FRANKLIN COVEY CO
Form 10-Q
July 10, 2014

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended May 31, 2014

[ ] 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 (State of incorporation)	87-0401551 (I.R.S. employer identification number)
2200 West Parkway Boulevard Salt Lake City, Utah (Address of principal executive offices)	84119-2099 (Zip Code)

Registrant's

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

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 T 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 T No £

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 T	
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 T

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

16,858,310 shares of Common Stock as of June 30, 2014

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

FRANKLIN COVEY CO.

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

	May 31, 2014	August 31, 2013
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,337	$ 12,291
Accounts receivable, less allowance for doubtful accounts of $707 and $982	45,145	52,684
Receivable from related party	581	3,305
Inventories	5,347	4,321
Income taxes receivable	3,183	-
Deferred income tax assets	4,670	4,685
Prepaid expenses and other current assets	4,766	3,822
Total current assets	69,029	81,108
Property and equipment, net	17,039	17,180
Intangible assets, net	58,564	60,654
Goodwill	19,641	16,135
Long-term receivable from related party	5,055	4,453
Other long-term assets	14,234	9,875
	$ 183,562	$ 189,405
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of financing obligation	$ 1,257	$ 1,139
Line of credit	2,527	-
Accounts payable	6,980	9,294
Income taxes payable	-	1,365
Accrued liabilities	20,817	31,140
Total current liabilities	31,581	42,938
Financing obligation, less current portion	26,420	27,376
Other liabilities	4,695	6,106
Deferred income tax liabilities	8,725	6,479
Total liabilities	71,421	82,899
Shareholders' equity:		
	1,353	1,353

Common stock, $.05 par value; 40,000 shares authorized, 27,056 shares issued				
Additional paid-in capital		205,888		210,227
Retained earnings		46,041		40,429
Accumulated other comprehensive income		1,647		1,686
Treasury stock at cost, 10,370 shares and 10,759 shares		(142,788)		(147,189)
Total shareholders' equity		112,141		106,506
	$	183,562	$	189,405

See notes to condensed consolidated financial statements.

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FRANKLIN COVEY CO.

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

	Quarter Ended		Three Quarters Ended	
	May 31, 2014	June 1, 2013	May 31, 2014	June 1, 2013
	(unaudited)		(unaudited)	
Net sales:				
Training and consulting services	$ 44,381	$ 42,378	$ 129,399	$ 121,185
Products	1,694	1,428	4,767	4,995
Leasing	1,056	1,053	2,889	3,170
	47,131	44,859	137,055	129,350
Cost of sales:				
Training and consulting services	15,811	14,281	42,260	39,809
Products	982	665	2,065	1,836
Leasing	454	478	1,405	1,428
	17,247	15,424	45,730	43,073
Gross profit	29,884	29,435	91,325	86,277
Selling, general, and administrative	25,017	23,661	75,475	69,295
Depreciation	866	752	2,466	2,175
Amortization	983	960	2,961	2,201
Income from operations	3,018	4,062	10,423	12,606
Interest income	74	158	325	446
Interest expense	(557)	(578)	(1,676)	(1,766)
Discount on related party receivable	(141)	(135)	(424)	(418)
Other income, net	-	20	-	20
Income before income taxes	2,394	3,527	8,648	10,888
Provision for income taxes	(472)	(1,416)	(3,036)	(4,289)
Net income	$ 1,922	$ 2,111	$ 5,612	$ 6,599
Net income per share:				
Basic	$ 0.11	$ 0.13	$ 0.34	$ 0.37
Diluted	0.11	0.13	0.33	0.36
Weighted average number of common shares:				
Basic	16,754	16,330	16,678	17,680
Diluted	16,934	16,421	16,906	18,469

COMPREHENSIVE INCOME

Net income	$	1,922	$	2,111	$	5,612	$	6,599
Foreign currency translation adjustments,								
net of tax		13		(358)		(39)		(1,297)
Comprehensive income	$	1,935	$	1,753	$	5,573	$	5,302

See notes to condensed consolidated financial statements.

FRANKLIN COVEY CO.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Three Quarters Ended	
	May 31, 2014	June 1, 2013
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 5,612	$ 6,599
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,417	4,381
Share-based compensation expense	2,860	1,933
Amortization of capitalized curriculum costs	1,930	1,447
Deferred income taxes	2,265	199
Reduction of estimated earn out liability	(936)	-
Other income	-	(20)
Changes in assets and liabilities:		
Decrease in accounts receivable, net	7,088	447
Increase in inventories	(1,023)	(130)
Decrease (increase) in receivable from related party	2,122	(2)
Increase in prepaid expenses and other assets	(781)	(927)
Decrease in accounts payable and accrued liabilities	(10,244)	(5,387)
Decrease in income taxes payable	(4,551)	(108)
Decrease (increase) in other long-term liabilities	(463)	480
Net cash provided by operating activities	9,296	8,912
CASH FLOWS FROM INVESTING ACTIVITIES		
Curriculum development costs	(6,403)	(1,620)
Purchases of property and equipment	(2,333)	(1,830)
Payment of contingent business acquisition costs	(3,456)	(2,235)
Acquisition of businesses	(2,711)	(1,125)
Net cash used for investing activities	(14,903)	(6,810)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit borrowings	26,706	-
Payments on line of credit borrowings	(24,179)	-
Principal payments on notes payable financing	-	(1,875)
Principal payments on financing obligation	(848)	(786)
Purchases of common stock for treasury	(3,363)	(1,445)
Proceeds from sales of common stock held in treasury	433	335
Payments for exercises of common stock warrants	-	(55)
Net cash used for financing activities	(1,251)	(3,826)
	(96)	(384)

Effect of foreign currency exchange rates on cash and cash equivalents				
Net decrease in cash and cash equivalents		(6,954)		(2,108)
Cash and cash equivalents at the beginning of the period		12,291		11,011
Cash and cash equivalents at the end of the period	$	5,337	$	8,903
Supplemental disclosure of cash flow information:				
Cash paid for income taxes	$	5,769	$	2,719
Cash paid for interest		1,677		1,753
Non-cash investing and financing activities:				
Purchases of property and equipment financed by accounts payable	$	76	$	183
Acquisition of business financed by accrued liabilities		-		3,075

See notes to condensed consolidated financial statements.

FRANKLIN COVEY CO.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1 – BASIS OF PRESENTATION

Franklin Covey Co. (hereafter referred to as us, we, our, or the Company) is a global company focused on individual and organizational performance improvement. Our mission is to “enable greatness in people and organizations everywhere,” and our worldwide employees 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.

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 and a government services office in the United States; wholly-owned subsidiaries in Australia, Japan, the United Kingdom, and South Korea; and contract with licensee partners who deliver our curriculum and provide services in over 140 other countries and territories around the world.

4. Transformational Impact and Reach – We hold ourselves responsible for 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, Customer Loyalty, and Education. 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, 2013.

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.

The Company utilizes a modified 52/53-week fiscal year that ends on August 31 of each year. Corresponding quarterly periods generally consist of 13-week periods that end on November 30, 2013, March 1, 2014, and May 31, 2014 during fiscal 2014. Under the modified 52/53-week fiscal year, the three quarters ended May 31, 2014 had one less business day than the three quarters ended June 1, 2013. Unless otherwise noted, references to fiscal years apply to the 12 months ended on August 31 of the specified year.

The results of operations for the quarter ended May 31, 2014 are not necessarily indicative of results expected for the entire fiscal year ending August 31, 2014, or for any future periods.

At May 31, 2014, the carrying value of our financial instruments approximated their fair values.

NOTE 2 – INVENTORIES

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

	May 31, 2014	August 31, 2013
Finished goods	$ 5,313	$ 4,253
Raw materials	34	68
	$ 5,347	$ 4,321

NOTE 3 – COVEYLINK ACQUISITION EARN OUT PAYMENT

During March 2014 we paid $3.5 million to the former owners of CoveyLink Worldwide, LLC (CoveyLink) for the final contingent earn out payment. The annual contingent earn out payments were based on earnings growth over the specified measurement period and were classified as goodwill on our consolidated balance sheets when paid. The former owners of CoveyLink include the brother of one of our Named Executive Officers. For a reconciliation of our consolidated goodwill from August 31, 2013 through May 31, 2014 refer to the table included in Note 5 – Acquisition of Red Tree, Inc.

NOTE 4 – SHARE-BASED COMPENSATION

We utilize various share-based compensation plans as integral components of our overall compensation and associate retention strategy. The compensation cost of our share-based compensation plans is included in selling, general, and administrative expenses in the accompanying condensed consolidated income statements. The total cost of our share-based compensation plans was as follows for the periods presented (in thousands).

	Quarter Ended		Three Quarters Ended	
	May 31, 2014	June 1, 2013	May 31, 2014	June 1, 2013
Performance awards	$ 318	$ 360	$ 2,326	$ 1,061
Unvested share awards	75	100	258	284
Employee stock purchase plan	32	28	85	69
Management stock loan shares	-	-	-	497
Fully-vested share awards	191	-	191	22
	$ 616	$ 488	$ 2,860	$ 1,933

During the quarter and three quarters ended May 31, 2014, we issued approximately 9,000 shares and 563,000 shares of our common stock to employees and members of our board of directors from our various share-based compensation plans. The following is a description of recent developments in our share-based compensation plans.

Performance Awards

During the first quarter of fiscal 2014, the Organization and Compensation Committee of the Board of Directors (the Compensation Committee) granted new performance-based equity awards for our executive officers. A total of 89,418 shares may be awarded to the participants based on six individual vesting conditions that are divided into two performance measures, adjusted earnings before interest, taxes, depreciation, and amortization (Adjusted EBITDA) and increased sales of courses related to The 7 Habits of Highly Effective People (the 7 Habits). Three tranches of 20,864 shares will immediately vest to the participants when consolidated trailing four-quarter Adjusted EBITDA totals $37.0 million, $43.0 million, and $49.0 million. Another three tranches of 8,942 shares will immediately vest when trailing four-quarter sales of courses related to the 7 Habits increase $5.0 million, $10.0 million, and $12.5 million over the previous trailing four quarters. These performance awards have a maximum life of six years. Compensation expense is recognized as we determine it is probable that the shares will vest. Adjustments to compensation expense to reflect the timing of and the number of shares expected to be awarded will be made on a cumulative basis at the date of the adjustment.

On November 22, 2013, the Compensation Committee granted two of our employees performance-based awards for a total of 8,352 shares. These awards have the same vesting conditions as the fiscal 2013 common stock price performance award. For the participants to receive this award, the closing price of our common stock must average $22.00 per share over five days, which represents a market vesting condition. If the price of our common stock reaches this price within three years of the grant date, 100 percent of the award shares will vest. If the price of our common stock averages $22.00 per share between three and five years from the grant date, 50 percent of the shares will vest. No shares will vest after five years from the grant date. This grant was valued using a Monte Carlo simulation similar to previous tranches granted with these terms. Based on the valuation, this grant had a fair value of approximately $155,000 with a derived service period of 0.2 years and was fully amortized at March 1, 2014. Subsequent to May 31, 2014 our closing share price averaged $22.00 per share over five consecutive days and this award, plus the other shares granted in the fiscal 2013 common stock price award, vested to participants.

On April 16, 2014, the Compensation Committee granted a performance-based award to one of our employees. This award was based on the fiscal 2012 and fiscal 2013 common stock price award criteria and included 9,557 shares of common stock with a vesting price of $18.05 per share (2012 common stock price award vesting price) and 3,920 shares with a vesting price of $22.00 per share with the same terms as shares granted in November 2013 as described above. Based on these award elements, 9,557 shares were fully vested on the grant date and 3,920 shares had a market vesting condition that required a valuation similar to other similar award tranches. Based on our closing share price at the grant date, the fair value of the fully vested portion of the award was approximately $191,000 and was immediately expensed. Based on a Monte Carlo simulation consistent with other tranches of the Ring the Bell award, the remaining 3,920 shares had an estimated fair value of approximately $74,000 with a derived service period of 0.2 years. This award was fully amortized at May 31, 2014. Subsequent to May 31, 2014 our closing share price averaged $22.00 per share for five consecutive days and this award vested.

Compensation expense recognized during the quarter and three quarters ended May 31, 2014 for performance awards includes expense related to awards granted in previous periods for which the performance targets are probable of being achieved.

Unvested Share Awards

Our annual unvested share award granted to non-employee members of our Board of Directors is administered under the terms of the Franklin Covey Co. Second Amended and Restated 1992 Stock Incentive Plan, and is designed to provide our non-employee directors, who are not eligible to participate in our employee stock purchase plan, an opportunity to obtain an interest in the Company through the acquisition of shares of our common stock. The annual unvested award is generally granted in January (following the annual shareholders' meeting) of each year. For the fiscal 2014 award, each eligible director received a whole-share grant equal to $50,000 with a one-year vesting period, which resulted in a total of 14,616 shares granted to members of the Board of Directors under this program. The fiscal 2013 grant of 30,672 shares vested in January 2014 and was awarded to members of our Board of Directors. At May 31, 2014, there was approximately $175,000 of unrecognized compensation expense associated with the fiscal 2014 Board of Director unvested share award.

Employee Stock Purchase Plan

We have an employee stock purchase plan (ESPP) that offers qualified employees the opportunity to purchase shares of our common stock at a price equal to 85 percent of the average fair market value of our common stock on the last trading day of the calendar month in each fiscal quarter. During the quarter and three quarters ended May 31, 2014, we issued 8,599 shares and 26,993 shares, respectively, to participants in the ESPP.

Stock Options

Our stock option activity during the three quarters ended May 31, 2014 consisted of the following:

	Number of Stock Options	Weighted Avg. Exercise Price Per Share
Outstanding at August 31, 2013	675,000	$ 11.25
Granted	-	-
Exercised	(43,750)	9.00
Forfeited	-	-

Outstanding at May 31, 2014	631,250	$	11.41
Options vested and exercisable at May 31, 2014	631,250	$	11.41

The stock options exercised during fiscal 2014 were exercised on a net share basis during our first fiscal quarter and had an aggregate intrinsic value of $0.5 million.

NOTE 5 – ACQUISITION OF RED TREE, INC.

On April 10, 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 determined that this acquisition met the definition of an acquisition of a business under the applicable accounting guidance. The purchase price totaled $0.5 million in cash, which was paid at the closing of the purchase agreement. During the calendar year ended December 31, 2013, Red Tree had revenues of $1.3 million (unaudited) and a net loss of $0.1 million (unaudited). The acquisition of Red Tree had an immaterial impact on our consolidated financial statements during the quarter ended May 31, 2014 and was determined to be "not significant" as defined by Regulation S-X.

The following table summarizes the preliminary estimated fair values of the assets acquired from Red Tree (in thousands):

Inventory	$7
Intangible assets	405
Goodwill	50
Cash paid	$462

Through the acquisition of Red Tree, we acquired customer lists and content that we believe will be synergistic with our existing offerings. Based on the preliminary purchase allocation, acquired intangible assets consisted of the following (in thousands):

Category of Intangible Asset	Amount	Estimated Useful Life
Tradename	$ 31	5 years
Customer relationships	142	5 years
Content	232	5 years
	$ 405	

The former owners of Red Tree are related to one of our Named Executive Officers and are currently employed by us.

The final purchase price allocation is subject to further analysis of various items, including the fair value calculations related to identified intangible assets. To date, our acquisition costs have been insignificant and are included with our selling, general, and administrative expenses in this report. The goodwill generated from this transaction is primarily attributable to the methodologies and processes acquired, and the goodwill is expected to be deductible for income tax purposes. A reconciliation of our consolidated goodwill from August 31, 2013 through May 31, 2014 is as follows (in thousands):

		Goodwill Amount
Balance at August 31, 2013	$	16,135
Acquisition of Red Tree		50
Final CoveyLink earn out payment		3,456
Impairments		-
Balance at May 31, 2014	$	19,641

NOTE 6 – INCOME TAXES

Our effective income tax rate for the quarter ended May 31, 2014 was approximately 20 percent, and our effective rate for the three quarters ended May 31, 2014 was approximately 35 percent. The decrease in our effective rate for the quarter ended May 31, 2014 was primarily due to the recognition of income tax benefits resulting from the resolution of uncertain tax positions as the applicable statute of limitations expired during the quarter. Our income tax rate for fiscal 2014 may be further reduced if we decide that it will be beneficial to amend certain prior years' tax returns to claim the benefit of foreign tax credits instead of taking the applicable tax deductions. However, we will not have the information necessary to determine whether it would be more beneficial to amend these returns or to determine the fiscal 2014 benefit from our foreign tax credits until the fourth quarter.

We paid $5.8 million in cash for income taxes during the three quarters ended May 31, 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 in order to close their year on August 31. We believe that we will recover any amounts paid in excess of our tax liability when we file our income tax return in that jurisdiction later in 2014. Excluding this estimated tax payment in a foreign jurisdiction, we anticipate that our cash paid for income taxes during fiscal 2014 will be less than our income tax provision as we utilize foreign tax credit carryforwards and other deferred income tax assets. In addition, the vesting and issuance of share-based compensation awards during fiscal 2014 should significantly reduce our cash paid for income taxes during the remainder of fiscal 2014 and in fiscal 2015. After utilization of our existing foreign tax credit carryforwards (which do not consider the impact of any amended returns as discussed above), 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.

NOTE 7 – EARNINGS PER SHARE

The following is a reconciliation from basic earnings per share (EPS) to diluted EPS. Prior to the collection of the management stock loans in the second quarter of fiscal 2013, the 3.3 million management stock loan common shares held in escrow were included in our basic EPS calculation during periods of net income and excluded in periods of net loss because they were determined to be participating securities and continued to have equivalent common stock dividend rights (in thousands, except per-share amounts).

	Quarter Ended		Three Quarters Ended	
	May 31, 2014	June 1, 2013	May 31, 2014	June 1, 2013
Numerator for basic and diluted earnings per share:				
Net income	$ 1,922	$ 2,111	$ 5,612	$ 6,599
Denominator for basic and diluted earnings per share:				
Basic weighted average shares outstanding	16,754	16,330	16,678	17,680
Effect of dilutive securities:				
Stock options and other share-based awards	180	91	228	80
Common stock warrants	-	-	-	709
Diluted weighted average shares outstanding	16,934	16,421	16,906	18,469
EPS Calculations:				
Net income per share:				
Basic	$ 0.11	$ 0.13	$ 0.34	$ 0.37
Diluted	0.11	0.13	0.33	0.36

At June 1, 2013, we had approximately 0.2 million stock options outstanding that were not included in the computation of diluted EPS because the options' exercise prices were greater than the average market price of our common shares. Although these shares were not included in our calculation of diluted EPS, these stock options, and other dilutive securities, including performance share-based compensation instruments, may have a dilutive effect on our EPS calculation in future periods if the price of our common stock increases.

NOTE 8 – SEGMENT INFORMATION

Our sales are primarily comprised of training and consulting sales and related products. 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. However, to improve comparability with previous periods, operating information for our U.S./Canada, international, and corporate services operations is presented below. Our U.S./Canada operations are responsible for the sale and delivery of our training and consulting services in the United States and Canada. Our international sales group includes the financial results of our directly owned foreign offices and royalty revenues from licensees. Our corporate services information includes leasing income and certain corporate operating expenses.

The Company's chief operating decision maker is the Chief Executive Officer, and the primary measurement tool used in business unit performance analysis is Adjusted EBITDA, which may not be calculated as similarly titled amounts calculated by other companies. For segment reporting purposes, our consolidated Adjusted EBITDA can be calculated as our income from operations excluding share-based compensation, depreciation expense, amortization expense, and certain other charges such as adjustments for changes in the fair value of contingent earn out liabilities from previous business acquisitions.

In the normal course of business, we may make structural and cost allocation revisions to our enterprise information to reflect new reporting responsibilities within the organization. There were no significant organizational or structural changes during the quarter or three quarters ended May 31, 2014 that would affect the comparability of the enterprise information presented. We account for our enterprise information on the same basis as the accompanying condensed consolidated financial statements.

ENTERPRISE INFORMATION
(in thousands)

Quarter Ended May 31, 2014	Sales to External Customers	Gross Profit	Adjusted EBITDA	Depreciation	Amortization
U.S./Canada	$ 36,318	$ 21,924	$ 1,950	$ 446	$ 943
International	9,757	7,357	4,015	88	40
Total	46,075	29,281	5,965	534	983
Corporate and eliminations	1,056	603	(832)	332	-
Consolidated	$ 47,131	$ 29,884	$ 5,133	$ 866	$ 983
Quarter Ended					
June 1, 2013					
U.S./Canada	$ 35,198	$ 21,958	$ 3,651	$ 320	$ 957
International	8,608	6,901	3,801	79	3
Total	43,806	28,859	7,452	399	960
Corporate and eliminations	1,053	576	(1,190)	353	-
Consolidated	$ 44,859	$ 29,435	$ 6,262	$ 752	$ 960