FRANKLIN COVEY CO
Form 10-K
November 14, 2014

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

Form 10-K

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED AUGUST 31, 2014

OR

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

Franklin Covey Co.
(Exact name of registrant as specified in its charter)

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

incorporation or organization)	Identification No.)

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

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

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

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

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

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

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

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 þ No o

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

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

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

Large accelerated filer	£	Accelerated filler	þ	
Non-accelerated filer	£	(Do not check if a smaller reporting company)	Smaller reporting company	£

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

As of February 28, 2014, the aggregate market value of the Registrant's Common Stock held by non-affiliates of the Registrant was approximately $178.2 million, which was based upon the closing price of $20.95 per share as reported by the New York Stock Exchange.

As of October 31, 2014, the Registrant had 16,874,683 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Parts of the Registrant's Definitive Proxy Statement for the Annual Meeting of Shareholders, which is scheduled to be held on January 23, 2015, are incorporated by reference in Part III of this Form 10-K.

FranklinCovey Co.
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PART I

Disclosure Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended, relating to our operations, results of operations, and other matters that are based on our current expectations, estimates, assumptions, and projections. Words such as "may," "will," "should," "likely," "anticipates," "expects," "intends," "plans," "projects," "bel "estimates," and similar expressions are used to identify these forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties, and assumptions that are difficult to predict. Forward-looking statements are based upon assumptions as to future events that might not prove to be accurate. Actual outcomes and results could differ materially from what is expressed or forecast in these forward-looking statements. Risks, uncertainties, and other factors that might cause such differences, some of which could be material, include, but are not limited to, the factors discussed under the section of this report entitled "Risk Factors."

ITEM 1. BUSINESS

General

Franklin Covey Co. (we, us, our, the Company, or FranklinCovey) is a global company specializing in performance improvement. We help organizations achieve results that require a change in human behavior and our mission is to "enable greatness in people and organizations everywhere." We believe that our results-driven principle-centered content is a competitive advantage in the marketplace. From the foundational work of Dr. Stephen R. Covey in leadership and Hyrum W. Smith in productivity, we have developed deep expertise that extends to helping organizations and individuals achieve lasting behavioral change is seven crucial areas: Leadership, Execution, Productivity, Trust, Sales Performance, Customer Loyalty, and Education. We have over 825 employees worldwide delivering these principle-based curriculums and effectiveness tools to our customers. Our consolidated net sales for the fiscal year ended August 31, 2014 totaled $205.2 million and our shares of common stock are traded on the New York Stock Exchange (NYSE) under the ticker symbol "FC."

We operate globally with one common brand and business model designed to enable us to provide clients around the world with the same high level of service. To achieve this level of service we operate four regional sales offices in the United States; an office that specializes in sales to governmental entities; wholly owned subsidiaries in Australia, Japan, and the United Kingdom; and we contract with licensee partners who deliver our content and provide services in over 165 other countries and territories around the world.

Our business-to-business service utilizes our expertise in training, consulting, and technology that is designed to help our clients define great performance and execute at the highest levels. We also provide clients with training in management skills, relationship skills, and individual effectiveness, and we can provide personal-effectiveness literature and electronic educational solutions to our clients as needed.

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

Services Overview

Our mission is to "enable greatness in people and organizations everywhere," and we believe that we are experts at solving certain pervasive, intractable problems, each of which requires a change in human behavior. As we deliver our solutions to these problems, we believe there are four important characteristics that distinguish us from our competitors.

1. World Class Content – Rather than rely on "flavor of the month" training fads, our content is principle centered and based on natural laws of human behavior and effectiveness. Our content is designed to build new skillsets, establish new mindsets,

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and provide enabling toolsets. Our content is well researched, subjected to numerous field beta tests, and improved through a proven development process.

2. Breadth and Scalability of Delivery Options – We have a wide range of content delivery options, including: on-site training, training led through certified facilitators, on-line learning, blended learning, intellectual property licenses, and organization-wide transformational processes, including consulting and coaching.

3. Global Capability – We operate four regional sales offices in the United States; wholly owned subsidiaries in Australia, Japan, and the United Kingdom; and contract with licensee partners who deliver our content in over 165 other countries and territories around the world. This capability allows us to deliver content to a wide range of customers, from large, multinational corporations to smaller, local entities.

4. Transformational Impact and Reach – We hold ourselves responsible for and measure ourselves by our clients' achievement of transformational results.

Our content, tools, and methodologies are organized into key practice areas, each offering targeted solutions that are designed to drive these four outcomes. We have divided our curriculums into the following seven major practices:

1. Leadership
2. Execution
3. Productivity
4. Trust
5. Sales Performance
6. Customer Loyalty
7. Education

Our practices are designed to provide world-class content and delivery, including best-selling books and audio, innovative and widely recognized thought leadership, multiple delivery and teaching methods, a practice-centric focused sales force, and practice-specific marketing support. These elements allow us to offer our clients training and consulting solutions that are designed to improve individual and organizational behaviors, deliver content that adapts to an organization's unique needs, and provide meaningful improvements in our clients' business performance.

The following description of our practices and associated content describes what our offerings are designed to provide to our clients. The description should not be viewed as a warranty or guarantee of results. Further information about our content and services can be found on our website at www.franklincovey.com. However, the information contained in, or that can be accessed through, our website does not constitute a part of this annual report.

1. Leadership

Dr. Stephen R. Covey, one of our co-founders, once said, "Leadership is communicating to people their worth and potential so clearly that they come to see it in themselves." Leadership has a profound impact on performance, and is a key lever that mobilizes teams to produce results. We believe that in today's fast-paced world, the most effective leaders address constant change with timeless principles of effectiveness and unwavering character. Leaders recognize that great leadership is not only about what they do, but about who they are. Franklin Covey's Leadership practice develops leaders at three levels: personal, team, and organization-wide.

Franklin Covey's Leadership practice is designed to develop leaders who achieve sustained superior performance, engage employees to achieve the most critical objectives, win the loyalty of customers and other stakeholders, and build a strategic advantage by identifying and making a distinctive contribution. Our leadership solutions are comprehensive and include the following:

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The 7 Habits of Highly Effective People®—Signature Program 4.0

Based on the principles found in Dr. Stephen R. Covey's best-selling business book, The 7 Habits of Highly Effective People, this program was re-created and released during fiscal 2014 with refreshed content and new award-winning video presentations. This program is designed to provide training that helps organizations achieve sustained superior results by helping individuals and leaders be measurably more effective. Participants gain hands-on experience, applying timeless principles that yield greater productivity, improved communication, strengthened relationships, increased influence, and laser-like focus on critical priorities.

The 7 Habits for Managers®

FranklinCovey's The 7 Habits for Managers solution teaches the fundamentals of leading today's mobile knowledge worker. Both new and experienced managers acquire a set of tools to help them meet today's management challenges, including conflict resolution, prioritization, performance management, accountability and trust, execution, collaboration, and team and employee development.

The 7 Habits of Highly Effective People®: Introductory Workshop for Associates

This workshop for employees at all levels is designed to help employees become empowered with new knowledge, skills, and tools to confront issues, work as a team, increase accountability, and raise the bar on what they can achieve.

Leadership: Great Leaders, Great Teams, Great Results™

This comprehensive offering contains the entire core content of Franklin Covey's Leadership practice. The workshop features videos that present the latest on our own research and thinking, along with the best thinking of other leadership experts.

Leadership Modular Series

Drawn from the content of our leadership-development program, the Leadership Modular Series comprises seven stand-alone modules that teach imperatives leaders can apply to create a work environment that addresses the needs of the knowledge worker three to four hours at a time.

Executive Coaching

We offer senior executives a coaching experience created in partnership with Columbia University, which includes methodologies approved by the International Coach Federation (ICF). In one-on-one or team sessions, we leverage content, methodology, and tools to guide leaders in discovering and unleashing the potential they already possess.

2. Execution

Execution remains one of the toughest challenges organizations face today. We believe that our Execution practice provides organizations with the paradigms, practices, and tools to address these challenges. We work directly with leadership teams to help them clarify the few "wildly important goals" that the execution of their strategy requires, identify the few key measures that lead to the achievement of these goals, create clear and compelling scoreboards, and build a culture and cadence of accountability so that the goals are achieved. Our key execution offerings include:

The 4 Disciplines of Execution®: Manager Certification

The purpose of manager certification includes helping managers not only develop specific skills, but to also create actual work plans. We help managers leave the session with clearly identified goals and measures, a draft scoreboard for their team, and an accountability plan to help everyone move forward on the goals.

My4DX.com

My4DX.com is designed to fully support the Company’s 4 Disciplines of Execution methodology. This versatile on-line service assists organizations in developing and tracking progress on “wildly important goals,” and provides a cadence of accountability to both organizations and individuals.

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What the CEO Wants You to Know: Building Business Acumen™
This training supports the Execution practice disciplines by helping individuals and teams better understand the financial engine of their business and how they can positively affect it. The material is based on the popular book What the CEO Wants You to Know, by leading CEO and executive coach Ram Charan.

3. Productivity

Another of Franklin Covey's co-founders, Hyrum W. Smith, taught that adherence to specified natural laws of behavior would result in increased productivity and inner peace. In today's fast-paced world of "doing more with less," we believe that workforce productivity and engagement can be a competitive advantage. Today's leaders and workers are required to make more decisions every day than ever before while their attention is under unprecedented attack. Franklin Covey's Productivity practice equips individuals, teams, and organizations to consistently make intentional high-value decisions and execute on high-impact goals and projects with excellence in the midst of unlimited choices, demands, and distractions. Our Productivity practice offerings include the following curriculums:

The 5 Choices to Extraordinary Productivity™
This program is designed to provide the in-depth skills, knowledge, and attitudes that allow individual contributors, teams, and organizations to be able to identify, validate, and act on what's most important. Instead of trying to get everything done, participants focus on how to get the right things done. This discernment enables them to make wiser decisions, harness technology to enhance workflow, and put their finest attention and energy on executing what matters most.

Project Management
Our project management workshop teaches a four-step process for skillfully managing projects large or small. This proven approach helps project managers and their teams craft and deliver high-quality projects on time and within budget.

Writing Advantage®
The FranklinCovey Writing Advantage program teaches participants how to set quality writing standards that help people increase productivity, resolve issues, avoid errors, and heighten credibility. Participants learn how to write faster with more clarity, and gain skills for revising and fine-tuning every style of document.

Presentation Advantage®
With our Presentation Advantage solution, participants learn how to craft presentations around essential objectives, present key concepts and ideas with power and enthusiasm, design and present effective visuals, and employ techniques for polishing and mastering presentation delivery.

4. Trust

We believe that trust is the hallmark of effective leaders, teams, and organizations. Trust-related problems like bureaucracy, fraud, and excessive turnover discourage productivity, divert resources, and chip away at a company's brand. On the other hand, leaders who make building trust an explicit goal of their job gain strategic advantages—accelerating growth, enhancing innovation, improving collaboration and execution, and increasing shareholder value. Our Trust practice is built on The New York Times best-selling book, The Speed of Trust by Stephen M. R. Covey, and includes offerings to help leaders and team members develop the competencies to make trust a strategic advantage.

Leading at the Speed of Trust®

This program engages leaders at all levels in identifying and closing the trust gaps in their organization. Instead of paying "trust taxes," organizations can begin to realize "trust dividends." We believe that doing business at the "speed of trust" lowers costs, speeds up results, and increases profits and influence.

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Working at the Speed of Trust®—For Associates
This workshop helps individual contributors identify and address "trust gaps" in their personal credibility and in their relationships at work. Using examples from their work and focusing on real-world issues, participants discover how to communicate transparently with peers and managers, improve their track record of keeping commitments, focus on improving internal "customer service" with others who depend on their work, and much more.

5. Sales Performance

We believe that sales performance is about helping clients succeed. FranklinCovey provides an approach that delivers the "what to do" and "how to do" for mutual seller/buyer benefits. Through consulting, training, and coaching, our Sales Performance practice helps sales leaders and salespeople act as genuine trusted business advisors who create value and help clients succeed.

Helping Clients Succeed® is a mind-set, skill-set, and tool-set for becoming client-centered. It is a way of thinking, being, and behaving for sales professionals. We believe that it removes the stigmas that come with sales, and we believe that it removes the adversarial interplay between sellers and buyers. It is also a process for creating candid dialogue, fresh thinking, innovative collaboration, insightful decision making, and robust execution—with clients and within an organization. With our suite of consultative sales-training solutions, we believe clients can transform their salespeople into trusted business advisors who focus on helping their clients succeed, resulting in increased sales, shortened sales cycles, improved margins, and satisfied clients.

6. Winning Customer Loyalty®

Our Customer Loyalty practice helps leaders of multiunit organizations create a culture where employees are engaged and equipped to deliver great customer experiences. To do this, customer loyalty specialists draw from an array of offerings to craft a solution that works with each company's culture, operating environment, and strategic vision. We have partnered with Frank Reichheld, creator of the Net Promoter SystemTM, to help organizations measure and improve customer and employee loyalty through accurate metrics and world-class training and development.

Our Customer Loyalty practice is designed to help organizations:

- Collect statistically valid feedback from a representative sample of customers and employees.
- Increase the visibility of customer-service metrics so managers get real-time feedback.
- Apply an accountability process at frontline teams so they deliver exceptional customer service at a much higher percentage of the time.
- Measure and improve employee engagement.

7. Education

The FranklinCovey Education practice is dedicated to helping educational organizations build a culture that will produce great results. Our offerings address all grade levels and help faculty and students develop the critical leadership and effectiveness skills they will need to succeed in a knowledge-based, networked world.

Primary Education Solutions: The Leader in Me®
The Leader in Me process is designed to be integrated into a school's core curriculum and everyday language. The methodology is designed to become part of the culture, gain momentum, and help to produce improved results year after year. We believe this methodology benefits schools and students in the following ways:

· Increases academic performance.
· Improves school culture.
· Decreases disciplinary issues.
· Increases teacher engagement and parent involvement.

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Based on Dr. Stephen R. Covey's best-selling book The 7 Habits of Highly Effective People, The Leader in Me is a whole-school transformation process that integrates principles of leadership and effectiveness into school curriculum using every day, age-appropriate language. At August 31, 2014 there were over 1,900 schools worldwide participating in The Leader in Me program and we believe that the positive results experienced by schools around the world are a major reason why the Education practice is one of the fastest growing practices at Franklin Covey Co.

Secondary Education Solutions: The 7 Habits of Highly Effective Teens®
The Introduction to The 7 Habits of Highly Effective Teens® workshop from FranklinCovey, based on the best-selling book of the same name by Sean Covey and the No. 1 best-selling business book The 7 Habits of Highly Effective People, gives young people a set of tools to deal with life's challenges. The training is a means for educators, administrators, and superintendents to help improve student performance; reduce conflicts, disciplinary problems, and truancy; and enhance cooperation and teamwork among parents, teens, and teachers.

Delivery Methods

We have multiple methods to deliver our world-class content to our clients that are designed to provide our customers with a learning environment that suits their needs. Our primary delivery methods include the following:

- Onsite Presentations
- Client Facilitators
- International Licensees
- E-Learning
- Public Workshops
- Custom Solutions
- Intellectual Property Licenses
- Media Publishing

Onsite Presentations

We employ highly-talented consultants and presenters to deliver our curriculums in person at client locations. Based around the world, our consultants represent diverse, global industry experience and can tailor their delivery to meet a client's precise needs. Whether the need is for consulting, training, or customized keynote speeches, our consultants can deliver our curriculums to any level of an organization, from the C-suite to a team or department. We believe that our delivery consultants provide high-quality services and are a competitive advantage in the marketplace.

Client Facilitators

For organizations seeking cost-effective ways to implement solutions involving large populations of managers and frontline workers, FranklinCovey certifies on-site client facilitators to teach our content and adapt it to our client's organizational needs. We have thousands of client facilitators around the world who are certified to teach in different content areas. In order to become a client facilitator, an individual must become certified to teach our curriculums through a two-step process that is designed to ensure that these trained personnel can deliver our content in a professional and meaningful manner.

International Licensees

In foreign countries where we do not have an office, our content is delivered through independent licensees, who, under strict guidelines, may translate and adapt our curriculums to local preferences and customs, if necessary. Our licensee partners deliver our curriculums and provide services in over 165 other countries and territories around the world. These licensee partners allow us to deliver the same high quality content to clients that have multinational operations or in countries that have specific cultural requirements. Our licensee partners pay us a royalty based on the programs and content delivered.

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E-Learning

Our E-Learning capabilities bring FranklinCovey to clients in innovative ways that transcend traditional E-learning solutions. Franklin Covey's online curriculums allow participants to save travel time and expenses as well as providing the opportunity to view our curriculums in smaller time increments.

Public Workshops

Each year, we offer a number of training events, primarily in the United States and Canada, which are open to the public. Prior to the event, we advertise in the geographic region where the event will be held and participants may register for the events in advance. Interested persons may also search for upcoming workshops based on the desired curriculum and register for these workshops through our website at www.franklincovey.com. In addition, our content is taught by certain professional training firms that also offer events to the public.

Custom Solutions

Whether clients need a program customized, or require a new product developed for their organization, our custom solutions department has the process to build the solution. Customization builds upon our existing content and clients' unique content by using a specific process to deliver results. Our five-step process (diagnose, design, develop, deliver, and learn) lowers development costs and strives to improve our clients' return on investment.

Intellectual Property Licenses

For clients that want to utilize our content in their internal training environments, we offer intellectual property licenses to allow further customization of our content to specific client needs.

Media Publishing

Our Media Publishing department extends our influence into both traditional publishing and new media channels. FranklinCovey Media Publishing offers books, e-books, audio products, downloadable and paper-based tools, and content-rich software applications for smart phones and other handheld devices to consumer and corporate markets.

Industry Information

According to the Training magazine 2014 Training Industry Survey, the total size of the U.S. training industry is estimated to be $61.8 billion, which is a 12 percent increase over the prior year. One of our competitive advantages in this highly fragmented industry stems from our fully integrated principle-centered training curriculums, measurement methodologies, and implementation tools to help organizations and individuals measurably improve their effectiveness. This advantage allows us to deliver not only training to both corporations and individuals, but also to implement the training through the use of powerful behavior-changing tools with the capability to then measure the impact of the delivered content and solutions.

Over our history, we have provided content, services, and products to 97 of the Fortune 100 companies and more than 75 percent of the Fortune 500 companies. We also provide content and services to a number of U.S. and foreign governmental agencies, as well as numerous educational institutions. In addition, we provide training curricula, measurement services, and implementation tools internationally, either through directly operated offices, or through independent licensed providers.

Enterprise Information

Our sales are primarily comprised of training and content sales and related products. Based on the consistent nature of our services and products and the types of customers for these services, we

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function as a single operating segment. Additional enterprise financial information, including geographical information, can be found in the notes to our consolidated financial statements (Note 15).

Clients

We have a relatively broad base of organizational and individual clients. In our direct offices that serve the United States, Canada, Japan, Australia, and the United Kingdom, we have more than 4,300 organizational clients consisting of corporations, governmental agencies, educational institutions, and other organizations. We have thousands of additional organizational clients throughout the world, which are served through our global licensee partner network, and we believe that our content, in all its forms, delivers results that encourage strong client loyalty. Employees in each of our domestic and international distribution channels focus on helping our clients achieve measurably positive results from utilizing our content. Due to the nature of our business, we do not have a significant backlog of firm orders.

During the periods presented in this report, none of our clients were responsible for more than ten percent of our consolidated revenues.

Competition

We operate in a highly competitive and rapidly changing global marketplace and compete with a variety of organizations that offer services comparable with those that we offer. The nature of the competition in the performance improvement industry, however, is highly fragmented with few large competitors. Based upon our fiscal 2014 consolidated sales of $205.2 million, we believe that we are a leading competitor in the performance skills and education market. Other significant comparative companies in the performance improvement market are Development Dimensions International, CRA International, Inc., Learning Tree International Inc., GP Strategies Corp., American Management Association, Wilson Learning, Forum Corporation, Corporate Executive Board Co., and the Center for Creative Leadership.

We derive our revenues from a variety of companies with a broad range of sales volumes, governments, educational institutions, and other entities. We believe that the principal competitive factors in the industry in which we compete include the following:

- Quality of services and solutions
- Skills and capabilities of people
- Innovative training and consulting services combined with effective products
- Ability to add value to client operations
- Reputation and client references
- Price
- Availability of appropriate resources
- Global reach and scale

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

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Seasonality

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

Quarterly fluctuations may also be affected by other factors including the introduction of new offerings, business acquisitions, the addition of new organizational customers, and the elimination of underperforming offerings.

Manufacturing and Distribution

We do not manufacture any of our products. We purchase our training materials and related products from various vendors and suppliers located both domestically and internationally, and we are not dependent upon any one vendor for the production of our training and related materials as the raw materials for these products are readily available. We currently believe that we have good relationships with our suppliers and contractors.

During fiscal 2001, we entered into a long-term contract with HP Enterprise Services (HP) to provide warehousing and distribution services for our training products and related accessories. Our materials are primarily warehoused and distributed from an HP facility located in Des Moines, Iowa.

Trademarks, Copyrights, and Intellectual Property

Our success has resulted in part from our proprietary content, methodologies, and other intellectual property rights. We seek to protect our intellectual property through a combination of trademarks, copyrights, and confidentiality agreements. We claim rights for over 510 trademarks in the United States and foreign countries, and we have obtained registration in the United States and numerous foreign countries for many of our trademarks including FranklinCovey, The 7 Habits of Highly Effective People, The 4 Disciplines of Execution, and The 7 Habits. We consider our trademarks and other proprietary rights to be important and material to our business.

We own sole or joint copyrights on our books, manuals, text and other printed information provided in our training programs, and other electronic media products, including audio and video tapes. We may license, rather than sell, facilitator workbooks and other seminar and training materials in order to protect our intellectual property rights therein. We place trademark and copyright notices on our instructional, marketing, and advertising materials. In order to maintain the proprietary nature of our product information, we enter into written confidentiality agreements with certain executives, product developers, sales professionals, training consultants, other employees, and licensees. Although we believe the protective measures with respect to our proprietary rights are important, there can be no assurance that such measures will provide significant protection from competitors.

Employees

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

At August 31, 2014, we had approximately 825 associates located in the United States of America, Canada, Japan, the United Kingdom, and Australia. During fiscal 2001, we outsourced a significant portion of our information technology services, customer service, distribution and warehousing operations to HP. A number of our former employees involved in these operations are

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now employed by HP to provide those services to FranklinCovey. None of our associates are represented by a union or other collective bargaining group. Management believes that its relations with its associates are good and we do not currently foresee a shortage in qualified personnel needed to operate and grow our business.

Available Information

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

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

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

ITEM 1A. RISK FACTORS

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

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

Investors should also be aware that while Franklin Covey does, from time to time, communicate with securities analysts, it is against our policy to disclose to them any material non-public information or other confidential commercial information. Accordingly, shareholders should not assume that the Company agrees with any statement or report issued by any analyst irrespective of the content of the statement or report. Furthermore, we do not confirm financial forecasts or projections issued by others. Thus, to the extent that reports issued by securities analysts contain any projections, forecasts, or opinions, such reports are not the responsibility of Franklin Covey Co.

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

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

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

Global economic and political conditions affect our clients' businesses and the markets in which they operate. Our financial results are somewhat dependent on the amount that current and prospective clients budget for training. A serious and/or prolonged economic downturn (or drawn-out recovery) combined with a negative or uncertain political climate could adversely affect our clients' financial condition and the amount budgeted for training by our clients. These conditions may reduce the demand for our services or depress the pricing of those services and have an adverse impact on our results of operations. Changes in global economic conditions may also shift demand to services for which we do not have competitive advantages, and this could negatively affect the amount of business that we are

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able to obtain. Such economic, political, and client spending conditions are influenced by a wide range of factors that are beyond our control and that we have no comparative advantage in forecasting. If we are unable to successfully anticipate these changing conditions, we may be unable to effectively plan for and respond to those changes, and our business could be adversely affected.

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

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

Our results of operations may be negatively affected if we cannot expand and develop our services and solutions in response to client demand or if newly developed or acquired services have increased costs.

Our success depends upon our ability to develop and deliver services and solutions that respond to rapid and continuing changes in client needs. We may not be successful in anticipating or responding to these developments on a timely basis, and our offerings may not be successful in the marketplace. The implementation, acquisition, and introduction of new programs and solutions may reduce sales of our other existing programs and services and may entail more risk than supplying existing offerings to our clients. Newly developed or acquired solutions may also require increased royalty payments or carry significant development costs that must be expensed. Any one of these circumstances may have an adverse impact upon our business and results of operations.

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

In the fourth quarter of fiscal 2008 we sold our planning products operations to FC Organizational Products, LLC (FCOP), an entity in which we own a 19.5 percent interest. According to the agreements associated with the sale, we were entitled to receive a $1.2 million payment for working capital delivered on the closing date of the sale and to receive $2.3 million as reimbursement for specified costs necessary to complete the transaction. Payment for these costs was originally due in January 2009, but we extended the due date of the payment at FC Organizational Products' request and obtained a promissory note from FCOP for the amount owed, plus accrued interest. At the time we received the promissory note from FCOP, we believed that we could obtain payment for the amounts owed, based on prior year performance and forecasted financial performance in 2009. However, the financial position of FCOP deteriorated significantly late in fiscal 2009 and the deterioration accelerated throughout fiscal 2010. As a result of its deteriorating financial position, we reassessed the collectability of the promissory note. Based on revised expected cash flows and other operational issues, we recorded a $3.6 million impaired asset charge against these receivables.

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We also receive reimbursement from FCOP for certain operating costs, such as rent, and, although not required by governing documents or our ownership interest, we have provided working capital and other advances to FCOP. At August 31, 2014 and 2013 we had $5.1 million and $7.8 million receivable from FCOP, which are recorded as assets on our consolidated balance sheets. Although we believe that we will obtain payment from FCOP for these receivables, the valuation of amounts receivable from FCOP is dependent upon the estimated future earnings and cash flows of FCOP. If FCOP's estimated future earnings and cash flows decline, or if FCOP fails to pay amounts receivable and we fail to obtain payment on the previously impaired promissory note, our future cash flows and results of operations may be adversely affected.

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

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

- Governmental entities typically fund projects through appropriated monies. While these projects are often planned and executed as multi-year projects, the governmental entities usually reserve the right to change the scope of, or terminate, these projects for lack of approved funding and other discretionary reasons. Changes in governmental priorities or other political developments, including disruptions in governmental operations, could result in changes in the scope of, or in termination of, our existing contracts.

- Governmental entities often reserve the right to audit our contract costs, including allocated indirect costs, and conduct inquiries and investigations of our business practices with respect to our government contracts. If the governmental entity finds that the costs are not reimbursable, then we will not be allowed to bill for those costs or the cost must be refunded to the client if it has already been paid to us. Findings from an audit also may result in our being required to prospectively adjust previously agreed upon rates for our work, which may affect our future margins.

- If a governmental client discovers improper activities in the course of audits or investigations, we may become subject to various civil and criminal penalties and administrative sanctions, which may include termination of contracts, forfeiture of profits, suspension of payments, fines and suspensions or debarment from doing business with other agencies of that government. The inherent limitations of internal controls may not prevent or detect all improper or illegal activities, regardless of their adequacy.

- Political and economic factors such as pending elections, revisions to governmental tax policies, sequestration, debt ceiling negotiations, and reduced tax revenues can affect the number and terms of new governmental contracts signed.

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

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

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

In order to retain key personnel, we continue to offer a variable component of compensation, the payment of which is dependent upon our sales performance and profitability. We adjust our compensation levels and have adopted different methods of compensation in order to attract and retain appropriate numbers of employees with the necessary skills to serve our clients and grow our business. We may also use share-based performance incentives as a component of our executives' compensation, which may affect amounts of cash compensation. Variations in any of these areas of compensation may adversely impact our operating performance.

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

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

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

We may experience foreign currency gains and losses.

Our sales outside of the United States totaled $51.2 million, or approximately 25 percent of consolidated sales, for the fiscal year ended August 31, 2014. If our international operations grow and become a larger component of our overall financial results, our revenues and operating results may be adversely affected when the dollar strengthens relative to other currencies and may be favorably affected when the dollar weakens. In order to manage a portion of our foreign currency risk, we may make limited use of foreign currency derivative contracts to hedge certain transactions and translation exposure. However, there can be no guarantee that our foreign currency risk management strategy

will be effective in reducing the risks associated with foreign currency transactions and translation.

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

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

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

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

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

Our business could be adversely affected if our clients are not satisfied with our services.

The success of our business model depends significantly on our ability to attract new work from our base of existing clients, as well as new work from prospective clients. Our business model also depends on the relationships our senior executives and sales personnel develop with our clients so that we can understand our clients' needs and deliver services and solutions that are specifically tailored to address those needs. If a client is not satisfied

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with the quality of work performed by us, or with the type of services or solutions delivered, then we may incur additional costs to remediate the situation, the profitability of that work might be decreased, and the client's dissatisfaction with our services could damage our ability to obtain additional work from that client. In particular, clients that are not satisfied might seek to terminate existing contracts prior to their scheduled expiration date and could direct future business to our competitors. In addition, negative publicity related to our client relationships, regardless of its accuracy, may further damage our business by affecting our ability to compete for new contracts with current and prospective clients.

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

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

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

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

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

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

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

Knowledge Capital Investment Group (Knowledge Capital), a related party primarily controlled by a member of our Board of Directors, held a warrant to purchase 5.9 million shares of our common stock. Knowledge Capital exercised its warrant at various times on a net share basis and received 2.2 million shares of our common stock. Knowledge Capital currently holds 3.2 million shares, or approximately 19 percent, of our outstanding common shares. The sale or prospect of the sale of a substantial number of these shares may have an adverse effect on the market price of our common stock.

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Our profitability could suffer if we are unable to control our operating costs.

Our future success and profitability depend in part on our ability to achieve an appropriate cost structure and to improve our efficiency in the highly competitive services industry in which we compete. We regularly monitor our operating costs and develop initiatives and business models that are designed to improve our profitability. Our recent initiatives have included revisions to existing processes and procedures, asset sales, exiting non-core businesses, and other internal initiatives designed to reduce our operating costs. If we are unable to achieve targeted business model cost levels, our competitiveness and profitability may decrease.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

At August 31, 2014 we had $57.2 million of intangible assets, which were primarily generated from the fiscal 1997 merger with the Covey Leadership Center, and $19.6 million

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of goodwill. Our intangible assets are evaluated for impairment based qualitative factors or upon cash flows (definite-lived intangible assets) and estimated royalties from revenue streams (indefinite-lived intangible assets) if necessary. Our goodwill is evaluated through qualitative factors and by comparing the fair value of the reporting unit to the carrying value of the goodwill balance if necessary. Our intangible assets, goodwill, and other long-term assets may become impaired if the corresponding cash flows associated with these assets declines in future periods or if our market capitalization declines significantly in future periods. Although our current sales, cash flows, and market capitalization are sufficient to support the carrying basis of these long-lived assets, if our sales, cash flows, or common stock price decline, we may be faced with significant asset impairment charges that would have an adverse impact upon our results of operations.

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

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

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

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

- Develop new services, programs, or offerings
- Take advantage of opportunities, including expansion of the business
- Respond to competitive pressures

Going forward, we will continue to incur costs necessary for the day-to-day operation and potential growth of the business and may use our available revolving line of credit facility and other financing alternatives, if necessary, for these expenditures. Our existing lending arrangement expires in March 2016 and we expect to renew our lending agreement to maintain the availability of this credit facility. Additional potential sources of liquidity available to us include factoring receivables, issuance of additional equity, or issuance of debt from public or private sources. If necessary, we will evaluate all of these options and select one or more of them depending on overall capital needs and the associated cost of capital.

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

We may have exposure to additional tax liabilities.

As a multinational company, we are subject to income taxes as well as non-income based taxes in both the United States and various foreign tax jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes and other tax

liabilities. In the normal course of a global business, there are many intercompany transactions and calculations where the ultimate tax determination is uncertain. As a result, we are routinely subject to audits by various taxing authorities. Although we believe that our tax estimates are reasonable, we cannot guarantee that the final determination of these tax audits will not be different from what is reflected in our historical income tax provisions and accruals.

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

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

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

Ineffective internal controls could impact our business and operating results.

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

New or more stringent governmental regulations could adversely affect our business.

Increased government regulations to limit carbon dioxide and other greenhouse gas emissions as a result of concern over climate change may result in increased compliance costs and other financial obligations for us. We rely on the ability of our consultants and salespeople to travel to client destinations using automobiles and jet aircraft, which use fossil fuels. Legislation, regulation, or additional taxes affecting the cost of these inputs could adversely affect our profitability.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

Our principal executive offices are located in Salt Lake City, Utah and as of August 31, 2014, all of the facilities used in our operations are leased. Our leased facilities primarily consist of sales and administrative offices both in the United States and various countries around the world. We also lease warehouse and distribution space at independent facilities in certain foreign countries. Our corporate headquarters lease is accounted for as a financing arrangement and all other facility lease agreements are accounted for as operating leases that expire at various dates through the year 2025.

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

U.S./Canada Sales Offices
Regional Sales Offices:
United States (5 locations)

International Facilities
International Administrative/Sales Offices:
Australia (3 locations)
England (1 location)
Japan (1 location)

International Distribution Facilities:
Australia (1 location)
England (1 location)
Japan (1 location)

During fiscal 2014, there were no significant changes to the properties used for our operations. We consider our existing facilities to be in good condition and suitable for our current and anticipated level of operations in the upcoming fiscal year and in future periods.

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

ITEM 3. LEGAL PROCEEDINGS

We are the subject of certain legal actions, which we consider routine to our business activities. At August 31, 2014, we believe that, after consultation with legal counsel, any potential liability to the Company under these actions will not materially affect our financial position, liquidity, or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

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

Our common stock is listed and traded on the New York Stock Exchange (NYSE) under the symbol "FC." The following table sets forth the high and low sale prices per share for our common stock, as reported by the NYSE, for the fiscal years ended August 31, 2014 and 2013.

	High	Low
Fiscal Year Ended August 31, 2014:		
Fourth Quarter	$ 22.75	$ 18.68
Third Quarter	22.50	18.29
Second Quarter	21.41	17.95
First Quarter	20.85	15.76
Fiscal Year Ended August 31, 2013:		
Fourth Quarter	$ 16.70	$ 13.07
Third Quarter	14.60	13.09
Second Quarter	14.50	11.73
First Quarter	13.88	10.34

We did not pay or declare dividends on our common stock during the fiscal years ended August 31, 2014 or 2013. We currently anticipate that we will retain all available funds to repay our obligations, finance future growth and business opportunities, and to repurchase outstanding shares of our common stock.

As of October 31, 2014, we had 16,874,683 shares of common stock outstanding, which were held by 633 shareholders of record.

Purchases of Common Stock

The following table summarizes the purchases of our common stock by monthly fiscal periods during the quarter ended August 31, 2014:

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Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (in thousands)
June 1, 2014 to July 5, 2014	-	$ -	none	$ 9,225
July 6, 2014 to August 2, 2014	-	-	none	9,225
August 3, 2014 to August 31, 2014	-	-	none	9,225 (1)
Total Common Shares	-	$ -	none	

(1) On March 26, 2012, our Board of Directors approved a plan to repurchase up to $10.0 million of the Company's outstanding common stock. We intend to use available cash in excess of $10.0 million to make the purchases, provided that we have a zero balance on our line of credit facility. All previously existing common stock repurchase plans were canceled and this common share repurchase plan does not have an expiration date. Through August 31, 2014, we have purchased a total of 73,320 shares of our common stock for $0.8 million under the terms of this plan.

Performance Graph

The following graph demonstrates a five-year comparison of cumulative total returns for Franklin Covey Co. common stock, the S&P SmallCap 600 Index, and the S&P 600 Commercial & Professional Services Index. The graph assumes an investment of $100 on August 31, 2009 in each of our common stock, the stocks comprising the S&P SmallCap 600 Index, and the stocks comprising the S&P 600 Commercial & Professional Services Index. Each of the indices assumes that all dividends were reinvested.

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

The performance graph above is being furnished solely to accompany this report on Form 10-K pursuant to Item 201(e) of Regulation S-K, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

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ITEM 6. SELECTED FINANCIAL DATA

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

In the fourth quarter of fiscal 2010, we sold the product sales component of our wholly owned subsidiary in Japan to an unrelated Japan-based paper products company. We determined that the operating results of the Japan product sales component qualified for discontinued operations presentation and we have presented the operating results of the Japan product sales component as discontinued operations for all periods prior to fiscal 2011 that are presented in this report and have adjusted the financial statement information presented below to be consistent with the discontinued operations presentation.

August 31, In thousands, except per-share data	2014	2013	2012	2011	2010
Income Statement Data:					
Net sales	$205,165	$190,924	$170,456	$160,804	$136,874
Income from operations	24,765	21,614	17,580	11,112	4,038
Income from continuing operations before income taxes	21,759	19,398	13,747	8,446	1,180
Income tax provision	3,692	5,079	5,906	3,639	2,484
Income (loss) from continuing operations	18,067	14,319	7,841	4,807	(1,304)
Income from discontinued operations, net of tax	-	-	-	-	548
Gain on sale of discontinued operations, net of tax	-	-	-	-	238
Net income (loss)	18,067	14,319	7,841	4,807	(518)

Earnings (loss) per share:					
Basic	$1.08	$.83	$.44	$.28	$(.04)
Diluted	1.07	.80	.43	.27	(.04)
Balance Sheet Data:					
Total current assets	$93,016	$81,108	$64,195	$52,056	$50,278
Other long-term assets	14,785	9,875	9,534	9,353	9,396
Total assets	205,186	189,405	164,080	151,427	149,005
Long-term obligations	36,885	41,100	40,368	39,859	32,988
Total liabilities	78,472	82,899	73,525	72,111	77,970
Shareholders' equity	126,714	106,506	90,555	79,316	71,035

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

The following management's discussion and analysis is intended to provide a summary of the principal factors affecting the results of operations, liquidity and capital resources, contractual obligations, and the critical accounting policies of Franklin Covey Co. (also referred to as we, us, our, the Company, and FranklinCovey) and subsidiaries. This discussion and analysis should be read together with our consolidated financial statements and related notes, which contain additional information regarding the accounting policies and estimates underlying our financial statements. Our consolidated financial statements and related notes are presented in Item 8 of this report on Form 10-K.

EXECUTIVE SUMMARY

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 825 employees worldwide are organized to help individuals and organizations achieve sustained superior performance through changes in human behavior. Our expertise extends to seven crucial areas: Leadership, Execution, Productivity, Trust, Sales Performance, Customer Loyalty, and Educational improvement. We believe that our clients are able to utilize our content to create cultures whose hallmarks are high-performing, collaborative individuals, led by effective, trust-building leaders who execute with excellence and deliver measurably improved results for all of their key stakeholders.

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

1. World Class Content – Our content is principle centered and based on natural laws of human behavior and effectiveness. Our content is designed to build new skillsets, establish new mindsets, and provide enabling toolsets. We believe that our content is based on timeless principles, natural laws of human and organizational effectiveness, and research-proven applications.

2. Transformational Impact and Reach – We hold ourselves responsible for and measure ourselves by our clients' achievement of transformational results. Our commitment to achieving lasting impact extends to all of our clients—from CEOs to elementary school students, and from senior management to front-line workers in corporations, governmental, and educational environments.

3. Breadth and Scalability of Delivery Options – We have a wide range of content delivery options, including: on-site training, training led through certified facilitators, on-line learning, blended learning, intellectual property licenses, and organization-wide transformational processes, including consulting and coaching.

4. Global Capability – We operate four regional sales offices in the United States; wholly owned subsidiaries in Australia, Japan, and the United Kingdom; and contract with licensee partners who deliver our curriculum and provide services in over 165 other countries and territories around the world.

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

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Our financial results for the fiscal year ended August 31, 2014 reflect the sixth consecutive year of increased sales for our current business (subsequent to the sales of our products division in fiscal 2008), improved operating results, increased cash flows from operating activities, and a strong financial position. Our net sales in fiscal 2014 increased to $205.2 million, compared with $190.9 million in fiscal 2013, and $170.5 million in fiscal 2012. Our fiscal 2014 sales represent seven percent growth compared with fiscal 2013, which grew 12 percent compared with fiscal 2012. Consolidated fiscal 2014 sales increased 20 percent compared with fiscal 2012 sales levels. Our fiscal 2014 fourth-quarter sales totaled $68.1 million, which is an 11 percent increase over the fourth quarter of the prior year and represents the strongest quarterly sales performance ever for our current business. Our sales growth during fiscal 2014 was primarily driven by increased national account practice sales, especially in the Education practice, and by the launch of the re-created The 7 Habits of Highly Effective People – Signature Program (The 7 Habits Signature Program) late in the second quarter. The following table sets forth consolidated sales data by category and by our primary delivery channels (in thousands):

YEAR ENDED AUGUST 31,	2014	Percent change	2013	Percent change	2012
Sales by Category:					
Training and consulting services	$ 193,720	8	$ 178,656	13	$ 158,779
Products	7,518	(7)	8,114	(4)	8,456
Leasing	3,927	(5)	4,154	29	3,221
	$ 205,165	7	$ 190,924	12	$ 170,456
Sales by Channel:					
U.S./Canada direct	$ 99,128	2	$ 96,899	12	$ 86,698
International direct	28,588	(3)	29,558	3	28,773
International licensees	17,065	10	15,452	8	14,301
National account practices	48,645	31	37,042	35	27,367
Self-funded marketing	5,938	1	5,866	(30)	8,368
Other	5,801	(5)	6,107	23	4,949
	$ 205,165	7	$ 190,924	12	$ 170,456

We believe that ongoing investments in curriculum development and increasing the size of our sales force will help us maintain favorable sales growth momentum in future periods.

Our gross profit for fiscal 2014 increased seven percent to $138.3 million, compared with $129.0 million in the prior year, primarily due to increased sales. Our gross margin, which is gross profit as a percent of sales, was essentially unchanged at 67.4 percent compared with 67.6 percent in fiscal 2013.

Our operating expenses increased $6.1 million compared with fiscal 2013 primarily due to a $5.0 million increase in selling, general, and administrative expenses, a $0.8 million increase in amortization expense, and a $0.4 million increase in depreciation expense. The increase in selling, general, and administrative expenses was primarily related to the addition of new sales-related personnel, increased commissions on higher sales, marketing, and additional expenses resulting from the acquisition of NinetyFive 5 LLC (NinetyFive 5) in fiscal 2013, which was included in our operations for the full year in fiscal 2014 compared with only a partial year in fiscal 2013.

Increased sales and favorable operating margins combined to increase our fiscal 2014 income from operations 15 percent to $24.8 million, compared with $21.6 million in the prior year. Including the benefit of foreign tax credits, which reduced our effective income tax rate to approximately 17 percent in fiscal 2014, our net income increased 26 percent to $18.1 million, or $1.07 per diluted share, compared with $14.3 million, or $.80 per diluted share, in fiscal 2013.

Further details regarding these items can be found in the comparative analysis of fiscal 2014 with fiscal 2013 as discussed within this management's discussion and analysis.

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Our liquidity position remained strong during fiscal 2014 and we had $10.5 million of cash and cash equivalents at August 31, 2014 compared with $12.3 million at August 31, 2013. Our net working capital (current assets minus current liabilities) increased to $50.1 million at August 31, 2014 compared with $38.2 million at the end of fiscal 2013. For further information regarding our cash flows and liquidity refer to the Liquidity and Capital Resources discussion found later in this management's discussion and analysis.

Business Overview

We believe that the combination of: (1) creating best-in-class content and solutions in each of our practice areas, and continuing to invest in the refinement and expansion of each of our content categories; and (2) significantly increasing the size and capabilities of our various sales and content-delivery channels are the foundation of our long-term strategic growth plan. Each year we make significant investments in the development and enhancement of our existing content, and the development of new services, features, and products that help individuals and organizations achieve their own great purposes. We expect to continue the introduction of new or refreshed content and delivery methods and consider them key to our long-term success. At the same time, we continue to make substantial investments each year to expand the size and capabilities of our sales and delivery forces to take our solutions to market in a way which attracts and retains client organizations.

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

During the third quarter of fiscal 2014 we acquired the assets of Red Tree, Inc. (Red Tree), a company that provides training, consulting, and coaching designed to help organizations effectively manage and engage the "Millennial Generation" in their workforces. We believe the acquired curriculum will complement our existing training curriculums and provide opportunities for growth in future periods.

We also invested significant capital during fiscal 2014 for the re-creation of our best-selling program, The 7 Habits of Highly Effective People – Signature Edition. The re-creation of this program includes updated video segments that improve our ability to use content internationally, refreshed content, and new implementation tools, including an app that is available for most portable electronic devices. We believe that our commitment to the development and improvement of our core offerings is a key to our future growth.

Other key factors that influence our operating results include: the size and productivity of our sales force; the number and productivity of our international licensee operations; the number of organizations that are active customers; the number of people trained within those organizations; the continuation or renewal of existing services contracts; the availability of budgeted training spending at our clients and prospective clients, which, in certain content categories, can be significantly influenced by general economic conditions; and our ability to manage operating costs necessary to develop and provide meaningful training and related services and products to our clients. For a further discussion of risk factors that may influence our results of operations and financial position, refer to Item 1A - Business Risks as contained in this report on Form 10-K.

Our fiscal year ends on August 31, and unless otherwise indicated, fiscal 2014, fiscal 2013, and fiscal 2012 refer to the twelve-month periods ended August 31, 2014, 2013, 2012, and so forth.

RESULTS OF OPERATIONS

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

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YEAR ENDED AUGUST 31,	2014	2013	2012
Sales:			
Training and consulting services	94.4 %	93.6 %	93.1 %
Products	3.7	4.2	5.0
Leasing	1.9	2.2	1.9
Total sales	100.0	100.0	100.0
Cost of sales:			
Training and consulting services	30.0	29.8	30.6
Products	1.7	1.6	2.3
Leasing	0.9	1.0	1.0
Total cost of sales	32.6	32.4	33.9
Gross profit	67.4	67.6	66.1
Selling, general, and administrative	51.7	53.0	52.5
Depreciation	1.7	1.6	1.8
Amortization	1.9	1.7	1.5
Total operating expenses	55.3	56.3	55.8
Income from operations	12.1	11.3	10.3
Interest income	0.2	0.3	0.0
Interest expense	(1.1)	(1.2)	(1.4)
Discount on related party receivable	(0.6)	(0.2)	(0.8)
Other income, net	-	0.0	-
Income before income taxes	10.6 %	10.2 %	8.1 %

FISCAL 2014 COMPARED WITH FISCAL 2013

Sales

We offer a variety of training courses, consulting services, and training-related products that are focused on solving organizational problems which require a change in human behavior. Our training and consulting solutions are provided both domestically and internationally through our sales force, client facilitators, international licensees, and the internet on various web-based delivery platforms. The following sales analysis for the fiscal year ended August 31, 2014 is based on activity through our primary delivery channels as shown in the preceding comparative sales table.

U.S./Canada Direct – This channel includes our four regional sales offices that serve clients in the United States and Canada, and our government services group. Increased sales at each of our regional sales offices during fiscal 2014 was partially offset by decreased government services sales. Excluding the government services group, sales increased at our regional sales offices by $7.3 million, or 9 percent, compared with the prior year. The increase over the prior year at our regional sales offices was primarily due to the launch of the re-created The 7 Habits Signature Program during the second half of fiscal 2014 and increased Execution practice sales. Execution practice revenues continue to improve compared with the prior year primarily due to increased demand and new contracts for this offering. During fiscal 2014, government services revenues decreased $5.1 million, primarily due to the timing of renewals for a large government contract throughout the year. We anticipated a renewal of this contract during our fourth quarter of fiscal 2014; however, the renewal timeframe was slightly longer than we anticipated and we were awarded a renewal of this contract in the first week of September 2014 for services to be delivered over the next nine months.

At August 31, 2014, our corporate pipeline of booked days and awarded revenue remains strong, and our current outlook for growth in fiscal 2015 and future periods is encouraging for this channel. In addition to building our pipeline of prospective business, we believe continued growth in this channel

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is also dependent on our ability to hire and train additional qualified sales professionals. As these additional sales professionals are hired and "ramp up" to expected sales levels in subsequent years, we believe that we will generate significant incremental revenues. However, there can be no guarantee that we will be able to hire sufficient numbers of qualified sales people, and that they will be able to achieve expected sales performance goals.

International Direct – Our directly owned international offices are located in Australia, Japan, and the United Kingdom. For the fiscal year ended August 31, 2014, increased sales at our offices in the United Kingdom, Australia, and South Korea were offset by decreased sales at our office in Japan. The launch of the re-created The 7 Habits Signature Program, which was released in North America, Australia, and the United Kingdom during the second quarter of fiscal 2014, had a favorable effect on Australia and the United Kingdom as our office in the United Kingdom had its strongest fiscal year ever (subsequent to the sale of its product division) and increased its sales 27 percent compared with the prior year. Our office in Australia also had good sales performance, experienced its strongest fourth quarter ever, and overcame decreased sales in prior quarters of fiscal 2014. For the fiscal year ended August 31, 2014 Australia increased its sales by $0.1 million compared with the prior year. During fiscal 2014 we opened a direct office in South Korea, which had sales totaling $0.5 million during the fiscal year. We sold the direct office operations in South Korea to one of our existing international licensees in August 2014, and we will only recognize royalty revenues from South Korea in future periods.

For fiscal 2014, our sales in Japan decreased $2.9 million compared with the prior year. Sales in Japan were adversely impacted by exchange rates, particularly during the first half of fiscal 2014, and by decreased publishing sales. Foreign exchange rates had a $1.8 million adverse impact on our sales in Japan during fiscal 2014. Publishing sales, which are primarily dependent upon the release of new publications in Japanese, decreased by $0.7 million compared with fiscal 2013. During fiscal 2014 we did not release any significant new publications in Japanese. However, we believe that the fourth quarter launch of the re-created The 7 Habits Signature Program in Japanese will have a favorable impact on training sales at our Japan office during fiscal 2015.

International Licensees – In countries or foreign locations where we do not have a directly owned office, our training and consulting services are delivered through independent licensees, which may translate and adapt our curriculum to local preferences and customs, if necessary. During fiscal 2014, certain of our foreign licensees, led by our Singapore/China licensee, had increased training sales, which resulted in a 10 percent increase in international licensee revenues compared to the prior year. We believe that our continued efforts to support the licensees through additional program training, international branding, and the introduction of new products, such as The 7 Habits Signature Program in multiple languages, will have a favorable impact on licensee sales in fiscal 2015 and beyond.

National Account Practices – Our national account practices offer and sell content solutions that are not typically offered in our U.S/Canada direct geographic sales offices. These offerings include, in the Education practice, The Leader In Me program designed for students primarily in K-6 elementary schools; Helping Clients Succeed from our Sales Performance practice; and Winning Customer Loyalty from our Customer Loyalty practice. During fiscal 2014, sales increased in all three of our national account practices, which included a $6.2 million increase from our Education practice, a $3.7 million increase from our Sales Performance practice, and a $1.7 million increase from our Customer Loyalty practice. We continue to see increased demand for The Leader in Me program in many school districts in the United States and in international locations, which contributed to a 27 percent increase in Education Practice revenues compared with fiscal 2013. At August 31, 2014, over 1,900 elementary-level schools were using The Leader in Me curriculum. We continue to make substantial investments in new sales personnel for our Education practice and expect that Education practice sales will continue to grow compared with prior periods. The growth from our Sales Performance Practice was primarily due to the acquisition of NinetyFive 5, which occurred in the third quarter of fiscal 2013. Our Customer Loyalty practice revenues grew on the strength of increased demand and new contracts for this offering during the fiscal year.

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Self-Funded Marketing – This group includes our public programs, book and audio sales, and speeches. Our self-funded marketing sales were essentially flat compared with the prior year. Future growth in this channel is primarily dependent on the successful launch and acceptance of new publications and their acceptance in the marketplace.

Other – Our other sales are comprised primarily of leasing and shipping and handling revenues. The decrease in other sales was primarily due to decreased leasing revenues on our corporate campus resulting from the expiration of a significant lease contract during August 2013. During November 2013, we obtained a new lease contract for the vacant space with an unrelated tenant. At August 31, 2014 our corporate campus was essentially fully leased.

Gross Profit

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

Our consolidated gross profit for the fiscal year ended August 31, 2014 increased to $138.3 million compared with $129.0 million in fiscal 2013. The increase was primarily due to increased sales for the fiscal year ended August 31, 2014 compared with the prior year. Our consolidated gross margin remained essentially unchanged at 67.4 percent of sales in fiscal 2014 compared with 67.6 percent in the prior year. The impact of increased intellectual property sales, facilitator sales, and international licensee sales (all of which have higher gross margins than the majority of our other services) was offset by increased coaching sales in our Education practice and increased capitalized curriculum amortization costs, primarily resulting from costs to re-create The 7 Habits Signature Program.

Operating Expenses

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

YEAR ENDED AUGUST 31,	2014	2013	$ Change	% Change
Selling, general, and administrative	$ 106,164	$ 101,176	$ 4,988	5
Depreciation	3,383	3,008	375	12
Amortization	3,954	3,191	763	24
	$ 113,501	$ 107,375	$ 6,126	6

Selling, General and Administrative (SG&A) – The increase in SG&A expenses over the prior year was primarily due to 1) a $3.8 million increase related to the addition of new sales-related personnel, increased commissions on higher sales, marketing, and other advertising and promotional costs related to strategic sales initiatives; 2) a $2.2 million increase in Sales Performance practice expenses resulting from the acquisition of NinetyFive 5 in the third quarter of fiscal 2013; 3) a $0.4 million impairment of long-term receivables from FC Organizational Products (FCOP, and refer to discussion below); and 4) a $0.4 million increase in software contract costs and for professional services. The impact of these increased expenses was partially offset by a $1.6 million reduction in the fair value of estimated contingent earn out payments from the acquisition of NinetyFive 5 and by decreased short-term incentive plan bonus expense as certain annual financial targets were not met at August 31, 2014.

The acquisition of NinetyFive 5 requires us to reassess the fair value of the contingent earn out payments each reporting period. Changes to the fair value of the expected amount of contingent consideration to

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be paid are required to be classified as an operating expense. The change in the fair value of expected payments may significantly increase or decrease our SG&A expenses in future periods.

Depreciation – Depreciation expense for fiscal 2014 increased compared with fiscal 2013 primarily due to the addition of computer software and hardware, and leasehold improvements at our corporate campus during fiscal 2014. Based on capital asset acquisitions in fiscal 2014 and expected purchases during fiscal 2015, we anticipate depreciation expense will total approximately $4.3 million in fiscal 2015.

Amortization – Amortization expense from definite-lived intangible assets increased over the prior year due to the acquisitions of NinetyFive 5 during fiscal 2013 and Red Tree, Inc. in fiscal 2014. Based on current carrying amounts of intangible assets and remaining estimated useful lives, we anticipate amortization expense from intangible assets will total $3.8 million in fiscal 2015.

Discount on Related Party Receivable

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

Throughout fiscal 2014 we were optimistic about FCOP's financial performance, as they improved their cash flows and did not request working capital advances during calendar 2014. However, subsequent to August 31, 2014, we received new projected earnings and cash flow information that reflected weaker sales of certain accessory products, which have a significant adverse impact on expected earnings and cash flows in future periods. Accordingly, we determined that an additional $0.6 million discount and a corresponding $0.4 million impairment charge were needed to reduce the long-term receivable from FCOP to its net realizable value and net present value. As a result of lower estimated future cash flows at FCOP, we may not be able to recognize lease revenue from FCOP in future periods.

Income Taxes

Our effective income tax rate for the fiscal year ended August 31, 2014 was approximately 17 percent, compared with approximately 26 percent in fiscal 2013. Our effective tax rate decreased primarily due to the benefit of foreign tax credits we plan to claim for fiscal 2008 through fiscal 2010. During those years we either generated or used net operating loss carryforwards and were unable to utilize foreign tax credits and therefore took foreign tax deductions. At August 31, 2014 we have no remaining U.S. federal net operating loss carryforwards. Additionally, overall taxable income and foreign source income in fiscal 2014 were sufficient to utilize all of the foreign tax credits generated during the fiscal year, plus additional credits generated in prior years. Based on these factors and our projected taxable income and foreign source income, we decided to amend our U.S. federal income tax returns from fiscal 2008 through fiscal 2010 to claim foreign tax credits instead of foreign tax deductions. The net tax benefit recognized, resulting from the decision to claim these additional foreign tax credits, totaled $4.2 million in fiscal 2014. After we file the amended federal returns for fiscal 2008 through fiscal 2010, we will have no remaining tax returns that we can decide to amend to claim foreign tax credits instead of tax deductions. We therefore expect our effective income tax rate to be closer to statutory tax rates for fiscal 2015 and future years.

We paid $6.3 million in cash for income taxes during fiscal 2014, primarily for payment on our income tax liabilities at August 31, 2013, and an unusually large estimated tax payment in a foreign jurisdiction resulting from a six-day change to their fiscal calendar. We believe that we will recover any amounts paid in excess of our tax liability after we file our income tax return in that jurisdiction in fiscal 2015. We anticipate that our cash paid for income taxes will be less than our income tax provision in fiscal 2015 and fiscal 2016 as we utilize foreign tax credit carryforwards and other deferred income tax assets. After utilization of our existing foreign tax credit carryforwards, which we currently expect to be fully used by the end of fiscal 2016, we expect that our cash paid for income taxes will increase and approximate our income tax provision.

FISCAL 2013 COMPARED WITH FISCAL 2012

Sales

For the fiscal year ended August 31, 2013, our consolidated sales increased by $20.5 million, or 12 percent, to $190.9 million. The following sales analysis for the fiscal year ended August 31, 2013 is based on activity through our primary sales channels as previously defined.

U.S./Canada Direct Offices – During fiscal 2013, sales through our regional offices increased by $12.3 million, or 18 percent, compared with the prior year. Increased sales through our regional sales offices were generally broad-based across our content and practice areas and were favorably impacted by increased facilitator and intellectual property license sales when compared with fiscal 2012. During fiscal 2013 we held additional marketing events and increased the number of sales and sales support personnel. We believe that the additional events and sales personnel were key drivers of increased sales at our regional sales offices during the year. Partially offsetting increased regional office sales was a $2.1 million decline in government services sales. Our government services revenues were adversely affected by government sequestration, and the contracting timeframe for a large government contract.

International Direct Offices – For the fiscal year ended August 31, 2013, sales increased at all of our international direct offices, which were led by a $0.5 million improvement at our office in Australia. Sales increased by $0.2 million at our office in Japan and by $0.1 million in the United Kingdom. However, the translation of international sales into U.S. dollars had a $3.4 million adverse impact on reported sales as the U.S. dollar strengthened during fiscal 2013, particularly against the Japanese Yen. In fiscal 2013, sales at our Japan office (denominated in Yen) increased by 17 percent compared with fiscal 2012.

International Licensees – In fiscal 2013, international licensee royalties increased $1.2 million compared with the prior year as many of our licensees reported strengthening sales in their countries during the year.

National Account Practices – The increase in revenue from our national account practices was due to increased sales in our Education and Sales Performance Practices. During fiscal 2013, we experienced increased demand for The Leader in Me program in many school districts in the United States and in international locations, which contributed to a $9.0 million, or 64 percent, increase in Education practice revenues compared with fiscal 2012. At August 31, 2013, over 1,500 elementary level schools were using The Leader in Me program. We completed the acquisition of NinetyFive 5 during the third quarter of fiscal 2013, which was added as a component of the Sales Performance practice. Primarily as a result of this acquisition, our Sales Performance practice sales increased by $1.0 million compared with the prior year. These increases were partially offset by a $0.3 million decrease in Customer Loyalty practice sales during fiscal 2013.

Self-Funded Marketing – The decrease in self-funded marketing sales was mainly due to book and audio distribution royalties received in the first and third quarters of fiscal 2012 that did not repeat in fiscal 2013.

Other – The increase in other sales was primarily due to increased leasing revenues resulting from new lease contracts at our corporate headquarters. However, during August 2013 one of our significant lease contracts expired. Our lease revenues were adversely impacted in fiscal 2014 compared to prior periods until this available space was leased.

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Gross Profit

Our consolidated gross profit for the fiscal year ended August 31, 2013 increased to $129.0 million compared with $112.7 million in the prior fiscal year. The increase was primarily due to improved sales for the fiscal year ended August 31, 2013 compared with fiscal 2012, and to improved margin on our sales. Our consolidated gross margin increased to 67.6 percent of sales in fiscal 2013 compared with 66.1 percent in the prior year. The improvement in gross margin was primarily due to increased intellectual property license sales, increased facilitator sales, and increased international licensee royalties, all of which have higher gross margins than the majority of our other programs and services.

Operating Expenses

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

YEAR ENDED AUGUST 31,	2013	2012	$ Change	% Change
Selling, general, and administrative	$ 101,176	$ 89,462	$ 11,714	13
Depreciation	3,008	3,142	(134)	(4)
Amortization	3,191	2,499	692	28
	$ 107,375	$ 95,103	$ 12,272	13

Selling, General and Administrative – The increase in SG&A expenses during fiscal 2013 was primarily due to 1) an $8.6 million increase in associate costs primarily related to additional commissions and bonuses on significantly higher sales in fiscal 2013 and investments in new sales-related personnel; 2) a $1.7 million increase in advertising and promotional costs that were primarily related to strategic initiatives which we believe had a favorable impact on our fiscal year's sales; 3) a $1.2 million increase in travel expenses related primarily to marketing activities and increased training sales activity during the fiscal year; and 4) a $0.4 million increase in legal expenses that was due to the fiscal 2012 reimbursement of certain legal fees by FCOP and which did not repeat in fiscal 2013. These increases were partially offset by a $0.2 million decrease in non-cash share-based compensation.

Depreciation – Depreciation expense for fiscal 2013 decreased primarily due to certain assets becoming fully depreciated.

Amortization – Amortization expense from definite-lived intangible assets increased due to the acquisition of NinetyFive 5 during fiscal 2013.

Interest Income

The increase in interest income was attributable to the accretion of interest on previously discounted long-term receivables from FCOP. Interest income is computed using the effective interest method using a rate of 15 percent, which was the discount rate at which these receivables were marked to estimated net present value.

Income Taxes

Our effective tax rate for the fiscal year ended August 31, 2013 was approximately 26 percent compared with 43 percent in fiscal 2012. Our effective tax rate decreased primarily due to the benefit of foreign tax credits that as of August 31, 2013 we planned to claim for fiscal 2003 through fiscal 2007. During those years we either generated or used net operating loss carryforwards and were unable to utilize foreign tax credits and instead took foreign tax deductions. As of August 31, 2013 we had no remaining U.S. federal net operating loss carryforwards. Additionally, overall taxable income and foreign source income in fiscal 2013 were sufficient to utilize all of the foreign tax credits generated during the fiscal year, plus additional credits generated in prior years. Based on these factors and our projected taxable income and

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foreign source income, we decided to amend our U.S. federal income tax returns from fiscal 2003 through fiscal 2007 to claim foreign tax credits instead of foreign tax deductions. The net tax benefit from claiming these additional foreign tax credits totaled $2.4 million in fiscal 2013.

ENTERPRISE INFORMATION

Our sales are primarily comprised of training and content sales and related products such as books, audio, and training accessories. Based on the consistent nature of our services and products and the types of customers for these services, we function as a single operating segment. Additional enterprise financial information, including geographical information, can be found in the notes to our consolidated financial statements (Note 15).

QUARTERLY RESULTS

The following tables set forth selected unaudited quarterly consolidated financial data for the fiscal years ended August 31, 2014 and 2013. The quarterly consolidated financial data reflects, in the opinion of management, all adjustments necessary to fairly present the results of operations for such periods. Results of any one or more quarters are not necessarily indicative of continuing trends (in thousands, except for per-share amounts).

YEAR ENDED AUGUST 31, 2014 (unaudited)

	November 30	March 1	May 31	August 31
Net sales	$ 43,418	$ 46,506	$ 47,131	$ 68,109
Gross profit	30,031	31,411	29,884	46,940
Selling, general, and administrative	24,752	25,707	25,017	30,686
Depreciation	784	816	866	917
Amortization	989	989	983	993
Income from operations	3,506	3,899	3,018	14,344
Income before income taxes	2,947	3,307	2,394	13,112
Net income	1,719	1,971	1,922	12,456
Net income per share:				
Basic	$ .10	$ .12	$ .11	$ .74
Diluted	.10	.12	.11	.73

YEAR ENDED AUGUST 31, 2013 (unaudited)

	December 1	March 2	June 1	August 31
Net sales	$ 44,061	$ 40,430	$ 44,859	$ 61,574
Gross profit	29,559	27,284	29,435	42,712
Selling, general, and administrative	22,943	22,691	23,661	31,880
Depreciation	702	722	752	833
Amortization	622	619		