

FRANKLIN COVEY CO
Form 10-K
November 14, 2016

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

Form 10-K

☐ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED
AUGUST 31, 2016

OR

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

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

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

2200 West Parkway Boulevard
Salt Lake City, Utah 84119-2331

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(Address of principal executive offices, including zip code)

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

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

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

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

None

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

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

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

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

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

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

Large accelerated filer Accelerated filer

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

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

As of February 26, 2016, the aggregate market value of the Registrant's Common Stock held by non-affiliates of the Registrant was approximately \$172.6 million, which was based upon the closing price of \$17.16 per share as reported by the New York Stock Exchange.

As of October 31, 2016, the Registrant had 13,791,937 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 20, 2017, 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,” “believe,” “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 in seven crucial areas: Leadership, Execution, Productivity, Trust, Sales Performance, Customer Loyalty, and Educational improvement. We have over 870 employees worldwide delivering these principle-based offerings and effectiveness tools to our customers. Our consolidated net sales for the fiscal year ended August 31, 2016 totaled \$200.1 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 three 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 150 other countries and territories around the world. On September 1, 2016, we opened three new sales offices in China. Our offerings and products were previously sold in China by an independent licensee.

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.

During fiscal 2016 we introduced a new way to deliver our content and offerings to our clients. Through the All Access Pass, our clients have access to our world-class offerings and training materials. Clients may utilize complete offerings such as The 7 Habits of Highly Effective People and The 5 Choices to Extraordinary Productivity, or use individual concepts from any of our well-known offerings to create a custom solution to fit their organizational or

individual training needs. We believe the flexibility of the All Access Pass will provide significant benefits to our clients and their organizations.

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.

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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, and provide enabling toolsets. When our content is applied consistently in an organization, we believe the culture of that organization will change to enable the organization to achieve their own great purposes. Our content is well researched, subjected to numerous field beta tests, and improved through a proven development process.
2. Breadth and Scalability of Delivery Options – We have a wide range of content delivery options, including: the All Access Pass and other intellectual property licensing arrangements, on-site training, training led through certified facilitators, on-line learning, blended learning, and organization-wide transformational processes, including consulting and coaching.
3. Global Capability – We operate three 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 150 other countries and territories around the world. This capability allows us to deliver content to a wide range of customers, from large, multinational corporations to smaller, local entities. On September 1, 2016 we opened three new sales offices in China. Our offerings and products were previously sold in China by an independent licensee.
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 positive transformational results. We have divided our offerings 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.

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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 key leadership solutions include the following:

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.

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 (of three to four hours in duration) that teach imperatives leaders can apply to create a work environment that addresses the needs of today’s knowledge worker.

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:

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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.

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 knowledge workers "doing more with less," we believe that workforce productivity and engagement can be a competitive advantage. 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:

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 Essentials for the Unofficial Project Manager

Today's knowledge workers have quietly slipped into the role of the unofficial project manager. Stakeholder expectations, scope creep, no formal training, and a lack of process all combine to raise the probability of project failure costing organizations time, money, and employee morale. This work session helps participants consistently complete projects successfully by having them learn to implement a disciplined process to execute projects and to master informal authority of people.

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®

Unproductive meetings and lost opportunities may occur due to poor presentations. The lack of powerful methods to inform and persuade is one of the greatest hidden and pervasive costs of the 21st century workplace. This work session is designed to help participants consistently deliver highly successful presentations.

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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.

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 this content defines a process for creating candid dialogue, fresh thinking, innovative collaboration, 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 System™, 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.

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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.

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, 2016 there were over 3,000 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 our fastest growing practices.

Secondary Education Solutions: *The 7 Habits of Highly Effective Teens*®

The Introduction to *The 7 Habits of Highly Effective Teens*® workshop is 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*, and gives young people a set of tools to deal with life's challenges.

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:

- All Access Pass
- Onsite Presentations
- Client Facilitators
- International Licensees
- E-Learning
- Public Workshops
- Custom Solutions
- Media Publishing

All Access Pass

During fiscal 2016, we launched the All Access Pass. The All Access Pass provides an intellectual property license that provides our clients access to our world-class content, assessments, tools, and videos through a web-based portal over a contracted period. Clients may use our well-known complete training programs or use individual portions of numerous offerings to customize a training or personnel solution that addresses specific organizational needs. Clients may also use our trainers and consultants in connection with AAP content and materials to further enhance the

learning experience for their employees.

Onsite Presentations

We employ highly-talented consultants and presenters to deliver our offerings 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

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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 their 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 offerings 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 offerings to local preferences and customs, if necessary. 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.

E-Learning

Our E-Learning capabilities bring our content to clients in innovative ways that transcend traditional E-learning solutions. Franklin Covey's online offerings allow participants to save travel time and expenses as well as providing the opportunity to view our content 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. Content customization builds upon our existing offerings and our clients' unique needs by using a specific process to deliver results and improve training return on investment for our clients.

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 2016 Training Industry Survey, the total size of the U.S. training industry is estimated to be \$70.7 billion, which is essentially flat compared with the prior year. One of our competitive advantages in this highly fragmented industry stems from our fully integrated principle-centered training offerings, measurement methodologies, and implementation tools to help organizations and individuals measurably improve their effectiveness. This advantage

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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 content, measurement services, and implementation tools internationally, either through directly operated offices, or through independent licensed providers.

Segment Information