

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

FORM 10-Q

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

For the quarterly period ended June 30, 2018

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

Commission File Number: 000-55790



LEGACY EDUCATION ALLIANCE, INC.
(Exact Name of Registrant as Specified in its Charter)

Nevada

(State or other jurisdiction of
incorporation or organization)

39-2079974

(I.R.S. Employer
Identification No.)

1612 Cape Coral Parkway East, Cape Coral, FL 33904

(Address of principal executive offices, including zip code)

(239) 542-0643

(Registrant's telephone number, including area code)

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 electronically submitted 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

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 the definition of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.:

Large Accelerated filer:

Accelerated filer:

Non-accelerated filer:

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

Number of shares of Legacy Education Alliance, Inc. Common Stock, \$0.0001 par value, outstanding as of August 13, 2018: 23,007,519.

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on Form 10-Q for
Quarter Ended June 30, 2018**

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Some of the statements in this Quarterly Report on Form 10-Q under the headings “Condensed Consolidated Financial Statements” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We may also make written or oral forward-looking statements in our periodic reports on Forms 10-K, 10-Q and 8-K, in press releases and other written materials and in oral statements made by our officers, directors or employees to third parties. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. Forward-looking statements are often characterized by the use of words such as “outlook,” “believes,” “estimates,” “expects,” “projects,” “may,” “intends,” “plans,” “anticipates,” “foresees,” “future,” or by discussions of strategy, plans or intentions; including, but not limited to, our discussions regarding the introduction of additional brands into the North American segment (e.g., *Woman in Wealth*TM, *Building Wealth*, *Teach Me to Trade*TM and *Brick Buy Brick along with other brands*) which are expected to grow and diversify our North American segment revenue; the development of online courses which are expected to add revenue growth; projections of strong international growth; projected increase in profitability from our symposium-style course delivery model that should lead to increased margins; shortening of course package contracts that should accelerate revenue recognition; our ability to address or manage corruption concerns in certain locations in which we operate; our ability to address and manage cyber-security risks; our ability to protect our intellectual property, on which our business is substantially dependent; our expectations regarding future divided payments; and our expectations regarding the impact of general economic conditions on our business.

Our assumptions used for the purposes of the forward-looking statements represent estimates of future events and are subject to uncertainty as to possible changes in economic, legislative, industry, and other circumstances, including the development, acceptance and sales of our products and our ability to raise additional funding sufficient to implement our strategy. Such forward-looking statements involve assumptions, known and unknown risks, uncertainties, and other important factors that could cause the actual results, performance or our achievements, or industry results, to differ materially from historical results, any future results, or performance or achievements expressed or implied by such forward-looking statements. There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in this report. Important factors that could cause our actual results to differ materially from those expressed as forward-looking statements are set forth in this report, in our latest Annual Report on Form 10-K, including but not limited to “Part I, Item 1A. Risk Factors” and “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” therein, and in our other filings with the Securities and Exchange Commission (the “SEC”). There may be other factors of which we are currently unaware or deem immaterial that may cause our actual results to differ materially from the forward-looking statements. Although we believe the assumptions underlying our forward-looking statements are reasonable, any of these assumptions, and, therefore, also the forward-looking statements based on these assumptions could themselves prove to be inaccurate. In addition, to the extent any inconsistency or conflict exists between the information included in this report and the information included in our prior reports and other filings with the SEC, the information contained in this report updates and supersedes such information.

Forward-looking statements are based on current plans, estimates, assumptions and projections, and therefore you should not place undue reliance on them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update them publicly in light of new information or future events.

Presentation of Financial Statements

The terms “Legacy Education Alliance, Inc.,” the “Company,” “we,” “our,” “us” or “Legacy” as used in this report refer collectively to Legacy Education Alliance, Inc., a Nevada corporation (“Legacy”), the registrant, which was formerly known as Priced In Corp., and, unless the context otherwise requires, together with its wholly-owned subsidiary, Legacy Education Alliance Holdings, Inc., a Colorado corporation, other operating subsidiaries and any predecessor of Legacy Education Alliance Holdings, including Tigrent Inc., a Colorado corporation (“TIGE”).

This Form 10-Q includes financial statements and related notes that present the condensed consolidated financial position, results of operations, comprehensive income, and cash flows of Legacy and its subsidiaries.

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements.

LEGACY EDUCATION ALLIANCE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands, except share data)

	<u>June 30,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,613	\$ 6,005
Restricted cash	3,476	2,899
Deferred course expenses	8,881	9,417
Prepaid expenses and other current assets	5,179	6,408
Inventory	454	330
Total current assets	20,603	25,059
Property and equipment, net	1,597	1,187
Deferred tax asset, net	—	441
Other assets	216	333
Total assets	\$ 22,416	\$ 27,020
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	\$ 2,796	\$ 2,860
Royalties payable	293	188
Accrued course expenses	2,005	1,829
Accrued salaries, wages and benefits	898	1,506
Other accrued expenses	3,756	2,430
Long-term debt, current portion	12	11
Deferred revenue, current portion	55,078	57,151
Total current liabilities	64,838	65,975
Long-term debt, net of current portion	14	20
Deferred revenue, net of current portion	25	602
Deferred tax liability, net	78	—
Other liabilities	398	1,188
Total liabilities	65,353	67,785
Commitments and contingencies (Note 11)		
Stockholders' deficit:		
Preferred stock, \$0.0001 par value, 20,000,000 shares authorized, none issued	—	—
Common stock, \$0.0001 par value, 200,000,000 shares authorized, 23,007,519 and 23,007,519 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	2	2
Additional paid-in capital	11,413	11,299
Cumulative foreign currency translation adjustment	541	(445)
Accumulated deficit	(54,893)	(51,621)
Total stockholders' deficit	(42,937)	(40,765)
Total liabilities and stockholders' deficit	\$ 22,416	\$ 27,020

See Notes to Unaudited Condensed Consolidated Financial Statements

LEGACY EDUCATION ALLIANCE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME/(LOSS)
(Unaudited)
(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenue	\$ 25,222	\$ 26,208	\$ 50,977	\$ 48,173
Operating costs and expenses:				
Direct course expenses	15,397	13,220	29,611	26,083
Advertising and sales expenses	5,998	5,131	11,570	9,722
Royalty expenses	1,653	1,639	3,209	2,532
General and administrative expenses	5,198	4,231	10,046	8,572
Total operating costs and expenses	<u>28,246</u>	<u>24,221</u>	<u>54,436</u>	<u>46,909</u>
Income/(loss) from operations	<u>(3,024)</u>	<u>1,987</u>	<u>(3,459)</u>	<u>1,264</u>
Other income (expense):				
Interest expense	(4)	(2)	(8)	(5)
Other income (expense), net	(27)	69	(48)	152
Total other income (expense), net	<u>(31)</u>	<u>67</u>	<u>(56)</u>	<u>147</u>
Income/(loss) before income taxes	<u>(3,055)</u>	<u>2,054</u>	<u>(3,515)</u>	<u>1,411</u>
Income tax (expense) benefit	640	(107)	243	226
Net income/(loss)	<u>\$ (2,415)</u>	<u>\$ 1,947</u>	<u>\$ (3,272)</u>	<u>\$ 1,637</u>
Basic earnings/(loss) per common share	\$ (0.10)	\$ 0.09	\$ (0.14)	\$ 0.07
Diluted earnings/(loss) per common share	\$ (0.10)	\$ 0.08	\$ (0.14)	\$ 0.07
Basic weighted average common shares outstanding	23,008	21,284	23,008	21,284
Diluted weighted average common shares outstanding	23,008	22,763	23,008	22,697
Comprehensive income/(loss):				
Net income/(loss)	\$ (2,415)	\$ 1,947	\$ (3,272)	\$ 1,637
Foreign currency translation adjustments, net of tax of \$0	1,407	(980)	986	(1,278)
Total comprehensive income/(loss)	<u>\$ (1,008)</u>	<u>\$ 967</u>	<u>\$ (2,286)</u>	<u>\$ 359</u>

See Notes to Unaudited Condensed Consolidated Financial Statements

LEGACY EDUCATION ALLIANCE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIT
(Unaudited)
(In thousands)

	Common stock		Additional paid-in capital	Cumulative foreign currency translation	Accumulated deficit	Total stockholders' deficit
	Shares	Amount				
Balance at December 31, 2017	23,008	\$ 2	\$ 11,299	\$ (445)	\$ (51,621)	\$ (40,765)
Share-based compensation expense	—	—	114	—	—	114
Foreign currency translation adjustment, net of tax of \$0	—	—	—	986	—	986
Net Loss	—	—	—	—	(3,272)	(3,272)
Balance at June 30, 2018	23,008	\$ 2	\$ 11,413	\$ 541	\$ (54,893)	\$ (42,937)

See Notes to Unaudited Condensed Consolidated Financial Statements

LEGACY EDUCATION ALLIANCE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Six Months Ended	
	June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income/(loss)	\$ (3,272)	\$ 1,637
Adjustments to reconcile net income/(loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	70	65
Gain on change in fair value of derivatives	(24)	(87)
Share-based compensation	114	107
Deferred income taxes	(270)	(355)
<i>Changes in operating assets and liabilities:</i>		
Deferred course expenses	514	(240)
Prepaid expenses and other receivable	1,109	(539)
Inventory	(126)	(18)
Other assets	(8)	(27)
Accounts payable-trade	(18)	(388)
Royalties payable	106	201
Accrued course expenses	203	725
Accrued salaries, wages and benefits	(607)	280
Other accrued expenses	1,627	656
Deferred revenue	(1,708)	1,254
Other liabilities	—	100
Net cash provided by/(used in) operating activities	<u>(2,290)</u>	<u>3,371</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(480)	(103)
Net cash used in investing activities	<u>(480)</u>	<u>(103)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on debt	(6)	(5)
Net cash used in financing activities	<u>(6)</u>	<u>(5)</u>
Effect of exchange rate differences on cash	(39)	(14)
Net increase/(decrease) in cash and cash equivalents and restricted cash	<u>(2,815)</u>	<u>3,249</u>
Cash and cash equivalents and restricted cash, beginning of period	\$ 8,904	\$ 4,859
Cash and cash equivalents and restricted cash, end of period	<u>\$ 6,089</u>	<u>\$ 8,108</u>
Supplemental disclosures:		
Cash paid during the period for interest	\$ 8	\$ 5
Cash paid during the period for income taxes, net of refunds received	(774)	30

See Notes to Unaudited Condensed Consolidated Financial Statements

LEGACY EDUCATION ALLIANCE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1 - General

Business Description. We are a provider of practical, high-quality, and value-based educational training on the topics of personal finance, entrepreneurship, real estate and financial markets investing strategies and techniques. Our programs are offered through a variety of formats and channels, including free-preview workshops, basic training classes, symposiums, telephone mentoring, one-on-one mentoring, coaching and e-learning, primarily under the Rich Dad® Education brand (“Rich Dad”) which was created in 2006 under license from entities affiliated with Robert Kiyosaki, whose teachings and philosophies are detailed in the book titled, *Rich Dad Poor Dad*. In addition to Rich Dad, we market our products and services under the brands, Making Money from Property with Martin Roberts™; Brick Buy Brick™; Building Wealth; Robbie Fowler Property Academy™; Women in Wealth™; Perform in Property™, Teach Me to Trade™, and Trade Up Investor Education™. Our products and services are offered in North America, the United Kingdom and Other Foreign Markets.

Basis of Presentation. The terms “Legacy Education Alliance, Inc.,” the “Company,” “we,” “our,” “us” or “Legacy” as used in this report refer collectively to Legacy Education Alliance, Inc., a Nevada corporation (“Legacy”), the registrant, which was formerly known as Priced In Corp., and, unless the context otherwise requires, together with its wholly-owned subsidiary, Legacy Education Alliance Holdings, Inc., a Colorado corporation, other operating subsidiaries and any predecessor of Legacy Education Alliance Holdings, including TIGE.

The accompanying unaudited Condensed Consolidated Financial Statements presented in this report are for us and our consolidated subsidiaries, each of which is a wholly-owned subsidiary. All significant intercompany transactions have been eliminated. These interim financial statements should be read in conjunction with the consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 and reflect all normal recurring adjustments that are, in the opinion of management, necessary to present fairly our results of operations and financial position. Amounts reported in our Condensed Consolidated Statements of Operations and Comprehensive Income/(Loss) are not necessarily indicative of amounts expected for the respective annual periods or any other interim period.

We historically managed our business in four segments based on geographic location. These segments included our historical segments of the United States, Canada, and the United Kingdom, and Other Foreign Markets. During the three months ended December 31, 2017, the Company’s management decided to combine the previously reported United States and Canada segments into the North America segment effective for the 2017 year-end reporting and since such date our operations have been managed through three operating segments: (i) North America, (ii) United Kingdom, (iii) Other Foreign Markets.

Significant Accounting Policies. Our significant accounting policies have been disclosed in *Note 2 - Significant Accounting Policies* in our most recent Annual Report on Form 10-K. There have been no changes to the policies disclosed therein, except for the Revenue Recognition policy subsequent to adoption of the “Revenue from Contracts with Customers” accounting guidance as discussed under “New Accounting Standards” and under “Revenue Recognition” below.

Revenue Recognition. We adopted Topic 606 Revenue from Contracts with Customers with a date of initial adoption of January 1, 2018. As a result, we have changed our accounting policy for revenue recognition and applied Topic 606 using the modified retrospective basis. Typically, this approach would result in recognizing the cumulative effect of initially applying Topic 606 as an adjustment to the opening balance of equity at January 1, 2018. The company did not have a material change in financial position, results of operations, or cash flows and therefore there is no cumulative impact recorded to opening equity.

There have been no other changes to the accounting policies, which are disclosed in our most recent Annual Report on Form 10-K. The accompanying unaudited Condensed Consolidated Financial Statements we present in this report have been prepared in accordance with our policies. For further discussion, (see Note 10, “Revenue Recognition.”)

Use of Estimates. The preparation of condensed consolidated 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 disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Tax in Interim Periods. We conduct operations in separate legal entities in different jurisdictions. As a result, income tax amounts are reflected in these condensed consolidated financial statements for each of those jurisdictions. Tax laws and tax rates vary substantially in these jurisdictions and are subject to change based on the political and economic climate in those countries. We file our tax returns in accordance with our interpretations of each jurisdiction's tax laws. We record our tax provision or benefit on an interim basis using the estimated annual effective tax rate. This rate is applied to the current period ordinary income or loss to determine the income tax provision or benefit allocated to the interim period.

Losses from jurisdictions for which no benefit can be realized and the income tax effects of unusual and infrequent items are excluded from the estimated annual effective tax rate. Valuation allowances are provided against the future tax benefits that arise from the losses in jurisdictions for which no benefit can be realized. The effects of unusual and infrequent items are recognized in the impacted interim period as discrete items.

The estimated annual effective tax rate may be affected by nondeductible expenses and by our projected earnings mix by tax jurisdiction. Adjustments to the estimated annual effective income tax rate are recognized in the period during which such estimates are revised.

We have established valuation allowances against our deferred tax assets, including net operating loss carryforwards and income tax credits. Valuation allowances take into consideration our expected ability to realize these deferred tax assets and reduce the value of such assets to the amount that is deemed more likely than not to be realizable. Our ability to realize these deferred tax assets is dependent on achieving our forecast of future taxable operating income over an extended period of time. We review our forecast in relation to actual results and expected trends on a quarterly basis. A change in our valuation allowance would impact our income tax expense/benefit and our stockholders' deficit and could have a significant impact on our results of operations or financial condition in future periods.

Tax Cuts and Jobs Act

The Tax Cuts and Jobs Act (the "Act") was enacted on December 22, 2017 making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a reduction in the US federal corporate tax rate from 35% to 21%, requiring companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creating new taxes on certain foreign sourced earnings. All amounts recognized associated with the Tax Act as of June 30, 2018 are provisional. Given the complexity of the Tax Act, we are still evaluating the tax impact and obtaining the information required to complete the accounting. The date we expect to complete the accounting is not currently determinable while we continue to obtain the information required to complete the accounting. Given the provisional amounts recognized in 2017, and the fact that we have not changed our provisional estimates, the impact of measurement period adjustments was not material during the six months ended June 30, 2018.

Note 2 - New Accounting Pronouncements

Accounting Standards Adopted in the Current Period

We have implemented all new accounting pronouncements that are in effect and that management believes would materially affect our financial statements.

In May 2014, the Financial Accounting Standards Board (the "FASB") issued ASU No. 2014-09, "*Revenue from Contracts with Customers (Topic 606)*," updated by ASU No. 2015-14 "*Deferral of the Effective Date*," which provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and will supersede most current revenue recognition guidance. In August 2015, the effective date for the standard was deferred by one year and the standard is now effective for public entities for annual and interim periods beginning after December 15, 2017. Early adoption is permitted based on the original effective date. The standard allows companies to choose either full retrospective or modified retrospective adoption method.

We completed our analysis during 2017 and there is no material change to our financial position, results of operations, and cash flows. We adopted ASU No. 2014-09 and its amendment on a modified retrospective basis effective January 1, 2018. Although there is no material impact, we have expanded disclosures in our notes to our condensed consolidated financial statements related to revenue recognition under the new standard. We have implemented changes to our accounting policies and practices, business processes, systems, and controls to support the new revenue recognition and disclosure requirements. (See Note 10, “*Revenue Recognition*” for further discussion).

In November 2016, the FASB issued ASU 2016-18, “*Statement of Cash Flows: Restricted Cash*,” which provides guidance about the presentation of changes in restricted cash and restricted cash equivalents on the statement of cash flows. This standard is effective for fiscal years and interim periods beginning after December 15, 2017 and will be applied using a retrospective transition method to each period presented. Early adoption was permitted. Our analysis of ASU 2016-18 was completed during 2017 and there is no material change to our financial position, results of operations, and cash flows. We adopted ASU 2016-18 effective January 1, 2018.

In August 2016, the FASB issued ASU 2016-15, “*Statement of Cash Flows (Topic 230)*.” The ASU addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, and early adoption is permitted. Our analysis of ASU 2016-15 was completed during 2017 and there is no material change to our financial position, results of operations, and cash flows. We adopted ASU 2016-15 effective January 1, 2018.

In October 2016, the FASB issued ASU 2016-16, “*Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory*,” which removes the prohibition against the immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory. This standard is effective for fiscal years and interim periods beginning after December 15, 2017 and will be applied using a modified retrospective basis. Early adoption was permitted. Our analysis of ASU 2016-16 was completed during 2017 and there is no material change to our financial position, results of operations, and cash flows. We adopted ASU 2016-16 effective January 1, 2018.

In January 2016, the FASB issued ASU No 2016-01, “*Recognition and Measurement of Financial Assets and Financial Liabilities*,” *Financial Instruments – Overall (Subtopic 825-10)*. The new guidance is intended to improve the recognition and measurement of financial instruments. This guidance requires that financial assets and financial liabilities must be separately presented by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements. This guidance was effective for fiscal years and interim periods beginning after December 15, 2017. The standard includes a requirement that businesses must report changes in the fair value of their own liabilities in other comprehensive income/(loss) instead of earnings. Our analysis of ASU No 2016-01 was completed during 2017 and there is no material change to our financial position, results of operations, and cash flows. We adopted ASU No 2016-01 effective January 1, 2018.

In January 2017, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2017-01, “*Business Combinations*,” which clarifies the definition of a Business and improves the guidance for determining whether a transaction involves the purchase or disposal of a business or an asset. This standard was effective for fiscal years and interim periods beginning after December 15, 2017 and should be applied prospectively on or after the effective date. Early adoption is permitted only for the transactions that have not been reported in financial statements that have been issued or made available for issuance. We adopted this standard in the first quarter of 2018. The adoption of this guidance did not have a significant impact on our financial statements. The future impact of this guidance will depend on the nature of our future activities, and fewer transactions may be treated as acquisitions (or disposals) of businesses after adoption.

New Accounting Standards to be Adopted in Future Periods

In June 2018, an accounting update was issued to simplify the accounting for nonemployee share-based payment transactions resulting from expanding the scope of *ASC Topic 718, Compensation-Stock Compensation*, to include share-based payment transactions for acquiring goods and services from nonemployees. An entity should apply the requirements of *ASC Topic 718* to nonemployee awards except for specific guidance on inputs to an option pricing model and the attribution of cost (that is, the period of time over which share-based payment awards vest and the pattern of cost recognition over that period). The amendments specify that *ASC Topic 718* applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor’s own operations by issuing share-based payment awards. The amendments also clarify that *ASC Topic 718* does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under *ASC Topic 606, Revenue from Contracts with Customers*. The amendments in this accounting update are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted, but no earlier than an entity’s adoption date of *ASC Topic 606*. We are evaluating whether to early adopt this accounting update during the remainder of 2018.

In February 2016, the FASB issued ASU No 2016-02 “*Leases*.” The standard requires companies that lease valuable assets like aircraft, real estate, and heavy equipment to recognize on their balance sheets the assets and liabilities generated by contracts longer than a year. The standard also requires companies to disclose in the footnotes to their financial statements information about the amount, timing, and uncertainty for the payments they make for the lease agreements. This standard is effective for fiscal years and interim periods beginning after December 15, 2018. Early adoption is permitted. We expect to adopt this standard when effective, and the impact on our financial statements is not currently estimable.

In July 2017, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2017-11, I “*Accounting for Certain Financial Instruments With Down Round Features*” and II “*Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests With a Scope Exception*”. This standard is effective for fiscal years and interim periods beginning after December 15, 2018. Early adoption is permitted. We are currently evaluating the effect that the adoption of this standard will have on our financial statements and

expect to adopt this standard when effective.

Note 3 - Share-Based Compensation

We account for share-based awards under the provisions of ASC 718, “*Compensation—Stock Compensation*.” Accordingly, share-based compensation cost is measured at the grant date based on the fair value of the award and we expense these costs using the straight-line method over the requisite service period.

Share-based compensation expenses related to our restricted stock grants were \$57.0 thousand and \$56.0 thousand for the three months ended June 30, 2018 and 2017, and \$114.0 thousand and \$107.0 thousand for the six months ended June 30, 2018 and 2017, respectively, which are reported as a separate line item in the condensed consolidated statement of changes in stockholders’ deficit.

See Note 6 - *Share-Based Compensation*, in the Notes to Consolidated Financial Statements for the year ended December 31, 2017, included in our 2017 Annual Report for further discussion.

Note 4 – Earnings Per Share (“EPS”)

Basic EPS is computed by dividing net income by the basic weighted-average number of shares outstanding during the period.

Diluted EPS is computed by dividing net income by the diluted weighted-average number of shares outstanding during the period and, accordingly, reflects the potential dilution that could occur if securities or other agreements to issue common stock, such as stock options, were exercised, settled or converted into common stock and were dilutive. The diluted weighted-average number of shares used in our diluted EPS calculation is determined using the treasury stock method. For periods in which we recognize losses, the calculation of diluted loss per share is the same as the calculation of basic loss per share. We excluded unvested restricted stock awards from the diluted weighted-average number of shares used in our diluted EPS calculation of 1,120,927 for the six months ended June 30, 2018 and 1,095,792 for the three months ended June 30, 2018 because we had a net loss in the periods.

Unvested awards of share-based payments with rights to receive dividends or dividend equivalents, such as our restricted stock awards, are considered to be participating securities, and therefore, the two-class method is used for purposes of calculating EPS. Under the two-class method, a portion of net income is allocated to these participating securities and is excluded from the calculation of EPS allocated to common stock. Our restricted stock awards are subject to forfeiture and restrictions on transfer until vested and have identical voting, income and distribution rights to the unrestricted common shares outstanding. Our weighted average unvested restricted stock awards outstanding were 1,120,927 and 1,478,615 for the three months ended June 30, 2018 and 2017, and 1,095,792 and 1,413,045 for the six months ended June 30, 2018 and 2017.

The calculations of basic and diluted EPS are as follows:

	<u>Three Months Ended June 30, 2018</u>			<u>Three Months Ended June 30, 2017</u>		
	<u>Net Loss</u>	<u>Weighted Average Shares Outstanding</u>	<u>Loss Per Share</u>	<u>Net Income</u>	<u>Weighted Average Shares Outstanding</u>	<u>Earnings Per Share</u>
	<u>(in thousands, except per share data)</u>			<u>(in thousands, except per share data)</u>		
<i>Basic:</i>						
As reported	\$ (2,415)	23,008		\$ 1,947	22,763	
Amounts allocated to unvested restricted shares				(127)	(1,479)	
Amounts available to common stockholders	\$ (2,415)	23,008	\$ (0.10)	\$ 1,820	21,284	\$ 0.09
<i>Diluted:</i>						
Amounts allocated to unvested restricted shares	—	—		127	—	
Non participating share units					1,479	
Amounts reallocated to unvested restricted shares	—	—		(135)	—	
Amounts available to stockholders and assumed conversions	<u>\$ (2,415)</u>	<u>23,008</u>	<u>\$ (0.10)</u>	<u>\$ 1,812</u>	<u>22,763</u>	<u>\$ 0.08</u>
	<u>Six Months Ended June 30, 2018</u>			<u>Six Months Ended June 30, 2017</u>		
	<u>Net Loss</u>	<u>Weighted Average Shares Outstanding</u>	<u>Loss Per Share</u>	<u>Net Income</u>	<u>Weighted Average Shares Outstanding</u>	<u>Earnings Per Share</u>
	<u>(in thousands, except per share data)</u>			<u>(in thousands, except per share data)</u>		
<i>Basic:</i>						
As reported	\$ (3,272)	23,008		\$ 1,637	22,697	
Amounts allocated to unvested restricted shares				(102)	(1,413)	
Amounts available to common stockholders	\$ (3,272)	23,008	\$ (0.14)	\$ 1,535	21,284	\$ 0.07
<i>Diluted:</i>						
Amounts allocated to unvested restricted shares	—	—		102	—	
Non participating share units					1,413	
Amounts reallocated to unvested restricted shares	—	—		(109)	—	
Amounts available to stockholders and assumed conversions	<u>\$ (3,272)</u>	<u>23,008</u>	<u>\$ (0.14)</u>	<u>\$ 1,528</u>	<u>22,697</u>	<u>\$ 0.07</u>

Note 5 - Fair Value Measurements

ASC 820, "Fair Value Measurements and Disclosures" defines fair value, establishes a consistent framework for measuring fair value and expands disclosure requirements about fair value measurements. ASC 820 requires entities to, among other things, maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

ASC 820 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions.

In accordance with ASC 820, these two types of inputs have created the following fair value hierarchy:

- Level 1-Inputs that are quoted prices (unadjusted) for identical assets or liabilities in active markets;
- Level 2-Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability, including:
 - Quoted prices for similar assets or liabilities in active markets
 - Quoted prices for identical or similar assets or liabilities in markets that are not active
 - Inputs other than quoted prices that are observable for the asset or liability
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means; and
- Level 3-Inputs that are unobservable and reflect our assumptions used in pricing the asset or liability based on the best information available under the circumstances (e.g., internally derived assumptions surrounding the timing and amount of expected cash flows).

The following table presents the derivative financial instruments, our only financial liabilities measured and recorded at fair value on our condensed consolidated balance sheets on a recurring basis, and their level within the fair value hierarchy as of June 30, 2018 and December 31, 2017:

		Fair Value Measurements at Reporting Date Using			
		Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of June 30, 2018	Warrant derivative liabilities	\$ -	\$ -	\$ -	\$ -
As of December 31, 2017	Warrant derivative liabilities	\$ 24,233	\$ -	\$ -	\$ 24,233

Financial Instruments. Financial instruments consist primarily of cash and cash equivalents, accounts payable, deferred course expenses, accrued expenses, deferred revenue, and debt. U.S. GAAP requires the disclosure of the fair value of financial instruments, including assets and liabilities recognized in the balance sheets. Management believes the carrying value of the other financial instruments recognized on the condensed consolidated balance sheet date, including receivables, payables and accrued liabilities approximate their fair value.

See Note – 6 *Derivative Liability*, for further discussion.

Note 6 - Derivative Liability

In June 2015, we granted warrants to purchase 959,924 shares of the Company's common stock through a private offering of units ("Units"). Each Unit included one share of Common Stock, par value \$0.0001 per share, and a three-year Warrant to purchase one share of Common Stock at an initial exercise price per share equal to \$0.75, subject to adjustment for certain corporate transactions such as a merger, stock-split or stock dividend and, if the Company did not continue to be a reporting company under the Securities Exchange Act of 1934 during the two-year period after closing, the exercise price would be reduced to \$0.01 per share. Each Unit includes limited registration rights for the investors for the shares of Common Stock and the shares of Common Stock that would be issued upon the exercise of a Warrant ("Underlying Shares") when and if we register our shares of Common Stock in a different offering, subject to certain excluded registered offerings. The Company has also issued to the placement agent warrants to purchase our shares of Common Stock equal to 10% of the total shares sold in the offering, or 95,992 shares.

Because these warrants have full reset adjustments that would preclude the instrument from being considered as index to the Company's stock, it is subject to derivative liability treatment under *ASC 815-40-15*, which requires as of the date the warrants are issued, the derivative liability to be measured at fair value and re-evaluated at the end of each reporting period.

Key assumptions used to determine the fair value of the warrants follows:

	At Issuance	June 30, 2018	December 31, 2017
Market value of stock on measurement date	\$ 0.55	\$ 0.38	\$ 0.48
Risk-free interest rate	1.12%	1.93%	1.53%
Dividend yield	0%	0%	0%
Volatility factor	55%	62.5%	63.5%
Term	3 years	0.0 year	0.5 year

As of June 30, 2018 and December 31, 2017, the fair value of the total warrants' derivative liability is \$0 and \$24,233, respectively, and were recorded in other accrued expenses in the Condensed Consolidated Balance Sheets. We recognized a gain on the derivative liability of \$2,438 and \$15,624 for the three months ended June 30, 2018 and 2017, and \$24,233 and \$87,425 for the six months ended June 30, 2018 and 2017, which is recorded in other income, net in the Condensed Consolidated Statements of Operations and Comprehensive Income.

The following table summarizes the derivative liability included in other accrued expenses in the Condensed Consolidated Balance Sheets:

Balance at December 31, 2017	\$ 24,233
Gain on change of fair value	(24,233)
Balance at June 30, 2018	<u>—</u>

The following table summarizes information about warrants outstanding as of June 30, 2018:

Total # of warrants issued and outstanding	1,055,916
Weighted-average exercise price	\$ 0.75
Remaining life (in years)	—

Note 7 - Income Taxes

We recorded an income tax benefit of \$640.0 thousand and income tax expense of (\$107.0) thousand for the three months ended June 30, 2018 and 2017, respectively. We recorded an income tax benefit of \$243 and \$226.0 thousand for the six months ended June 30, 2018 and 2017, respectively. Our effective tax rate was 20.9% and 5.2% for the three months ended June 30, 2018 and 2017, and 6.9% and (16.0)% for the six months ended June 30, 2018 and 2017, respectively. Our effective tax rates differed from the U.S. statutory corporate tax rate of 21% and 35%, for the same periods, primarily because of the mix of pre-tax income or loss earned in certain jurisdictions and the change in our valuation allowance.

We record a valuation allowance when it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. As of June 30, 2018 and December 31, 2017, valuation allowances of \$4.9 million and \$4.7 million have been provided against net operating loss carryforwards and other deferred tax assets, respectively. We increased our valuation allowance by \$0.07 million for the six months ended June 30, 2018 and decreased our valuation allowance by \$0.5 million for the six months ended June 30, 2017.

As of June 30, 2018 and December 31, 2017, we had total unrecognized tax benefits of \$1.7 million, related to foreign and domestic tax positions. Of this amount, the Company estimates that \$0.4 million, of the unrecognized tax benefits, if recognized, would impact the effective tax rate. A substantial portion of our liability for uncertain tax benefits is recorded as a reduction of net operating losses and tax credit carryforwards.

During the three and six months ended June 30, 2018 and 2017, we had no material changes in uncertain tax positions. We record interest and penalties related to unrecognized tax benefits within the provision for income taxes. We believe that no current tax positions that have resulted in unrecognized tax benefits will significantly increase or decrease within one year. We file income tax returns in the U.S. federal jurisdiction and in various state and foreign jurisdictions.

The Internal Revenue Service completed its examination of the corporation's federal income tax returns for the years 2013-2015 resulting in no changes.

The Canadian Revenue Agency completed its examination of the corporation's 2014-2016 goods and services tax (GST) and harmonized sales tax (HST) returns. All issues have been settled.

The Tax Cuts and Jobs Act (the "Act") was enacted on December 22, 2017 making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a reduction in the US federal corporate tax rate from 35% to 21%, requiring companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creating new taxes on certain foreign sourced earnings. As of June 30, 2018, we have not completed our assessment of the accounting impact of the tax effects on the Company due to the Act; however, we have made a reasonable estimate of the effects on our existing deferred tax balances. We will continue to refine our estimate as additional analysis is completed and additional guidance is issued, however we do not expect a significant net impact on our underlying financial statements as we have cumulative losses in our foreign subsidiaries.

All amounts recognized associated with the Tax Act as of June 30, 2018 are provisional. Given the complexity of the Tax Act, we are still evaluating the tax impact and obtaining the information required to complete the accounting. The date we expect to complete the accounting is not currently determinable while we continue to obtain the information required to complete the accounting. Given the provisional amounts recognized in 2017, and the fact that we have not changed our provisional estimates, the impact of measurement period adjustments was not material during the six months ended June 30, 2018.

Note 8 - Concentration of Risk

Cash and cash equivalents. We maintain deposits in banks in amounts that might exceed the federal deposit insurance available. Management believes the potential risk of loss on these cash and cash equivalents to be minimal. Cash balances as of June 30, 2018 and December 31, 2017, including foreign subsidiaries, without FDIC coverage were \$2.1 million and \$5.3 million, respectively.

Revenue. A significant portion of our revenue is derived from the Rich Dad brands. Revenue derived from the Rich Dad brands as a percentage of total revenue was 68.5% and 70.1% for the three months ended June 30, 2018 and 2017, and 71.1% and 71.9% for the six months ended June 30, 2018 and 2017, respectively. In addition, we have operations in the North America, the United Kingdom and other foreign markets (see Note 9 — *Segment Information*).

Note 9 - Segment Information

We historically managed our business in four segments based on geographic location for which operating managers are responsible to the Chief Executive Officer. Our historical segments were the United States, Canada, the United Kingdom, and Other Foreign Markets. During the three months ended December 31, 2017, the Company's management decided to combine the United States and Canada segments into the North America segment effective for the 2017 year-end reporting and since such date, our operations have been managed through three operating segments: (i) North America, (ii) United Kingdom, (iii) Other Foreign Markets. Operating results, as reported below, are reviewed regularly by our Chief Executive Officer, or Chief Operating Decision Maker ("CODM") and other members of the executive team.

The proportion of our total revenue attributable to each segment is as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
As a percentage of total revenue				
North America	52.5%	58.2%	57.3%	58.0%
U.K.	23.6%	22.1%	22.0%	23.1%
Other foreign markets	23.9%	19.7%	20.7%	18.9%
Total consolidated revenue	100%	100%	100%	100%

Operating results for the segments are as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Segment revenue				
<i>(In thousands)</i>				
North America	\$ 13,237	\$ 15,262	\$ 29,186	\$ 27,944
U.K.	5,944	5,786	11,209	11,141
Other foreign markets	6,041	5,160	10,582	9,088
Total consolidated revenue	\$ 25,222	\$ 26,208	\$ 50,977	\$ 48,173
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Segment gross profit contribution *				
<i>(In thousands)</i>				
North America	\$ (459)	\$ 2,961	\$ 3,397	\$ 4,514
U.K.	1,719	2,023	2,846	3,793
Other foreign markets	914	1,234	344	1,529
Total consolidated gross profit	\$ 2,174	\$ 6,218	\$ 6,587	\$ 9,836

* Segment gross profit is calculated as revenue less direct course expenses, advertising and sales expenses and royalty expense.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Depreciation and amortization expenses <i>(In thousands)</i>				
North America	\$ 28	\$ 27	\$ 53	\$ 56
U.K.	10	5	14	9
Other foreign markets	3	—	3	—
Total consolidated depreciation and amortization expenses	<u>\$ 41</u>	<u>\$ 32</u>	<u>\$ 70</u>	<u>\$ 65</u>

	June 30, 2018	December 31, 2017
Segment identifiable assets <i>(In thousands)</i>		
North America	\$ 10,449	\$ 15,364
U.K.	6,384	9,090
Other foreign markets	5,583	2,566
Total consolidated identifiable assets	<u>\$ 22,416</u>	<u>\$ 27,020</u>

Note 10 – Revenue Recognition

We recognize revenue when our customers obtain control of promised goods or services, in an amount that reflects the consideration which we expect to receive in exchange for those goods or services, in accordance with implemented Topic 606 - an update to Topic 605, which was the revenue recognition standard in effect for each of the two years in the period ended December 31, 2017.

We adopted Topic 606 using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under Topic 605. Revenue amounts presented in our condensed consolidated financial statements are recognized net of sales tax, value-added taxes, and other taxes.

In the normal course of business, we recognize revenue based on the customers' attendance of the course, mentoring training, coaching session or delivery of the software, data or course materials on-line. After a customer contract expires we record breakage revenue less a reserve for cases where we allow a customer to attend after expiration. We have deferred revenue of \$55.1 million related to contractual commitments with customers where the performance obligation will be satisfied over time, which ranges from one to two years. The revenue associated with these performance obligations is recognized as the obligation is satisfied. We did not have a material change in financial position, results of operations, or cash flows and therefore there is no cumulative impact recorded to opening equity.

The following tables disaggregate our segment revenue by revenue source:

Revenue Type:	Three Months Ended June 30, 2018				Three Months Ended June 30, 2017			
	North America	U.K.	Other foreign markets	Total Consolidated Revenue	North America	U.K.	Other foreign markets	Total Consolidated Revenue
	<i>(In thousands)</i>							
Seminars	\$ 8,134	\$ 4,690	\$ 3,971	\$ 16,795	\$ 9,873	\$ 4,060	\$ 2,321	\$ 16,254
Products	2,578	1,029	1,078	4,685	2,787	1,011	1,306	5,104
Coaching and Mentoring	1,291	206	986	2,483	1,301	609	1,533	3,443
Online and Subscription	385	13	6	404	31	6	—	37
Other	849	6	0	855	1,270	100	—	1,370
Total revenue	<u>\$ 13,237</u>	<u>\$ 5,944</u>	<u>\$ 6,041</u>	<u>\$ 25,222</u>	<u>\$ 15,262</u>	<u>\$ 5,786</u>	<u>\$ 5,160</u>	<u>\$ 26,208</u>

Revenue Type:	Six Months Ended June 30, 2018				Six Months Ended June 30, 2017			
	North America	U.K.	Other foreign markets	Total Consolidated Revenue	North America	U.K.	Other foreign markets	Total Consolidated Revenue
	(In thousands)							
Seminars	\$ 18,316	\$ 8,120	\$ 6,597	\$ 33,033	\$ 17,306	\$ 7,292	\$ 3,995	\$ 28,593
Products	5,852	2,382	2,004	10,238	5,834	2,737	2,916	11,487
Coaching and Mentoring	2,748	644	1,971	5,363	3,026	971	2,177	6,174
Online and Subscription	952	24	10	986	56	10	—	66
Other	1,318	39	0	1,357	1,722	131	—	1,853
Total revenue	\$ 29,186	\$ 11,209	\$ 10,582	\$ 50,977	\$ 27,944	\$ 11,141	\$ 9,088	\$ 48,173

Note 11 - Commitments and Contingencies

Licensing agreements. We are committed to pay royalties for the usage of certain brands, as governed by various licensing agreements, including Rich Dad, Robbie Fowler, Martin Roberts and Kathy Ireland. Total royalty expenses included in our Condensed Consolidated Statements of Operations and Comprehensive Income/(Loss) were \$1.6 million for the three months ended June 30, 2018 and 2017, and \$3.2 million and \$2.5 million for the six months ended June 30, 2018 and 2017, respectively.

Custodial and Counterparty Risk. We are subject to custodial and other potential forms of counterparty risk in respect to a variety of contractual and operational matters. In the course of ongoing Company-wide risk assessment, management monitors our arrangements that involve potential counterparty risk, including the custodial risk associated with amounts prepaid to certain vendors and deposits with credit card and other payment processors. Deposits held by our credit card processors at June 30, 2018 and December 31, 2017, were \$3.4 million and \$2.8 million, respectively. These balances are included on the Condensed Consolidated Balance Sheets in restricted cash. While these balances reside in major financial institutions, they are only partially covered by federal deposit insurance and are subject to the financial risk of the parties holding these funds. When appropriate, we utilize Certificate of Deposit Account Registry Service (CDARS) to reduce banking risk for a portion of our cash in the United States. A CDAR consists of numerous individual investments, all below the FDIC limits, thus fully insuring that portion of our cash. At June 30, 2018 and December 31, 2017, we did not have a CDAR balance.

Litigation. We and certain of our subsidiaries, from time to time, are parties to various legal proceedings, claims and disputes that have arisen in the ordinary course of business. These claims may involve significant amounts, some of which would not be covered by insurance.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

INTRODUCTION

You should read the following discussion of our financial condition and results of operations with our audited consolidated financial statements and related notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017. This discussion contains forward-looking statements and involves numerous risks, uncertainties, assumptions and other important factors that could cause the actual results, performance or our achievements, or industry results, to differ materially from historical results, any future results, or performance or achievements expressed or implied by such forward-looking statements. See “Cautionary Statement Regarding Forward-Looking Information.”

Business Overview

We are a provider of practical, high-quality, and value-based educational training on the topics of personal finance, entrepreneurship, real estate and financial markets investing strategies and techniques. Our programs are offered through a variety of formats and channels, including free-preview workshops, basic training classes, symposiums, telephone mentoring, one-on-one mentoring, coaching and e-learning, primarily under the Rich Dad® Education brand (“Rich Dad”) which was created in 2006 under license from entities affiliated with Robert Kiyosaki, whose teachings and philosophies are detailed in the book titled, *Rich Dad Poor Dad*. In addition to Rich Dad, we market our products and services under the brands, Making Money from Property with Martin Roberts™; Brick Buy Brick™; Building Wealth; Robbie Fowler Property Academy™; Women in Wealth™; Perform in Property™, Teach Me to Trade™, and Trade Up Investor Education™. Our products and services are offered in North America, the United Kingdom and Other Foreign Markets.

Our students pay for their courses in full up-front or through payment agreements with independent third parties. Under United States of America generally accepted accounting principles (“U.S. GAAP”), we recognize revenue when our students take their courses or the term for taking their course expires, which could be several quarters after the student purchases a program and pays the fee. Over time, we have taken steps to shorten many of our course contracts from two-year contracts to one-year contracts, which is expected to accelerate revenue recognition as services are delivered faster and/or contract terms expire sooner. We also continue to expand our innovative symposium-style course delivery model into other markets. Our symposiums combine multiple advanced training courses in one location, allowing us to achieve certain economies of scale that reduce costs and improve margins while also accelerating U.S. GAAP revenue recognition, while at the same time, enhancing our student's experience, particularly, for example, through the opportunity to network with other students.

We also provide a richer experience for our students through one-on-one mentoring (two to four days in length, on site or remotely) and telephone mentoring (10 to 16 weekly one-on-one or one-on-many telephone sessions). Mentoring involves a subject matter expert interacting with the student remotely or in person and guiding the student, for example, through his or her first real estate transaction, providing a real hands-on experience.

We were founded in 1996 and became a public reporting company in November 2014. Today we are a global company with approximately 200 employees that has cumulatively served more than two million students from more than 150 countries and territories over the course of our operating history.

We historically managed our business in four segments based on geographic location. These segments included our historical segments of the United States, Canada, and the United Kingdom, and Other Foreign Markets. During the three months ended December 31, 2017, the Company’s management decided to combine the previously reported United States and Canada segments into the North America segment effective for the 2017 year-end reporting and since such date our operations have been managed through three operating segments: (i) North America, (ii) United Kingdom, (iii) Other Foreign Markets.

In addition to our international expansion efforts, we are diversifying our product offerings through the introduction of established brands into new markets and the development of new brands. Overall, we currently offer ten brands, which include:

- Brick Buy Brick™: Initially launched in the UK, Brick Buy Brick is now also available in the North America and the other foreign markets in which we operate. The program introduces our students to the tools and strategies used by successful investors to make money work for them through real estate investing.
- Building Wealth: A program that offers students training on how to build and preserve wealth, start or manage a business, and benefit through investing in property regardless of market conditions.
- Making Money from Property with Martin Roberts™: A property-based curriculum focused on how and why to buy property at auction in the U.K. Based on the teachings of Martin Roberts, renowned U.K. TV personality, property expert, journalist, and author of *Making Money from Property*, our Making Money from Property program is designed to show investors tested strategies to buy at auction, as well as the difference between income and capital growth strategies, negotiating transactions, and buying properties overseas.
- Perform in Property™ is the first British training program of its kind. Joining forces with gallant Olympians, Legacy sets out to empower students to take control of their financial future by providing three tiers of reality-based training and time-tested resources. The Perform in Property brand is designed to help students achieve the level of performance and financial independence they desire.
- Rich Dad® Education: Our flagship brand based on the teachings of Robert Kiyosaki, an entrepreneur, investor, educator, and author of the best-selling personal finance books of all time, *Rich Dad Poor Dad*. Mr. Kiyosaki has written more than 15 books with combined sales of more than 26 million copies.
- Rich Dad® Stock Education: In our Rich Dad Stock Education program, we teach students how to become savvy investors who can potentially create winning trades and profits in any market condition through the development of personal trading plans that are compatible with their current financial situation, the level of risk they are comfortable with, and their long-term financial goals.
- Robbie Fowler Property Academy™: Designed to teach investment strategies individuals can use to achieve a potential clear path towards long-term wealth, the goal of our Property Academy training program is to provide a comprehensive property investment education. We teach our students the investment strategies currently implemented throughout the UK, such as Social Housing, Buy-To-Let, Lease Options, and Land Development.
- Teach Me to Trade™ is a brand designed for students who want to learn the core concepts of trading in the financial markets. Beginners and veteran traders alike can benefit from the Teach Me to Trade brand as it focuses on broad market concepts aimed at helping traders gain an understanding of the foundations for success in a new trading business. It teaches how to develop a game plan, develop a business-minded approach to trading and appreciate the vital skills needed to invest in the financial markets.
- Trade Up Investor Education™: Built on the belief that a successful investor is an educated investor and developed in partnership with Investor's Business Daily®, a leading financial news and research organization since 1984, students are offered educational training designed to help them increase their knowledge of stock and options trading.
- Women In Wealth™: Created to inspire women of all ages and backgrounds to potentially achieve financial security, Women In Wealth seeks to empower women with a strong financial education and help them learn the potential benefits of real estate investing to create cash flow and build financial independence.

Recent Developments

The company announced that it has established separate subsidiaries in the U.K. and the U.S. to focus solely on real estate investment and development activities. The properties acquired by the Company include two rental-income flats in Birmingham, West Midlands, which is the second largest city in the U.K. In addition to providing rental income to the Company, these and other acquired properties will be used as case studies to demonstrate various strategies and techniques taught in Legacy's various property investing classes in the U.K.

In June 2018, we entered into an agreement to join forces with kathy ireland® Worldwide (kiWW®) to promote our respective brands. Under the agreement, Kathy Ireland®, world famous and widely respected fashion model, businessperson and entrepreneur, will act as Brand Ambassador promoting our world class suite of real estate and financial markets education products and services in alignment with Ms. Ireland's message of entrepreneurship and social responsibility.

RESULTS OF OPERATIONS

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
<i>(in thousands, except per share data)</i>				
Revenue	\$ 25,222	\$ 26,208	\$ 50,977	\$ 48,173
Operating costs and expenses:				
Direct course expenses	15,397	13,220	29,611	26,083
Advertising and sales expenses	5,998	5,131	11,570	9,722
Royalty expenses	1,653	1,639	3,209	2,532
General and administrative expenses	5,198	4,231	10,046	8,572
Total operating costs and expenses	<u>28,246</u>	<u>24,221</u>	<u>54,436</u>	<u>46,909</u>
Income/(loss) from operations	<u>(3,024)</u>	<u>1,987</u>	<u>(3,459)</u>	<u>1,264</u>
Other income (expense):				
Interest expense	(4)	(2)	(8)	(5)
Other income (expense), net	(27)	69	(48)	152
Total other income (expense), net	<u>(31)</u>	<u>67</u>	<u>(56)</u>	<u>147</u>
Income/(loss) before income taxes	<u>(3,055)</u>	<u>2,054</u>	<u>(3,515)</u>	<u>1,411</u>
Income tax (expense) benefit	640	(107)	243	226
Net income/(loss)	<u>\$ (2,415)</u>	<u>\$ 1,947</u>	<u>\$ (3,272)</u>	<u>\$ 1,637</u>
Basic earnings/(loss) per common share	\$ (0.10)	\$ 0.09	\$ (0.14)	\$ 0.07
Diluted earnings/(loss) per common share	\$ (0.10)	\$ 0.08	\$ (0.14)	\$ 0.07
Basic weighted average common shares outstanding	23,008	21,284	23,008	21,284
Diluted weighted average common shares outstanding	23,008	22,763	23,008	22,697
Comprehensive income/(loss):				
Net income/(loss)	\$ (2,415)	\$ 1,947	\$ (3,272)	\$ 1,637
Foreign currency translation adjustments, net of tax of \$0	1,407	(980)	986	(1,278)
Total comprehensive income/(loss)	<u>\$ (1,008)</u>	<u>\$ 967</u>	<u>\$ (2,286)</u>	<u>\$ 359</u>

Our operating results are expressed as a percentage of revenue in the table below:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Revenue	100%	100%	100%	100%
Operating costs and expenses:				
Direct course expenses	61	50.4	58.1	54.1
Advertising and sales expenses	23.8	19.5	22.7	20.2
Royalty expenses	6.6	6.3	6.2	5.2
General and administrative expenses	20.6	16.1	19.7	17.8
Total operating costs and expenses	112.0	92.3	106.7	97.3
Income/(loss) from operations	(12.0)	7.7	(6.7)	2.7
Other income (expense):				
Other income (expense), net	(0.1)	0.2	(0.1)	0.3
Total other income (expense), net	(0.1)	0.2	(0.1)	0.3
Income/(loss) before income taxes	(12.1)	7.9	(6.9)	3.0
Income tax (expense) benefit	2.5	(0.5)	0.5	0.4
Net income/(loss)	(9.6)%	7.4%	(6.4)%	3.4%

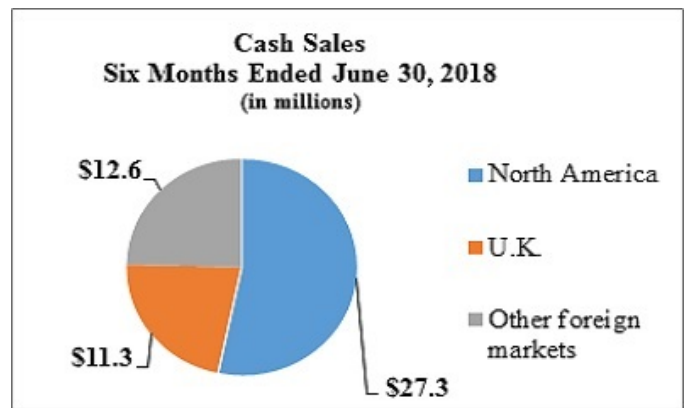
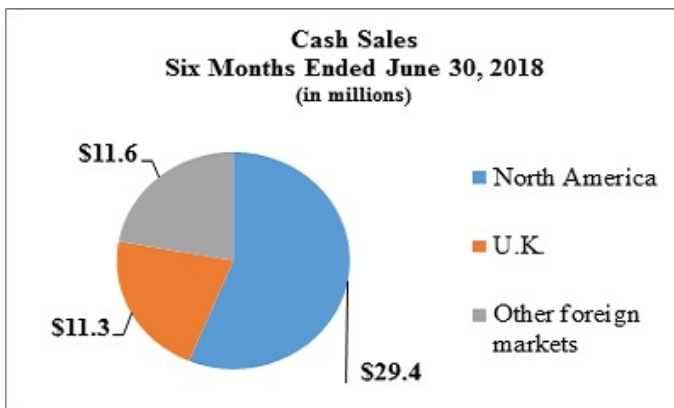
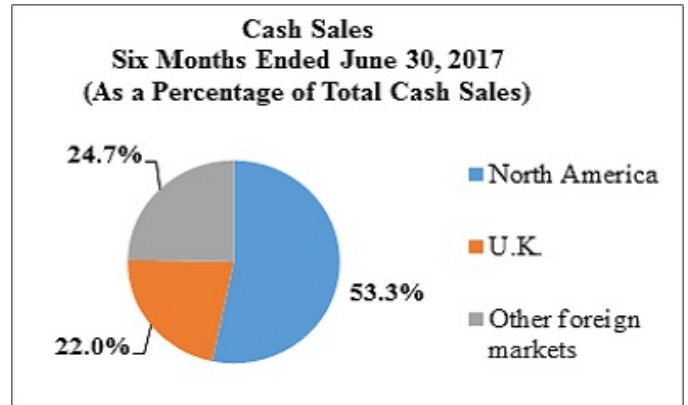
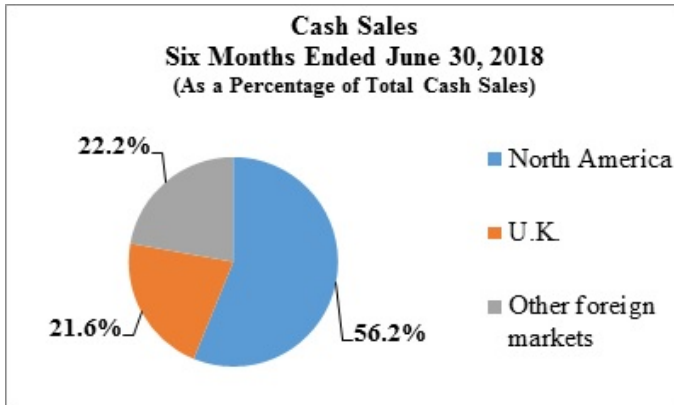
Outlook

Cash sales were \$52.3 million for the six months ended June 30, 2018 compared to \$51.2 million for the six months ended June 30, 2017, an increase of \$1.1 million or 2.1%. The increase was driven primarily by a \$2.1 million increase in our North America segment, which was partially offset by a \$1.0 million decrease in our Other Foreign Markets segment. We believe that cash sales remain an important metric when evaluating our operating performance. Pursuant to U.S. GAAP, we recognize revenue when our students take their courses or the term for taking their course expires, which could be several quarters after the student purchases a program. Our students pay for their courses in full up-front or through payment agreements with independent third parties.

Our financial results were impacted by expenses incurred in executing on our strategy of brand and product diversification, including significant upfront sales and advertising expense and direct course expenses to develop, test, and market these new brands and product offerings and to fund our U.K. property development activities. Our financial results also were impacted by increases in labor costs and software costs in connection with our new ERP system which was placed into production in January 2018. We have taken steps to ensure our expenses are in line with our projected cash sales and liquidity requirements for the remainder of 2018.

We anticipate cash sales to increase throughout 2018, particularly as new brands gain greater traction in our more established markets, and as we continue to expand internationally and hone our selling and marketing strategy in new markets.

Cash Sales 2018 and 2017 in Percentages and Dollars

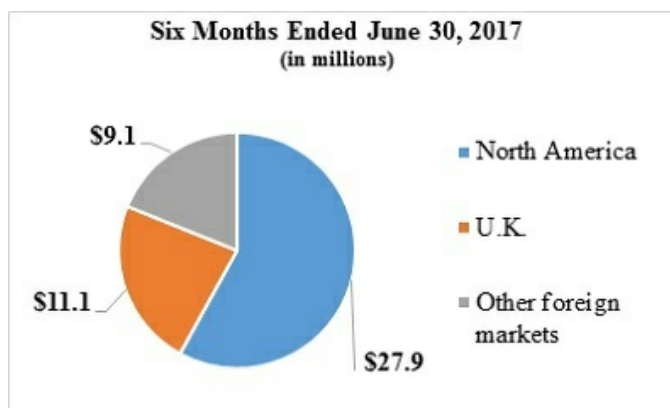
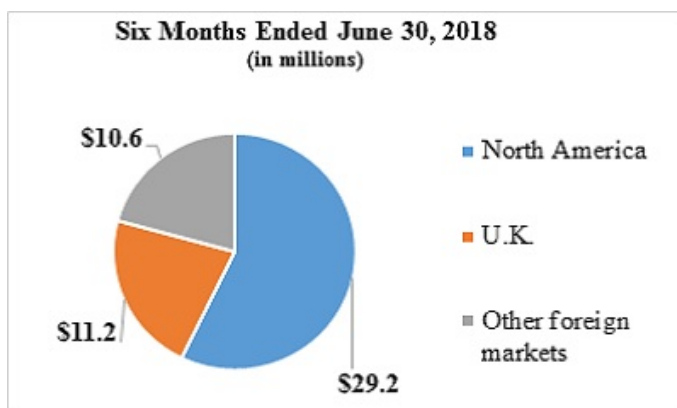
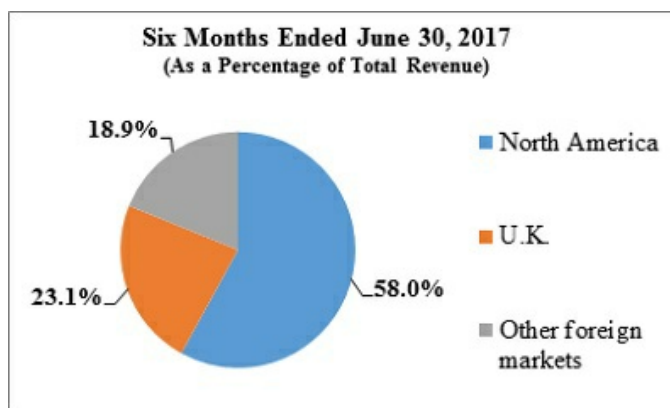
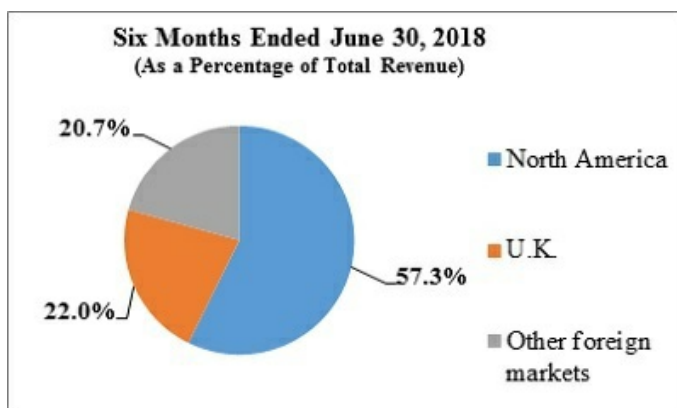
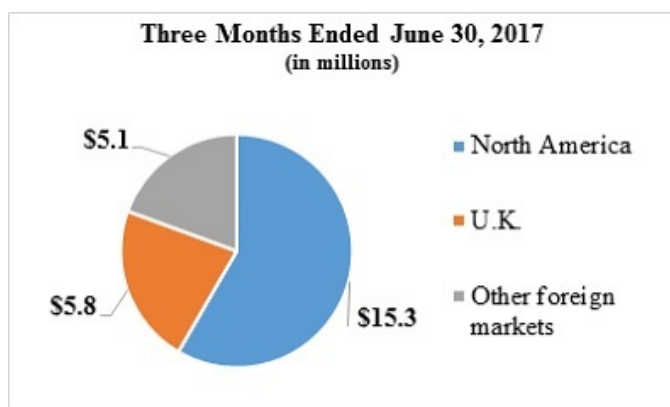
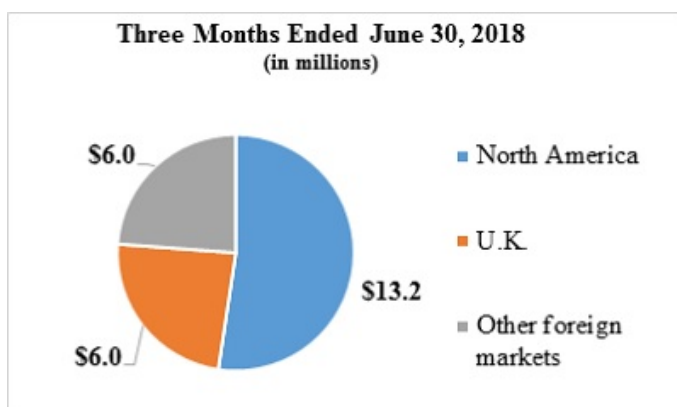
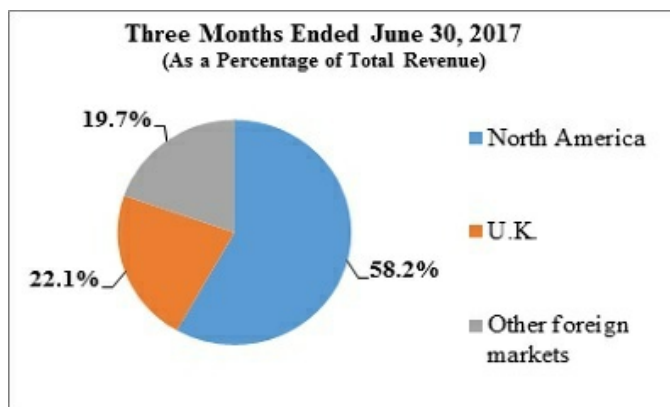
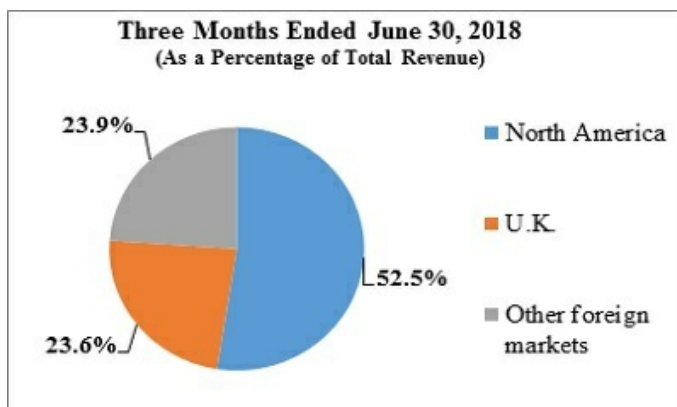


OPERATING SEGMENTS

We historically managed our business in four segments based on geographic location. These segments included our historical segments of the United States, Canada, and the United Kingdom, and Other Foreign Markets. During the three months ended December 31, 2017, the Company's management decided to combine the previously reported United States and Canada segments into the North America segment effective for the 2017 year-end reporting and since such date our operations have been managed through three operating segments: (i) North America, (ii) United Kingdom, (iii) Other Foreign Markets. The proportion of our total revenue attributable to each segment is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
As a percentage of total revenue				
North America	52.5%	58.2%	57.3%	58.0%
U.K.	23.6%	22.1%	22.0%	23.1%
Other foreign markets	23.9%	19.7%	20.7%	18.9%
Total consolidated revenue	100%	100%	100%	100%
	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Segment revenue (In thousands)				
North America	\$ 13,237	\$ 15,262	\$ 29,186	\$ 27,944
U.K.	5,944	5,786	11,209	11,141
Other foreign markets	6,041	5,160	10,582	9,088
Total consolidated revenue	\$ 25,222	\$ 26,208	\$ 50,977	\$ 48,173

Revenue 2018 and 2017 in Dollars and Percentages



North America

Over the past several years, our North America business shifted its focus to consist primarily of *Rich Dad™ Education* brand offerings. Revenue derived from the Rich Dad brands was \$10.6 million and \$13.5 million or as a percentage of total segment revenue was 80.3% and 88.2% for the three months ended June 30, 2018 and 2017, and \$22.7 million and \$24.8 million or as a percentage of total segment revenue was 77.9% and 88.9% for the six months ended June 30, 2018 and 2017. The majority pertained to real estate-related education, with the balance pertaining to financial markets and entrepreneurial education. We are continuing to develop non-Rich Dad brands, such as *Woman in Wealth™*, *Building Wealth*, *Teach Me to Trade™* and *Brick Buy Brick™* along with other brands to diversify our business, although our business to date in these brands has not been material to our Company as a whole.

The North America segment revenue was \$13.2 million and \$15.2 million or as a percentage of total revenue was 52.5% and 58.2% for the three months ended June 30, 2018 and 2017, \$29.2 million and \$27.9 million or as a percentage of total revenue was 57.3% and 58.0% for the six months ended June 30, 2018 and 2017. The decrease in revenue of \$2.0 million or 13.3% during the three months ended June 30, 2018 compared to the same period in 2017, was due to a decrease in recognition of revenue from decreased attendance (i.e. fulfillment) of \$3.2 million or 23.2%, partially offset by an increase in revenue from expired contracts of \$1.2 million or 9.4%. The increase in revenue of \$1.3 million or 4.7% during the six months ended June, 2018 compared to the same period in 2017, was due to an increase in revenue from expired contracts of \$2.5 million or 96.3%, partially offset by a decrease in recognition of revenue from decreased attendance (i.e. fulfillment) of \$1.2 million or 5.1%.

U.K.

In contrast to our North America segment, our U.K. segment is more diversified amongst several different brands. Revenue derived from the Rich Dad brands was \$1.0 million and \$1.4 million or as a percentage of total segment revenue was 16.9% and 24.0% for the three months ended June 30, 2018 and 2017, and \$3.4 million and \$2.8 million or as a percentage of total segment revenue was 30.5% and 25.5% for the six months ended June 30, 2018 and 2017. The majority pertained to real estate-related education, with the balance pertaining to financial markets education.

The U.K. segment revenue was \$6.0 million and \$5.8 million or as a percentage of total revenue was 23.6% and 22.1% for the three months ended June 30, 2018 and 2017, and \$11.2 million and \$11.1 million or as a percentage of total revenue was 22.0% and 23.1% for the six months ended June 30, 2018 and 2017. The increase in revenue of \$0.2 million for the three months ended June 30, 2018 compared to the same period in 2017, was due to increased attendance (i.e. fulfillment) of \$0.1 million or 1.0%, and increase in recognition of revenue from expired contracts of \$0.1 million or 8.8%. The increase of \$0.1 million in revenue for the six months ended June 30, 2018 compared to the same period in 2017, was due to increased attendance (i.e. fulfillment) of \$0.4 million or 4.1%, partially offset by a decrease in recognition of revenue from expired contracts of \$0.3 million or 12.0%.

Other Foreign Markets

We operate in other foreign markets, including Australia, New Zealand, South Africa, Hong Kong and other European, Asian and African countries. Our Other Foreign Markets segment continues to gain traction and has shown significant growth in revenue. Revenue derived from the Rich Dad brands was \$5.7 million and \$3.5 million or as a percentage of total segment revenue was 93.6% and 68.1% for the three months ended June 30, 2018 and 2017, and \$10.1 million and \$7.0 million or as a percentage of total segment revenue was 95.3% and 77.4% for the six months ended June 30, 2018 and 2017.

The Other Foreign Markets segment revenue was \$6.0 million and \$5.1 million or as a percentage of total revenue was 23.9% and 19.7% for the three months ended June 30, 2018 and 2017, and \$10.6 million and \$9.1 million or as a percentage of total revenue was 20.7% and 18.9% for the six months ended June 30, 2018 and 2017. The increase in revenue of \$0.9 million or 17.1% during the three months ended June 30, 2018 compared to the same period in 2017, was due to increased attendance (i.e. fulfillment) of \$0.3 million or 7.7% and increase in recognition of revenue from expired contracts of \$0.6 million or 48.5%. The increase in revenue of \$1.5 million or 16.4% during the six months ended June 30, 2018 compared to the same period in 2017, was due to increased attendance (i.e. fulfillment) of \$0.5 million or 6.9% and increase in recognition of revenue from expired contracts of \$1.0 million or 62.4%.

Three Months Ended June 30, 2018 Compared to Three Months Ended June 30, 2017

Revenue

Revenue was \$25.2 million for the three months ended June 30, 2018 compared to \$26.2 million for the three months ended June 30, 2017. Revenue decreased \$1.0 million or 3.8% during the three months ended June 30, 2018 compared to the same period in 2017. The decrease in revenue was due to decreased attendance (i.e. fulfillment) of \$2.9 million or 12.9%, partially offset by an increase in revenue from expired contracts of \$1.9 million or 50.5%.

Cash sales were \$24.7 million for the three months ended June 30, 2018 compared to \$26.8 million for the three months ended June 30, 2017, a decrease of \$2.1 million or 7.8%. The decrease was driven primarily by a \$0.8 million decrease in our U.K. segment, a \$0.7 million decrease in our North America segment, and a \$0.6 million decrease in our Other Foreign Markets segment.

Operating Expenses

Total operating costs and expenses were \$28.2 million for the three months ended June 30, 2018 compared to \$24.2 million for the three months ended June 30, 2017, an increase of \$4.0 million or 16.5%. The increase was primarily due to a \$2.2 million increase in direct course expenses, a \$0.9 million increase in advertising and sales expenses and a \$0.9 million increase general and administrative expenses.

Direct course expenses

Direct course expenses relate to our free preview workshops, basic training and advanced training, and consist of instructor fees, facility costs, salaries, commissions and fees associated with our field representatives and related travel expenses. Direct course expenses were \$15.4 million for the three months ended June 30, 2018 compared to \$13.2 million for the three months ended June 30, 2017, an increase of \$2.2 million or 16.5%, which was primarily related to increases in sales and training compensation, due to improved internal sales performance metrics, venue expenses, and mentor fulfillment costs. We have adjusted our sales compensation programs to align them with sales forecasts for the balance of 2018.

Advertising and sales expenses

We generally obtain most of our potential customers through internet-based advertising. Advertising and sales expenses consist of purchased media to generate registrations to our free preview workshops and costs associated with supporting customer recruitment. We obtain the majority of our customers through free preview workshops. These preview workshops are offered in various metropolitan areas in North America, United Kingdom, and other international markets. Prior to the actual workshop, we spend a significant amount of money in the form of advertising through various media channels.

Advertising and sales expenses were \$6.0 million for the three months ended June 30, 2018 compared to \$5.1 million for the three months ended June 30, 2017, an increase of \$0.9 million, or 16.9%. As a percentage of revenue, advertising and sales expenses were 23.8% and 19.5% of revenue for the three months ended June 30, 2018 and 2017, an increase of 4.3%. This increase is related to our efforts to diversify our product offerings through the introduction and the development of our proprietary brands as we incurred significant upfront costs to develop, test, and market these new brands and new product offerings.

Royalty expenses

We have licensing and related agreements with RDOC, whereby we have exclusive rights to develop, market, and sell Rich Dad Education-branded live seminars, training courses, and related products worldwide. In connection with these agreements and our other licensing agreements, we are required to pay royalties. Royalty expenses were \$1.6 million for the three months ended June 30, 2018 and 2017.

General and administrative expenses

General and administrative expenses primarily consist of compensation, benefits, insurance, professional fees, facilities expenses and travel expenses for the corporate staff, as well as depreciation and amortization expenses. General and administrative expenses were \$5.2 million for the three months ended June 30, 2018 compared to \$4.3 million for the three months ended June 30, 2017, an increase of \$0.9 million, or 20.9%. The increase was primarily driven by increases in labor costs and software costs in connection with our new ERP system which was placed into production in January 2018.

Income tax expense

We recorded an income tax benefit of \$640 thousand and income tax expense of (\$107.0) thousand for the three months ended June 30, 2018 and 2017, respectively. Our effective tax rate was 20.9% and 5.2% for the three months ended June 30, 2018 and 2017. Our effective tax rates differed from the U.S. statutory corporate tax rate of 21% and 35%, for the same periods, primarily because of the mix of pre-tax income or loss earned in certain jurisdictions and the change in our valuation allowance.

We record a valuation allowance when it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. As of June 30, 2018 and December 31, 2017, valuation allowances of \$4.9 million and \$4.7 million have been provided against net operating loss carryforwards and other deferred tax assets, respectively. Our valuation allowance increased by \$0.2 million for the three months ended June 30, 2018 and decreased \$0.6 million for the three months ended June 30, 2017.

Net Income/(Loss)

Net loss was \$2.4 million or (\$0.10) per basic and diluted common share for the three months ended June 30, 2018, compared to a net income of \$2.0 million or \$0.09 per basic and \$0.08 per diluted common share for the three months ended June 30, 2017, an increase in net loss of (\$4.4) million or (\$0.19) per basic and (\$0.18) per diluted common share. Net loss for the three months ended June 30, 2018 was primarily due to increases of \$4.0 million in operating expenses, decreases in revenue as a result of decreased attendance (i.e. fulfillment) of \$2.9 million or 12.9%, partially offset by an increase in revenue from expired contracts of \$1.9 million or 50.5%. and an increase of \$0.7 million in tax benefits.

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

Revenue

Revenue was \$51.0 million for the six months ended June 30, 2018 compared to \$48.1 million for the six months ended June 30, 2017. Revenue increased \$2.9 million or 6.0% during the six months ended June 30, 2018 compared to the same period in 2017. The increase in revenue was due to increase in revenue from expired contracts of \$3.3 million or 48.4%, partially offset by decreased attendance (i.e. fulfillment) of \$0.4 million or 1.0%.

Cash sales were \$52.3 million for the six months ended June 30, 2018 compared to \$51.2 million for the six months ended June 30, 2017, an increase of \$1.1 million or 2.1%. The increase was driven primarily by a \$2.1 million increase in our North America segment, which was partially offset by a \$1.0 million decrease in our Other Foreign Markets segment.

Operating Expenses

Total operating costs and expenses were \$54.5 million for the six months ended June 30, 2018 compared to \$46.9 million for the six months ended June 30, 2017, an increase of \$7.6 million or 16.2%. The increase was primarily due to a \$3.5 million increase in direct course expenses, a \$1.9 million increase in advertising and sales expenses, a \$1.5 million increase general and administrative expenses and a \$0.7 million increase in in royalty expense.

Direct course expenses

Direct course expenses relate to our free preview workshops, basic training and advanced training, and consist of instructor fees, facility costs, salaries, commissions and fees associated with our field representatives and related travel expenses. Direct course expenses were \$29.6 million for the six months ended June 30, 2018 compared to \$26.1 million for the six months ended June 30, 2017, an increase of \$3.5 million or 13.4%, which was primarily related to increases in sales and training compensation, due to improved internal sales performance metrics, venue expenses, and mentor fulfillment costs. We have adjusted our sales compensation programs to align them with sales forecasts for the balance of 2018.

Advertising and sales expenses

We generally obtain most of our potential customers through internet-based advertising. Advertising and sales expenses consist of purchased media to generate registrations to our free preview workshops and costs associated with supporting customer recruitment. We obtain the majority of our customers through free preview workshops. These preview workshops are offered in various metropolitan areas in North America, United Kingdom, and other international markets. Prior to the actual workshop, we spend a significant amount of money in the form of advertising through various media channels.

Advertising and sales expenses were \$11.6 million for the six months ended June 30, 2018 compared to \$9.7 million for the six months ended June 30, 2017, an increase of \$1.9 million, or 19.6%. As a percentage of revenue, advertising and sales expenses were 22.7% and 20.2% of revenue for the six months ended June 30, 2018 and 2017, an increase of 12.4%. This increase is primarily related to our efforts to diversify our product offerings through the introduction and the development of our proprietary brands as we incurred significant upfront costs to develop, test, and market these new brands and new product offerings.

Royalty expenses

We have licensing and related agreements with RDOC, whereby we have exclusive rights to develop, market, and sell Rich Dad Education-branded live seminars, training courses, and related products worldwide. In connection with these agreements and our other licensing agreements, we are required to pay royalties. Royalty expenses were \$3.2 million for the six months ended June 30, 2018 compared to \$2.5 million for the six months ended June 30, 2017, an increase of \$0.7 million, or 26.7%. The increase was primarily related to a \$0.6 million increase in deferred license expenses associated with the timing of revenue recognition in the quarters and a \$0.1 million increase due to increased cash sales.

General and administrative expenses

General and administrative expenses primarily consist of compensation, benefits, insurance, professional fees, facilities expenses and travel expenses for the corporate staff, as well as depreciation and amortization expenses. General and administrative expenses were \$10.1 million for the six months ended June 30, 2018 compared to \$8.6 million for the six months ended June 30, 2017, an increase of \$1.5 million, or 17.4%. The increase was primarily driven by increases in labor costs and software costs in connection with our new ERP system which was placed into production in January 2018.

Income tax expense

We recorded an income tax benefit of \$243 thousand and \$226.0 thousand for the six months ended June 30, 2018 and 2017, respectively. Our effective tax rate was 6.9% and (16.0)% for the six months ended June 30, 2018 and 2017. Our effective tax rates differed from the U.S. statutory corporate tax rate of 21% and 35%, for the same periods, primarily because of the mix of pre-tax income or loss earned in certain jurisdictions and the change in our valuation allowance.

We record a valuation allowance when it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. As of June 30, 2018 and December 31, 2017, valuation allowances of \$4.9 million and \$4.7 million have been provided against net operating loss carryforwards and other deferred tax assets, respectively. Our valuation allowance increased by \$0.2 million for the six months ended June 30, 2018 and decreased \$0.5 million for the six months ended June 30, 2017.

Net Income/(Loss)

Net loss was \$3.3 million or (\$0.14) per basic and diluted common share for the six months ended June 30, 2018, compared to a net income of \$1.6 million or \$0.07 per basic and diluted common share for the six months ended June 30, 2017, an increase in net loss of (\$4.9) million or (\$0.21) per basic and diluted common share. Net loss for the six months ended June 30, 2018, was negatively affected by the increase in operating expenses, partially offset by the increase in revenue due to increased revenue from expired contracts of \$3.3 million or 48.4%, partially offset by decreased attendance (i.e. fulfillment) of \$0.4 million or 1.0%.

Critical Accounting Policies

For a discussion of our critical accounting policies and estimates that require the use of significant estimates and judgments, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Critical Accounting Policies” in our Annual Report on Form 10-K for the year ended December 31, 2017.

LIQUIDITY AND CAPITAL RESOURCES

Known Trends and Uncertainties

In general, we believe we will experience increased demand for our products and services as global economic conditions continue to improve. We believe that our products and services appeal to those who seek increased financial freedom. If we experience a prolonged decline in demand for our products and services, it could have a material adverse effect on our future operating results.

Historically, we have funded our working capital and capital expenditures using cash and cash equivalents on hand. However, given our relatively modest operating cash flows during the past two years combined, it has been necessary for us to manage our cash position to ensure the future viability of our business. Our cash flows are subject to a number of risks and uncertainties, including, but not limited to, earnings, seasonality, and fluctuations in foreign currency exchange rates. We have taken steps to ensure our expenses are in line with our projected cash sales and liquidity requirements for the remainder of 2018 and based upon current and anticipated levels of operations, we believe cash and cash equivalents on hand will be sufficient to fund our expected financial obligations and anticipated liquidity requirements for the rest of 2018.

The following is a summary of our cash flow activities for the periods stated (in thousands):

	Six Months Ended	
	June 30,	
	2018	2017
Net cash provided by/(used in) operating activities	(2,290)	3,371
Net cash used in investing activities	(480)	(103)
Net cash used in financing activities	(6)	(5)
Effect of exchange rate differences on cash	(39)	(14)
Net increase/(decrease) in cash and cash equivalents and restricted cash	(2,815)	3,249

Operating Cash Flows and Liquidity

Net cash used in operating activities was \$2.3 million in the six months ended June 30, 2018 compared to net cash provided by operating activities of \$3.4 million in the six months ended June 30, 2017, representing a period-over-period decrease of \$5.7 million. This decrease was primarily the result of a decrease in current liabilities for deferred revenue in 2018 and lower earnings as a result of (i) increased advertising and marketing expense primarily related to our efforts to diversify our product offerings through the introduction and the development of our proprietary brands, and (ii) increased general and administrative expenses primarily driven by increases in labor costs and software costs in connection with our new ERP system which was placed into production in January 2018.

Investing Cash Flows

Net cash used in investing activities totaled \$480.0 thousand in the six months ended June 30, 2018 and \$103.0 thousand in the six months ended June 30, 2017, representing our purchases of property and equipment.

Financing Cash Flows

Our consolidated capital structure as of June 30, 2018 and December 31, 2017 was 100.0% equity.

Net cash used in financing activities totaled \$6.0 thousand and \$5.0 thousand in the six months ended June 30, 2018 and 2017.

We expect that our working capital deficit, which is primarily a result of our deferred revenue balance, will continue for the foreseeable future. As of June 30, 2018 and December 31, 2017, our consolidated current deferred revenue was \$55.1 million and \$57.2 million, respectively.

Our cash and cash equivalents were, and continue to be, invested in short-term, liquid, money market funds. Restricted cash balances consisted primarily of funds on deposit with credit card processors and cash collateral with our credit card vendors. Restricted cash balances held by credit card processors are unavailable to us unless we discontinue sale of our products or discontinue the usage of a vendor's credit card. As sales of the products and services related to our domestic business have decreased, our credit card vendors have not returned funds held as collateral, resulting in higher restricted cash balances.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements as of June 30, 2018.

Item 4. Controls and Procedures.

An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15 under the Securities Exchange Act of 1934) was carried out under the supervision and with the participation of our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). As of June 30, 2018, based upon that evaluation, the CEO and CFO concluded that the design and operation of these disclosure controls and procedures were effective.

There has been no change in our internal control over financial reporting that occurred during the three months ended June 30, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

We are subject to a number of contingencies, including litigation, from time to time. For further information regarding legal proceedings, see Note 11 *Commitments and Contingencies*, to our condensed consolidated financial statements.

Item 1A. Risk Factors.

For information regarding risk factors, please refer to Part I, Item 1A in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

There were no sales or repurchases of the Company's equity securities during the three months ended June 30, 2018.

Item 6. Exhibits

Exhibit Number	Description
3.1	Second Amended and Restated Articles of Incorporation of the Registrant (Incorporated by reference to Exhibit 2.1 in the Company's Form 8-K filed with the SEC on November 10, 2014)
3.2	Bylaws of the Registrant (Incorporated by reference to Exhibit 3.2 in the Company's Form 8-K filed with the SEC on November 10, 2014)
3.3	Amendment to Bylaws of the Registrant (Incorporated by reference to Exhibit 3.2 in the Company's Form 8-K filed with the SEC on February 17, 2017)
3.4	Amendment to Bylaws of the Registrant (Incorporated by reference to Exhibit 3.1 in the Company's Form 8-K filed with the SEC on January 12, 2018)
10.1	Second Amendment to Rich Dad Operating Company, LLC License Agreement, dated January 25, 2018.⁽¹⁾(Incorporated by reference to Exhibit 10.1 in the Company's Form 8-K filed with the SEC on January 29, 2018)
10.2	Mutual Waiver and Release of Claims, dated January 25, 2018 (Incorporated by reference to Exhibit 10.2 in the Company's Form 8-K filed with the SEC on January 29, 2018)
31.1*	Certification of The Chief Executive Officer under Section 302 of Sarbanes-Oxley Act of 2002
31.2*	Certification of The Chief Financial Officer under Section 302 of Sarbanes-Oxley Act of 2002
32.1*	Certification Pursuant to Section 906 of Sarbanes-Oxley Act of 2002
32.2*	Certification Pursuant to Section 906 of Sarbanes-Oxley Act of 2002
101*	The following materials from Legacy Education Alliance, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of June 30, 2018 (Unaudited) and December 31, 2017, (ii) Condensed Consolidated Statements of Operations and Comprehensive Income/(Loss) for the three and six months ended June 30, 2018 and 2017 (Unaudited), (iii) Condensed Consolidated Statement of Changes in Stockholders' Deficit for the six months ended June 30, 2018 (Unaudited), (iv) Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and 2017 (Unaudited) and (v) Notes to Condensed Consolidated Financial Statements (Unaudited).

* Filed herewith.

(1) Portions of this exhibit have been omitted pursuant to a request for confidential treatment.

SIGNATURES

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

LEGACY EDUCATION ALLIANCE, INC.

Dated: August 14, 2018

By: /s/ ANTHONY C. HUMPAGE

Anthony C. Humpage
Chief Executive Officer and Director

Dated: August 14, 2018

By: /s/ CHRISTIAN A. J. BAEZA

Christian A. J. Baeza
Senior Vice President and Chief Financial Officer

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Anthony C. Humpage, certify that:

1. I have reviewed this Form 10-Q of Legacy Education Alliance Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 14, 2018

/s/ ANTHONY C. HUMPAGE

Anthony C. Humpage

Chief Executive Officer and Director

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Christian A. J. Baeza, certify that:

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

Dated: August 14, 2018

/s/ CHRISTIAN A. J. BAEZA

Christian A. J. Baeza

Senior Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Legacy Education Alliance, Inc. (the "Company") for the period ended June 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Form 10-Q"), I, Anthony C. Humpage, Chief Executive Officer and Director of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Form 10-Q fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 14, 2018

/s/ ANTHONY C. HUMPAGE

Anthony C. Humpage
Chief Executive Officer and Director

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Legacy Education Alliance, Inc. (the "Company") for the period ended June 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Form 10-Q"), I, Christian A. J. Baeza, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Form 10-Q fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 14, 2018

/s/ CHRISTIAN A. J. BAEZA

Christian A. J. Baeza

Senior Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.