offsetting these uses of cash were \$0.4 million of proceeds from our Employee Stock Purchase Plan participants to purchase shares of stock during the first quarter of fiscal 2024.

On February 14, 2023, our Board of Directors approved a new plan to purchase up to \$50.0 million of our outstanding common stock. The previously existing common stock purchase plan was canceled, and the new common share purchase plan does not have an expiration date. At November 30, 2023, we had \$9.8 million remaining on the current purchase authorization.

Our uses of financing cash during fiscal 2024 are expected to include required payments on our term loan and financing obligation, and may include purchases of our common stock. However, the timing and amount of common stock

purchases is dependent on a number of factors, including available resources, and we are not obligated to make purchases of our common stock during any future period.

Sources of Liquidity

We expect to meet the obligations on our notes payable, service our existing financing obligation, pay for projected capital expenditures, and meet other obligations during the remainder of fiscal 2024 and in fiscal 2025 from current cash balances and future cash flows from operating activities. Going forward, we will continue to incur costs necessary for the day-to-day operation of the business and may use additional credit and other financing alternatives, if necessary, for these expenditures. During fiscal 2023, we entered into the 2023 Credit Agreement which we expect to renew and amend on a regular basis to maintain the long-term borrowing capacity of this credit facility. Additional potential sources of liquidity available to us include factoring receivables, issuance of additional equity, or issuance of debt to public or private sources. If necessary, we will evaluate all of these options and select one or more of them depending on overall capital needs and the associated cost of capital.

We believe that our existing cash and cash equivalents, cash generated by operating activities, and the availability of external funds as described above, will be sufficient for us to maintain our operations for at least the upcoming 12 months. However, our ability to maintain adequate capital for our operations in the future is dependent upon a number of factors, including sales trends, macroeconomic activity, our ability to contain costs, levels of capital expenditures, collection of accounts receivable, and other factors. Some of the factors that influence our operations are not within our control, such as general economic conditions and the introduction of new offerings or technology by our competitors. We will continue to monitor our liquidity position and may pursue additional financing alternatives, as described above, to maintain sufficient resources for future growth and capital requirements. However, there can be no assurance such financing alternatives will be available to us on acceptable terms, or at all.

Material Uses of Cash and Contractual Obligations

We do not operate any manufacturing, mining, or other capital-intensive facilities, and we have not structured any special purpose entities, or participated in any commodity trading activities, which would expose us to potential undisclosed liabilities or create adverse consequences to our liquidity. However, we have normal ongoing cash expenditures and are subject to various contractual obligations that are required to run our business. Our material cash requirements include the following:

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

These material cash requirements are discussed in more detail in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended August 31, 2023, which was filed with the SEC on November 13, 2023 (our Annual Report). During the first quarter of fiscal 2024, there have been no material changes to our expected uses of cash and contractual obligations from those discussed in our Annual Report. However, current economic conditions and other forecasts may change and could alter our expected material uses of cash in future periods. For further information on our material uses of cash and contractual obligations, refer to the information included in our Annual Report.

CRITICAL ACCOUNTING ESTIMATES

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

Estimates

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

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

Certain statements made by the Company in this report are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934 as amended (the Exchange Act). Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate, or imply future results, performance, or achievements, and may contain words such as "believe," "anticipate," "expect," "estimate," "project," or words or phrases of similar meaning. In our reports and filings we may make forward-looking statements regarding, among other things, our expectations about future sales levels and financial results, our financial performance during fiscal 2024, expected and lingering effects from the COVID-19 pandemic, including effects on how we conduct our business and our results of operations, the timing and duration of the recovery from the COVID-19 pandemic, future training and consulting sales activity, expected increases in onsite presentation revenue and delivered days, anticipated renewals of subscription offerings, our ability to hire sales professionals, the amount and timing of capital expenditures, anticipated expenses, including SG&A expenses, depreciation, and amortization, future gross margins, the release of new services or products, the adequacy of existing capital resources, our ability to renew or extend our line of credit facility, the amount of cash expected to be paid for income taxes, our ability to maintain adequate capital for our operations for at least the upcoming 12 months, the seasonality of future sales, future compliance with the terms and conditions of our line of credit, the ability to borrow on our line of credit, expected collection of accounts receivable, estimated capital expenditures, and cash flow estimates used to determine the fair value of long-lived assets. These, and other forward-looking statements, are subject to certain risks and uncertainties that may cause actual results to differ materially from the forward-looking statements. These risks and uncertainties are disclosed from time to time in reports filed by us with the SEC, including reports on Forms 8-K, 10-Q, and 10-K. Such risks and uncertainties include, but are not limited to, the matters discussed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended August 31, 2023, entitled "Risk Factors." In addition, such risks and uncertainties may include unanticipated developments in any one or more of the following areas: cybersecurity risks; inflation and other macroeconomic risks; unanticipated costs or capital expenditures; delays or unanticipated outcomes relating to our strategic plans; dependence on existing products or services; the rate and consumer acceptance of new product introductions, including the All Access Pass; competition; the impact of foreign exchange rates; the number and nature of customers and their product orders, including changes in the timing or mix of product or training orders; pricing of our products and services and those of competitors; adverse publicity; and other factors which may adversely affect our business.

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

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Sensitivity

At November 30, 2023, our long-term obligations primarily consisted of a term loan payable, a long-term lease agreement (financing obligation) on our corporate headquarters facility, fixed-rate notes payable from the purchase of Strive Talent, Inc., and deferred payments and potential contingent consideration resulting from previous business acquisitions. Since most of our long-term obligations have a fixed interest rate, our overall interest rate sensitivity is primarily influenced by any amounts borrowed on term loans and our revolving line of credit facility, and the prevailing interest rates on these instruments. The effective interest rate on our term loans payable and line of credit facility is variable and was 6.9% at November 30, 2023. If interest rates increase over the remainder of fiscal 2024, we may incur additional expense on our variable-rate loans in future periods. However, a 1% increase in the effective interest rate on our unpaid term loan balance at November 30, 2023 would add an immaterial amount of additional interest expense over the next 12 months. Our financing obligation has a payment structure equivalent to a long-term leasing arrangement with a fixed interest rate of 7.7%.

There have been no other material changes from the information previously reported under Item 7A of our Annual Report on Form 10-K for the fiscal year ended August 31, 2023. We did not utilize any foreign currency or interest rate derivative instruments during the quarter ended November 30, 2023.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

We evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act, as of the end of the period covered by this report. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q.

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

PART II. OTHER INFORMATION

Item 1A. RISK FACTORS

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

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

The following table summarizes the purchases of our common stock during the fiscal quarter ended November 30, 2023:

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽²⁾ | Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs ⁽¹⁾ (in thousands) |
|---|----------------------------------|------------------------------|---|---|
| September 1, 2023 to September 30, 2023 | - | \$ - | - | \$ 15,740 |
| October 1, 2023 to October 31, 2023 | - | \$ - | - | \$ 15,740 |
| November 1, 2023 to November 30, 2023 | 156,910 | \$ 38.08 | 156,910 | \$ 9,765 |
| Total Common Shares | 156,910 | \$ 38.08 | 156,910 | 9,765 |

- (1) On February 14, 2023, our Board of Directors approved a new plan to purchase up to \$50.0 million of our outstanding common stock. The previously existing common stock purchase plan was canceled, and the new common share purchase plan does not have an expiration date. The actual timing, number, and value of common shares purchased under our board-approved plan will be determined at our discretion and will depend on a number of factors, including, among others, general market and business conditions, the trading price of common shares, and applicable legal requirements. We have no obligation to purchase any common shares under the authorization, and the purchase plan may be suspended, discontinued, or modified at any time for any reason. Amounts shown include the applicable 1% excise tax on purchases of common stock for treasury.
- (2) Amounts shown in the table exclude 251,686 shares of common stock that were withheld for income taxes on stock-based compensation awards which were distributed during the quarter ended November 30, 2023. These shares were valued at market price on the date the shares were withheld. The shares withheld for income taxes had a weighted average cost of \$41.06 per share.

Item 5. OTHER INFORMATION

During the quarter ended November 30, 2023, none of our directors or executive officers adopted or terminated any "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement" (as each item is defined Item 408(a) of Regulation S-K).

Item 6. EXHIBITS

(A) Exhibits:

| | |
|---------|---|
| 31.1 | Rule 13a-14(a) Certifications of the Chief Executive Officer. ** |
| 31.2 | Rule 13a-14(a) Certifications of the Chief Financial Officer. ** |
| 32 | Section 1350 Certifications. ** |
| 101.INS | XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.** |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document.** |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document.** |
| 101.DEF | Inline XBRL Taxonomy Definition Linkbase Document.** |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document.** |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document.** |
| 104 | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).** |

**Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FRANKLIN COVEY CO.

Date: January 9, 2024

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

Date: January 9, 2024

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

SECTION 302 CERTIFICATION

I, Paul S. Walker, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Franklin Covey Co.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 9, 2024

/s/ Paul S. Walker

Paul S. Walker
Chief Executive Officer

SECTION 302 CERTIFICATION

I, Stephen D. Young, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Franklin Covey Co.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 9, 2024

/s/ Stephen D. Young

Stephen D. Young
Chief Financial Officer

CERTIFICATION

In connection with the quarterly report of Franklin Covey Co. (the "Company") on Form 10-Q for the period ended November 30, 2023, as filed with the Securities and Exchange Commission (the "Report"), we, Paul S. Walker, President and Chief Executive Officer of the Company, and Stephen D. Young, Chief Financial Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of our knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

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

/s/ Paul S. Walker

Paul S. Walker
Chief Executive Officer
Date: January 9, 2024

/s/ Stephen D. Young

Stephen D. Young
Chief Financial Officer
Date: January 9, 2024
