

FRANKLIN COVEY CO
Form 10-Q
April 09, 2018

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the quarterly period ended February 28, 2018

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the transition period from _____ to _____

Commission file no. 1-11107

FRANKLIN COVEY CO.
(Exact name of registrant as specified in its charter)

Utah 87-0401551
(State of incorporation) (I.R.S. employer identification number)

2200 West Parkway Boulevard
Salt Lake City, Utah 84119-2099
(Address of principal executive offices) (Zip Code)

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

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 Web site, 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

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

Large accelerated filer
Accelerated filer T
Non-accelerated filer (Do not check if smaller reporting company)
Smaller reporting company
Emerging growth company

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

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

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

13,897,409 shares of Common Stock as of March 31, 2018

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

FRANKLIN COVEY CO.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per-share amounts)

	February 28, 2018 (unaudited)	August 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$10,760	\$8,924
Accounts receivable, less allowance for doubtful accounts of \$2,933 and \$2,310	48,730	66,343
Receivable from related party	794	1,020
Inventories	3,520	3,353
Income taxes receivable	549	259
Prepaid expenses and other current assets	11,997	11,936
Total current assets	76,350	91,835
Property and equipment, net	21,294	19,730
Intangible assets, net	54,512	57,294
Goodwill	24,220	24,220
Long-term receivable from related party	49	727
Deferred income tax assets	5,936	1,647
Other long-term assets	14,585	15,278
	\$196,946	\$210,731
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of financing obligation	\$1,978	\$1,868
Current portion of term notes payable	6,250	6,250
Accounts payable	9,108	9,119
Deferred revenue	36,136	40,772
Accrued liabilities	18,986	22,617
Total current liabilities	72,458	80,626
Line of credit	9,919	4,377
Financing obligation, less current portion	20,055	21,075
Term notes payable, less current portion	9,688	12,813
Other liabilities	4,421	5,742
Deferred income tax liabilities	41	1,033
Total liabilities	116,582	125,666
Shareholders' equity:		
Common stock, \$.05 par value; 40,000 shares authorized, 27,056 shares issued	1,353	1,353

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Additional paid-in capital	210,007	212,484
Retained earnings	64,324	69,456
Accumulated other comprehensive income	1,019	667
Treasury stock at cost, 13,179 shares and 13,414 shares	(196,339)	(198,895)
Total shareholders' equity	80,364	85,065
	\$196,946	\$210,731

See notes to condensed consolidated financial statements

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FRANKLIN COVEY CO.CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND STATEMENTS OF
COMPREHENSIVE LOSS

(in thousands, except per-share amounts)

	Quarter Ended		Two Quarters Ended	
	February 28, 2018	February 28, 2017	February 28, 2018	February 28, 2017
	(unaudited)		(unaudited)	
Net sales	\$46,547	\$42,196	\$94,479	\$81,983
Cost of sales	13,803	14,165	28,867	28,643
Gross profit	32,744	28,031	65,612	53,340
Selling, general, and administrative	35,097	29,370	68,921	58,465
Contract termination costs	-	1,500	-	1,500
Depreciation	1,379	928	2,280	1,794
Amortization	1,395	721	2,791	1,443
Loss from operations	(5,127)	(4,488)	(8,380)	(9,862)
Interest income	54	109	115	225
Interest expense	(692)	(623)	(1,240)	(1,244)
Loss before income taxes	(5,765)	(5,002)	(9,505)	(10,881)
Income tax benefit	3,025	1,669	4,373	3,590
Net loss	\$(2,740)	\$(3,333)	\$(5,132)	\$(7,291)
Net loss per share:				
Basic and diluted	\$(0.20)	\$(0.24)	\$(0.37)	\$(0.53)
Weighted average number of common shares:				
Basic and diluted	13,867	13,825	13,796	13,808
COMPREHENSIVE LOSS				
Net loss	\$(2,740)	\$(3,333)	\$(5,132)	\$(7,291)
Foreign currency translation adjustments, net of income tax benefit (provision) of \$(136), \$(9), \$(94), and \$333	429	16	352	(619)
Comprehensive loss	\$(2,311)	\$(3,317)	\$(4,780)	\$(7,910)

See notes to condensed consolidated financial statements

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FRANKLIN COVEY CO.CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Two Quarters Ended	
	February 28, 2018	February 28, 2017
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$(5,132)	\$(7,291)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	5,071	3,237
Amortization of capitalized curriculum costs	2,560	1,811
Stock-based compensation expense	1,736	2,777
Deferred income taxes	(5,358)	(4,256)
Increase (reduction) in contingent consideration liabilities	652	(1,936)
Changes in assets and liabilities:		
Decrease in accounts receivable, net	17,911	19,060
Decrease (increase) in inventories	(157)	127
Decrease in receivable from related party	903	156
Decrease (increase) in prepaid expenses and other assets	241	(1,451)
Decrease in accounts payable and accrued liabilities	(2,310)	(5,437)
Increase (decrease) in deferred revenue	(5,388)	277
Increase in income taxes payable/receivable	(288)	(305)
Increase (decrease) in other long-term liabilities	(1,074)	11
Net cash provided by operating activities	9,367	6,780
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(4,288)	(3,944)
Curriculum development costs	(2,185)	(2,345)
Acquisition of business	(1,108)	-
Net cash used for investing activities	(7,581)	(6,289)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit borrowings	47,047	-
Payments on line of credit borrowings	(41,505)	-
Proceeds from term notes payable financing	-	5,000
Principal payments on term notes payable	(3,125)	(2,500)
Principal payments on financing obligation	(910)	(809)
Purchases of common stock for treasury	(2,005)	(1,768)
Payment of contingent consideration liability	(44)	-
Proceeds from sales of common stock held in treasury	348	281
Net cash provided by (used for) financing activities	(194)	204
Effect of foreign currency exchange rates on cash and cash equivalents	244	(465)

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Net increase in cash and cash equivalents	1,836	230
Cash and cash equivalents at the beginning of the period	8,924	10,456
Cash and cash equivalents at the end of the period	\$10,760	\$10,686
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	\$1,156	\$942
Cash paid for interest	1,274	1,236
Non-cash investing and financing activities:		
Purchases of property and equipment financed by accounts payable	\$233	\$197

See notes to condensed consolidated financial statements

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FRANKLIN COVEY CO.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

NOTE 1 – BASIS OF PRESENTATION

General

Franklin Covey Co. (hereafter referred to as us, we, our, or the Company) is a global company focused on individual and organizational performance improvement. Our mission is to "enable greatness in people and organizations everywhere," and our employees worldwide are organized to help individuals and organizations achieve sustained superior performance through changes in human behavior. We are fundamentally a content and solutions company, and we believe that our offerings and services create the connection between capabilities and results. Our expertise extends to seven crucial areas: Leadership, Execution, Productivity, Trust, Educational Improvement, Sales Performance, and Customer Loyalty. 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 three important characteristics that distinguish us from our competitors.

1. World Class Content – Our content is principle-centered and based on natural laws of human behavior and effectiveness. When our content is applied consistently in an organization, we believe the culture of that organization will change to enable the organization to achieve their own great purposes. Our content is designed to build new skillsets, establish new mindsets, and provide enabling toolsets to our clients.

2. Breadth and Scalability of Delivery Options – We have a wide range of content delivery options, including: subscription offerings, which includes the All Access Pass, The Leader in Me membership, and other subscription offerings; intellectual property licenses; on-site training; training led through certified facilitators; on-line learning; blended learning; and organization-wide transformational processes, including consulting and coaching.

3. Global Capability – We have sales professionals in the United States and Canada who serve clients in the private sector and in governmental organizations; wholly owned subsidiaries in Australia, China, Japan, and the United Kingdom; and we contract with licensee partners who deliver our content and provide services in over 150 other countries and territories around the world.

We are committed to, and measure ourselves by, our clients' achievement of transformational results.

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, Educational Improvement, and Customer Loyalty. Our offerings are described in further detail at www.franklincovey.com.

The accompanying unaudited condensed consolidated financial statements reflect, in the opinion of management, all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position and results of operations of the Company as of the dates and for the periods indicated. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to Securities and Exchange Commission (SEC) rules and regulations. The information included in this quarterly report on Form 10-Q should be read in conjunction with the consolidated financial statements and related notes included in our annual report on Form 10-K for the fiscal year ended August 31, 2017.

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

Our fiscal year ends on August 31 of each year. During fiscal 2017, our Board of Directors approved a change to our fiscal quarter ending dates from a modified 52/53-week calendar, in which quarterly periods ended on different dates from year-to-year, to the last day of the calendar month in each quarter. The change was made to improve comparability between fiscal periods. Beginning with the second quarter of fiscal 2017, our fiscal quarters end on the last day of November, February, and May. We do not believe that the change in quarter ending dates had a material impact on the comparability of financial results for the quarter or two quarters ended February 28, 2018 with the prior year.

Our sales primarily consist of training and consulting services. In fiscal 2017, we exited the publishing business in Japan, which significantly reduced our sales of tangible products in the first two quarters of fiscal 2018. Due to the immateriality of product and leasing sales (approximately four percent of consolidated revenues during the first two quarters of 2018 combined) compared with our training and consulting sales, we have condensed our reported sales and cost of sales into one line for presentation purposes.

The results of operations for the quarter ended February 28, 2018 are not necessarily indicative of results expected for the entire fiscal year ending August 31, 2018, or for any future periods.

Accounting Pronouncements Issued and Adopted

In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-09, Compensation - Stock Compensation (Topic 718) - Improvements to Employee Share-Based Payment Accounting. The guidance in ASU 2016-09 simplifies several aspects of the accounting for stock-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification of items on the statement of cash flows. The guidance in ASU 2016-09 is effective for public companies' annual periods, including interim periods within those fiscal years, beginning after December 15, 2016. On September 1, 2017, we adopted the provisions of ASU 2016-09. The adoption of this accounting standard did not have a material impact on our consolidated financial statements during the two quarters ended February 28, 2018.

Accounting Pronouncements Issued Not Yet Adopted

On May 28, 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). This new standard was issued in conjunction with the International Accounting Standards Board (IASB) and is designed to create a single, principles-based process by which all businesses calculate revenue. The core principle of this standard is that an entity should recognize