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 September 30, 2019

☐ 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	**39-2079974**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
1612 Cape Coral Parkway East, Cape Coral, FL 33904	**(239) 542-0643**
(Address of principal executive offices, including zip code)	**(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 submitted electronically every Interactive Data File required to be submitted 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 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 ☒

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

Title of each class	**Trading Symbol(s)**	**Name of each exchange on which registered**

Number of shares of Legacy Education Alliance, Inc. Common Stock, $0.0001 par value, outstanding as of November 13, 2019: 23,162,502.

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on Form 10-Q for
Quarter Ended September 30, 2019

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-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 results projected from the introduction of new brands, products and services, expansion into new geographic markets, combinations with third parties, including, but not limited to our licensors; the development of ecommerce capabilities; projections of international growth; projected increase in profitability from our symposium-style course delivery model that should lead to increased margins; 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; our ability to manage our relationships with credit card processors, and our expectations regarding the impact of general economic conditions on our business; and the estimates and matters described under the caption "*Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.*" 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/(loss), 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)

	September 30, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 7,718	$ 1,557
Restricted cash	5,411	5,080
Deferred course expenses	9,490	8,547
Prepaid expenses and other current assets	2,920	3,132
Inventory	70	89
Total current assets	25,609	18,405
Property and equipment, net	1,832	1,880
Right-of-use assets	1,788	—
Deferred tax asset, net	277	97
Other assets	304	178
Total assets	$ 29,810	$ 20,560
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 4,498	$ 4,962
Royalties payable	421	210
Accrued course expenses	2,889	1,483
Accrued salaries, wages and benefits	512	748
Operating lease liability, current portion	894	—
Other accrued expenses	3,305	2,614
Long-term debt, current portion	500	512
Deferred revenue, current portion	61,171	57,353
Total current liabilities	74,190	67,882
Long-term debt, net of current portion	—	8
Operating lease liability, net of current portion	832	—
Other liabilities	1,333	1,331
Total liabilities	76,355	69,221
Commitments and contingencies (Note 10)		
Stockholders' deficit:		
Preferred stock, $0.0001 par value, 20,000,000 shares authorized, none issued	—	—
Common stock, $0.0001 par value; 200,000,000 authorized; 23,162,352 and 23,120,852 shares issued and outstanding as of September 30, 2019 and December 31, 2018, respectively	2	2
Additional paid-in capital	11,545	11,470
Cumulative foreign currency translation adjustment	2,218	1,444
Accumulated deficit	(60,310)	(61,577)
Total stockholders' deficit	(46,545)	(48,661)
Total liabilities and stockholders' deficit	$ 29,810	$ 20,560

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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenue	$ 25,936	$ 22,557	$ 74,210	$ 73,534
Operating costs and expenses:				
Direct course expenses	13,461	12,929	38,925	42,940
Advertising and sales expenses	5,208	5,691	16,141	17,261
Royalty expenses	1,719	1,172	4,411	3,981
General and administrative expenses	3,870	4,584	13,606	14,630
Total operating costs and expenses	24,258	24,376	73,083	78,812
Income/(loss) from operations	1,678	(1,819)	1,127	(5,278)
Other income (expense):				
Interest income/(expense)	29	(5)	(86)	(13)
Other income (expense), net	(111)	(194)	115	(242)
Total other income (expense), net	(82)	(199)	29	(255)
Income/(loss) before income taxes	1,596	(2,018)	1,156	(5,533)
Income tax (expense) benefit	51	797	111	1,040
Net income/(loss)	$ 1,647	$ (1,221)	$ 1,267	$ (4,493)
Basic income/(loss) per common share	$ 0.07	$ (0.05)	$ 0.05	$ (0.20)
Diluted income/(loss) per common share	$ 0.07	$ (0.05)	$ 0.05	$ (0.20)
Basic weighted average common shares outstanding	22,799	23,005	22,641	23,007
Diluted weighted average common shares outstanding	23,163	23,005	23,134	23,007
Comprehensive income/(loss):				
Net income/(loss)	$ 1,647	$ (1,221)	$ 1,267	$ (4,493)
Foreign currency translation adjustments, net of tax of $0	825	334	774	1,320
Total comprehensive income/(loss)	$ 2,472	$ (887)	$ 2,041	$ (3,173)

See Notes to Unaudited Condensed Consolidated Financial Statements

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

	Common stock										
	Shares		Amount		Additional paid-in capital		Cumulative foreign currency translation adjustment		Accumulated deficit		Total stockholders' deficit
Balance at December 31, 2017	23,008	$	2	$	11,299	$	(445)	$	(51,621)	$	(40,765)
Share-based compensation expense	—		—		57		—		—		57
Foreign currency translation adjustment, net of tax of $0	—		—		—		(421)		—		(421)
Net Loss	—		—		—		—		(857)		(857)
Balance at March 31, 2018	23,008	$	2	$	11,356	$	(866)	$	(52,478)	$	(41,986)
Share-based compensation expense	—		—		57		—		—		57
Foreign currency translation adjustment, net of tax of $0	—		—		—		1,407		—		1,407
Net Loss	—		—		—		—		(2,415)		(2,415)
Balance at June 30, 2018	23,008	$	2	$	11,413	$	541	$	(54,893)	$	(42,937)
Share-based compensation expense	—		—		31		—		—		31
Cancellation of common stock	(7)		—		—		—		—		—
Foreign currency translation adjustment, net of tax of $0	—		—		—		334		—		334
Net Loss	—		—		—		—		(1,221)		(1,221)
Balance at September 30, 2018	23,001	$	2	$	11,444	$	875	$	(56,114)	$	(43,793)

	Common stock										
	Shares		Amount		Additional paid-in capital		Cumulative foreign currency translation adjustment		Accumulated deficit		Total stockholders' deficit
Balance at December 31, 2018	23,121	$	2	$	11,470	$	1,444	$	(61,577)	$	(48,661)
Share-based compensation expense	—		—		28		—		—		28
Issuance of common stock	—		—		—		—		—		—
Cancellation of common stock	(13)		—		—		—		—		—
Foreign currency translation adjustment, net of tax of $0	—		—		—		(392)		—		(392)
Net Loss	—		—		—		—		(105)		(105)
Balance at March 31, 2019	23,108	$	2	$	11,498	$	1,052	$	(61,682)	$	(49,130)
Share-based compensation expense	—		—		29		—		—		29
Issuance of common stock	—		—		—		—		—		—
Issuance of common stock	55		—		—		—		—		—
Foreign currency translation adjustment, net of tax of $0	—		—		—		341		—		341
Net Loss	—		—		—		—		(275)		(275)
Balance at June 30, 2019	23,163	$	2	$	11,527	$	1,393	$	(61,957)	$	(49,035)
Share-based compensation expense	—		—		18		—		—		18
Issuance of common stock	—		—		—		—		—		—
Issuance of common stock	—		—		—		—		—		—
Foreign currency translation adjustment, net of tax of $0	—		—		—		825		—		825
Net Income	—		—		—		—		1,647		1,647
Balance at September 30, 2019	23,163	$	2	$	11,545	$	2,218	$	(60,310)	$	(46,545)

See Notes to Unaudited Condensed Consolidated Financial Statements

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

	Nine Months Ended September 30,	
	2019	**2018**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income/(loss)	$ 1,267	$ (4,493)
Adjustments to reconcile net income/(loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	140	108
Non-cash lease expense	578	—
Gain on the sale of fixed assets	(41)	—
Gain on change in fair value of derivatives	—	(24)
Share-based compensation	75	145
Deferred income taxes	(189)	(1,072)
Changes in operating assets and liabilities:		
Deferred course expenses	(1,080)	577
Prepaid expenses and other receivable	158	622
Inventory	18	51
Other assets	(193)	(5)
Accounts payable-trade	(348)	37
Royalties payable	211	120
Accrued course expenses	1,430	619
Accrued salaries, wages and benefits	(230)	(832)
Operating lease liability	(640)	—
Other accrued expenses	284	868
Deferred revenue	4,817	1,636
Net cash provided by (used in) operating activities	6,257	(1,643)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(192)	(839)
Proceeds from sales of property and equipment	165	—
Net cash used in investing activities	(27)	(839)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on debt	(402)	(9)
Proceeds from issuance of debt	395	500
Net cash (used in) provided by financing activities	(7)	491
Effect of exchange rate differences on cash	269	157
Net increase (decrease) in cash and cash equivalents and restricted cash	6,492	(1,834)
Cash and cash equivalents and restricted cash, beginning of period	$ 6,637	$ 8,904
Cash and cash equivalents and restricted cash, end of period	$ 13,129	$ 7,070
Supplemental disclosures:		
Cash paid during the period for interest	$ 25	$ 13
Cash paid during the period for income taxes, net of refunds received	$ (66)	$ (774)

See Notes to Unaudited Condensed Consolidated Financial Statements

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 workshops, basic trainings, symposiums, telephone mentoring, one-on-one mentoring, coaching and e-learning, we market our products and services under a variety of brands including Making Money from Property with Martin Roberts™; Brick Buy Brick™; Building Wealth; Robbie Fowler Property Academy™; Women in Wealth™; Perform in Property™, and Teach Me to Trade™. In October 2019, we launched our new proprietary line of coaching products to support our students through every phase of their journey with us, from beginner to experienced investor. 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 upon the earlier of (i) when our students take their courses or (ii) the term for taking their course expires, both of which could be several quarters after the student purchases a program and pays the fee. We recognize revenue immediately when we sell our (i) proprietary products delivered at time of sale and (ii) third party products sales. 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 students' 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.

Our operations are managed through three operating segments: (i) North America, (ii) United Kingdom, and (iii) 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, 2018 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.

Reclassification.

We have reclassified certain amounts in our prior-period financial statements to conform to the current period’s presentation.

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 our accounting policies disclosed therein, except for those discussed in *Note 2 - New Accounting Pronouncements, - “Accounting Standards Adopted in the Current Period.”*

Going Concern.

The accompanying unaudited condensed consolidated financial statements and notes have been prepared assuming we will continue as a going concern. For the quarter ended September 30, 2019, we had an accumulated deficit and a working capital deficit. These circumstances raise substantial doubt as to our ability to continue as a going concern. Our ability to continue as a going concern is dependent upon our ability to generate profits by expanding current operations globally as well as reducing our costs and increasing our operating margins, and to sustain adequate working capital to finance our operations. The failure to achieve the necessary levels of profitability and cash flows would be detrimental to us. The consolidated financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

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.

Restricted Cash

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated balance sheets that sum to the total of the same such amounts in the consolidated cash flow statements:

(in thousands)	September 30, 2019	December 31, 2018
Cash and cash equivalents	$ 7,718	$ 1,557
Restricted cash	5,411	5,080
Total cash, cash equivalents, and restricted cash shown in the cash flow statements	$ 13,129	$ 6,637

Restricted cash balances consist primarily of reserves held by our credit card processors as collateral. Restricted cash balances held by credit card processors are unavailable to us unless we terminate our contractual relationship with them and seek the return of these reserves per the terms of the agreements. The timing of which varies, but usually not before 180 days after the termination of the merchant agreement.

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. As of December 31, 2018, we recognized income tax expense of $0.2 million related to the remeasurement of our deferred tax balance.

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 may impact our condensed consolidated financial statements. We do not believe that there are any other new accounting pronouncements that have been issued that would have a material impact on our condensed consolidated financial statements.

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 adopted this accounting update effective January 1, 2019. Adoption of this accounting standard had no impact on our financial statements.

In February 2016, the FASB issued ASU No 2016-02 "Leases" to increase the transparency and comparability about leases among entities. Additional ASUs have been issued subsequent to ASU 2016-02 to provide supplementary clarification and implementation guidance for leases related to, among other things, the application of certain practical expedients, the rate implicit in the lease, lessee reassessment of lease classification, lessor reassessment of lease term and purchase options, variable payments that depend on an index or rate and certain transition adjustments. ASU 2016-02 and these additional ASUs are now codified as Accounting Standards Codification Standard 842 - "Leases" ("ASC 842"). ASC 842 supersedes the lease accounting guidance in Accounting Standards Codification 840 "Leases" ("ASC 840") and requires lessees to recognize a lease liability and a corresponding lease asset for virtually all lease contracts. It also requires additional disclosures about leasing arrangements. We elected to utilize the "package" of three expedients, as defined in ASC 842, which retain the lease classification and initial direct costs for any leases that existed prior to adoption of the standard. Our Condensed Consolidated Financial Statements for the periods prior to the adoption of ASC 842 are not adjusted and are reported in accordance with our historical accounting policy. As of the date of implementation on January 1, 2019, the impact of the adoption of ASC 842 resulted in the recognition of a right of use asset and lease payable obligation on our Condensed Consolidated Balance Sheets of approximately $1.7 million. As the right of use asset and the lease payable obligation were the same upon adoption of ASC 842, there was no cumulative effect impact on our retained earnings. See Note 12 – *Leases,* to our condensed consolidated financial statements for further discussion.

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 adopted this standard effective January 1, 2019. Adoption of this accounting standard had no material impact on our financial statements.

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 $18.0 thousand and $31.0 thousand for the three months ended September 30, 2019 and 2018, and $75.0 thousand and $145.0 thousand for the nine months ended September 30, 2019 and 2018, respectively, which are reported as a separate line item in the condensed consolidated statements of changes in stockholders' deficit.

Note 4 - Earnings Per Share ("EPS")

Basic EPS is computed by dividing net income (loss) 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 667,915 for the three months ended September 30, 2018 and 968,264 for the nine months ended September 30, 2018, because we had a net loss in those 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 364,056 and 667,915 for the three months ended September 30, 2019 and 2018, and 493,495 and 968,264 for the nine months ended September 30, 2019 and 2018, respectively.

The calculations of basic and diluted EPS are as follows:

	Three Months Ended September 30, 2019			Three Months Ended September 30, 2018		
	Net Income	Weighted Average Shares Outstanding	Earnings Per Share	Net Loss	Weighted Average Shares Outstanding	Loss Per Share
	(in thousands, except per share data)			(in thousands, except per share data)		
Basic:						
As reported	$ 1,647	23,163		$ (1,221)	23,005	
Amounts allocated to unvested restricted shares	(26)	(364)		—	—	
Amounts available to common stockholders	$ 1,621	22,799	$ 0.07	$ (1,221)	23,005	$ (0.05)
Diluted:						
Amounts allocated to unvested restricted shares	26	364		—	—	
Non participating share units		—			—	
Amounts reallocated to unvested restricted shares	(26)	—		—	—	
Amounts available to stockholders and assumed conversions	$ 1,621	23,163	$ 0.07	$ (1,221)	23,005	$ (0.05)

	Nine Months Ended September 30, 2019			Nine Months Ended September 30, 2018		
	Net Income	Weighted Average Shares Outstanding	Earnings Per Share	Net Loss	Weighted Average Shares Outstanding	Loss Per Share
	(in thousands, except per share data)			(in thousands, except per share data)		
Basic:						
As reported	$ 1,267	23,134		$ (4,493)	23,007	
Amounts allocated to unvested restricted shares	(27)	(493)		—	—	
Amounts available to common stockholders	$ 1,240	22,641	$ 0.05	$ (4,493)	23,007	$ (0.20)
Diluted:						
Amounts allocated to unvested restricted shares	27	493		—	—	
Non participating share units		—			—	
Amounts reallocated to unvested restricted shares	(28)	—		—	—	
Amounts available to stockholders and assumed conversions	$ 1,239	23,134	$ 0.05	$ (4,493)	23,007	$ (0.20)

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 of 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).

We did not have any financial liabilities measured and recorded at fair value on our condensed consolidated balance sheets on a recurring basis as of September 30, 2019 and December 31, 2018.

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.

Note 6 - Short-Term and Long-Term Debt

(in thousands)	As of September 30, 2019	As of December 31, 2018
Promissory notes	$ 500	$ 500
Current portion of long-term debt	—	12
Total short-term borrowings and current portion of long-term debt	$ 500	$ 512

Long-term debt consists of the following:

(in thousands)	As of September 30, 2019	As of December 31, 2018
Installment notes payable for equipment financing	$ —	$ 20
Less: current portion	—	(12)
Total long-term debt, net of current portion	—	$ 8

The following is a summary of scheduled debt maturities by year (in thousands):

2020	$ 500
Total debt	$ 500

On September 13, 2018, we entered into a Promissory Note and Mortgage and Security Agreement pursuant to which we borrowed the principal amount of $500 thousand from USA ReGrowth Fund LLC. At closing, we received $459,269 in net proceeds after closing costs and other fees and costs. The Promissory Note, repayment of which was initially due on March 13, 2019, was issued in an aggregate principal amount of $500 thousand and bore interest at a fixed rate of 12% per annum during the initial 120 days of the term of the Promissory Note, and a fixed rate of 30% per annum until all amounts due under the Promissory Note are paid in full. Pursuant to the Mortgage and Security Agreement, repayment of the Promissory Note is secured by a first mortgage on the property located at 1612 East Cape Coral Parkway, Cape Coral, FL. 33904. On March 8, 2019, we executed an extension of the maturity date to September 13, 2019. During the initial 120 days of the extension period, the Promissory Note bore interest at a fixed rate of 12% per annum and a fixed rate of 30% per annum thereafter until all amounts due thereunder are paid. On September 13, 2019, we executed a second extension of the maturity date to March 13, 2020. During the initial 120 days of the second extension period, the Promissory Note bears a fixed rate of 12% per annum and a fixed rate of 30% per annum thereafter until all amounts due thereunder are paid.

On January 21, 2019, we entered into a six-month Bridging Loan Agreement pursuant to which we borrowed the principal amount of £300 thousand from D.J. Fatica Asset Management Ltd. The loan bears interest at a fixed rate of 12% per annum. The loan is secured by property owned by LEAI Properties UK Ltd. On July 15, 2019, we paid the loan off in full.

Note 7 - Income Taxes

We recorded an income tax benefit of $51 thousand and $797 thousand for the three months ended September 30, 2019 and 2018, respectively. We recorded an income tax benefit of $111 thousand and $1,040 thousand for the nine months ended September 30, 2019 and 2018, respectively. Our effective tax rate was (3.2%) and 39.5% for the three months ended September 30, 2019 and 2018, and (9.6%) and 18.8% for the nine months ended September 30, 2019 and 2018, respectively. Our effective tax rates differed from the U.S. statutory corporate tax rate of 21% 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 September 30, 2019, and December 31, 2018, valuation allowances of $7 million and $6.9 million, respectively have been provided against net operating loss carryforwards and other deferred tax assets. Our valuation allowance increased by $0.1 million for each of the nine months ended September 30, 2019 and 2018, respectively.

As of September 30, 2019, and December 31, 2018, we had total unrecognized tax benefits of $1.6 million, related to foreign and domestic tax positions. Of this amount, the Company estimates that $0.1 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 nine months ended September 30, 2019 and 2018, 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 2017-2018 goods and services tax (GST) and harmonized sales tax (HST) returns, resulting in an accrued assessment of $40 thousand, which is included within other accrued expenses.

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 December 31, 2018, we recognized income tax expense of $0.2 million related to the remeasurement of our deferred tax balance.

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. All cash balances as of September 30, 2019 and December 31, 2018, including foreign subsidiaries, without FDIC coverage were $6.5 million and $1.1 million, respectively.

On July 18, 2019, one of our former merchant processors released a reserve of $2.0 million and has agreed to refund an additional $1.5 million in November 2019, subject to certain conditions.

Revenue

A significant portion of our revenue is derived from the Rich Dad brands. For the three months ended September 30, 2019 and 2018, Rich Dad brands provided 71.0% and 72.3% of our revenue, and 72.4% and 71.4% for the nine months ended September 30, 2019 and 2018, respectively. In addition, we have operations in North America, United Kingdom and Other foreign markets (see Note 9 — *Segment Information*).

On September 16, 2019, we received notice from Rich Dad Operating Company, LLC ("RDOC"), indicating that RDOC does not intend to extend the term of the September 1, 2013, Rich Dad Operating License Agreement (as amended, the "License Agreement") by and between the Company and RDOC. The term of the License Agreement expired on September 30, 2019. Notwithstanding the expiration of the License Agreement, the Company may continue to use Licensed Intellectual Property, as defined in the License Agreement, including, but not limited to, the Rich Dad trademark and stylized logo, for the purpose of honoring and fulfilling orders by its customers in existence as of the date of the expiration of the Agreement.

Note 9 - Segment Information

We manage our business in three segments based on geographic location for which operating managers are responsible to the Chief Executive Officer. These segments include: (i) North America, (ii) United Kingdom, and (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 September 30,		Nine Months Ended September 30,	
As a percentage of total revenue	**2019**	**2018**	**2019**	**2018**
North America	55.7%	56.1%	58.5%	56.9%
U.K.	18.6%	23.0%	20.9%	22.3%
Other foreign markets	25.7%	20.9%	20.6%	20.8%
Total consolidated revenue	100.0%	100.0%	100.0%	100.0%

Operating results for the segments are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Segment revenue	**(In thousands)**		**(In thousands)**	
North America	$ 14,452	$ 12,662	$ 43,419	$ 41,848
U.K.	4,816	5,191	15,518	16,400
Other foreign markets	6,668	4,704	15,273	15,286
Total consolidated revenue	$ 25,936	$ 22,557	$ 74,210	$ 73,534

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Segment gross profit contribution *	**(In thousands)**		**(In thousands)**	
North America	$ 2,559	$ 1,621	$ 10,326	$ 5,018
U.K.	378	845	1,833	3,691
Other foreign markets	2,611	299	2,574	643
Total consolidated gross profit	$ 5,548	$ 2,765	$ 14,733	$ 9,352

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Depreciation and amortization expenses	**(In thousands)**		**(In thousands)**	
North America	$ 24	$ 26	$ 96	$ 79
U.K.	13	11	41	25
Other foreign markets	1	1	3	4
Total consolidated depreciation and amortization expenses	$ 38	$ 38	$ 140	$ 108

	September 30, 2019	December 31, 2018
Segment identifiable assets	**(In thousands)**	
North America	$ 16,433	$ 11,566
U.K.	9,106	4,956
Other foreign markets	4,271	4,038
Total consolidated identifiable assets	$ 29,810	$ 20,560

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.

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. 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 $61.2 million related to contractual commitments with customers where the performance obligation will be satisfied over time, which ranges from one to two years as of September 30, 2019. 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:

	Three Months Ended September 30, 2019				Three Months Ended September 30, 2018			
	North America	U.K.	Other foreign	Total	North America	U.K.	Other foreign	Total
Revenue Type:	(In thousands)							
Seminars	$ 9,174	$ 3,457	$ 3,485	$ 16,116	$ 7,369	$ 3,611	$ 3,143	$ 14,123
Products	2,753	852	1,457	5,062	2,916	984	643	4,543
Coaching and Mentoring	1,394	259	1,626	3,279	1,408	579	911	2,898
Online and Subscription	352	2	99	453	86	9	7	102
Other	779	246	1	1,026	883	8	—	891
Total revenue	$ 14,452	$ 4,816	$ 6,668	$ 25,936	$ 12,662	$ 5,191	$ 4,704	$ 22,557

	Nine Months Ended September 30, 2019				Nine Months Ended September 30, 2018			
	North America	U.K.	Other foreign	Total	North America	U.K.	Other foreign	Total
Revenue Type:	(In thousands)							
Seminars	$ 26,059	$ 10,900	$ 7,645	$ 44,604	$ 25,685	$ 11,731	$ 9,740	$ 47,156
Products	8,237	3,301	3,258	14,796	8,768	3,366	2,647	14,781
Coaching and Mentoring	4,193	904	4,121	9,218	4,156	1,223	2,882	8,261
Online and Subscription	1,280	6	248	1,534	1,038	33	17	1,088
Other	3,650	407	1	4,058	2,201	47	—	2,248
Total revenue	$ 43,419	$ 15,518	$ 15,273	$ 74,210	$ 41,848	$ 16,400	$ 15,286	$ 73,534

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 and Martin Roberts. Total royalty expenses included in our Condensed Consolidated Statements of Operations and Comprehensive Income/(Loss) were $1.7 million and $1.2 million for the three months ended September 30, 2019 and 2018, and $4.4 million and $4.0 million for the nine months ended September 30, 2019 and 2018, respectively.

On September 30, 2019, the term of the License Agreement with RDOC expired. See Note 8 -*Concentration of Risk*, to our condensed consolidated financial statements for further discussion.

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 September 30, 2019 and December 31, 2018, were $5.4 million and $5.0 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 September 30, 2019 and December 31, 2018, 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.

Elite Legacy Education, Inc. v. Netsuite, Inc., Oracle Corporation and Oracle America, Inc. On August 17, 2018, we submitted a demand for arbitration against Respondents NetSuite, Inc., Oracle Corporation, and Oracle America, Inc. (collectively, "Oracle/NetSuite") to JAMS in San Francisco, California for declaratory relief, breach of contract, breach of the covenant of good faith and fair dealing, conversion, and unjust enrichment to address the deficient performance and subsequent unwarranted and malicious threats to suspend performance altogether from Respondents Oracle/NetSuite arising out of the Company's new ERP/CRM system. In May 2019, we entered into a settlement agreement under which Oracle/NetSuite gave us $0.1 million in the form of accounts payable credit, concluding the litigation in its entirety. We recognized the settlement in May 2019.

Tigrent Group Inc. v. Process America, Inc. ("PA"), Case No 1:12-cv-01314-RLM, filed March 16, 2012 in the U.S. District Court for the Eastern District of New York. In this case we sought the return of the $8.3 million credit card merchant reserve account deposit held by Process America Inc., a so-called "Independent Sales Organization" that places merchants with credit card processors. On November 12, 2012, PA filed for bankruptcy protection in the U.S. Bankruptcy Court for the Central District of California ("Bankruptcy Court.") On December 3, 2012, the Bankruptcy Court obtained jurisdiction of our dispute with PA. On June 21, 2013, the Tigrent Group filed its proof of claim with Bankruptcy Court in the amount of $8.3 million. In July 2019, we received a cash payment from PA in the amount of $0.4 million, as a distribution. This amount was recognized and reported as other income in the condensed consolidated statements of operation for the nine months ended September 30, 2019.

Tranquility Bay of Pine Island, LLC v. Tigrent, Inc., et al. On March 16, 2017, suit was filed in the Twentieth Judicial Circuit In and For Lee County, Florida by Tranquility Bay of Pine Island, LLC ("TBPI") against Tigrent Inc. and various of its present and former shareholders, officers and directors. By amendment dated May 24, 2019, the Company and its then General Counsel and now Chief Executive Officer were named as defendants to a civil conspiracy count. The suit primarily relates to the alleged obligation of Tigrent to indemnify the Plaintiff pursuant to an October 6, 2010 Forbearance Agreement. The suit includes claims for Breach of Contract, Permanent and Temporary Injunction, Breach of Fiduciary Duty, Civil Conspiracy, Tortious Interference and Fraudulent Transfer. On March 20, 2019, the Court dismissed the complaint in its entirety with leave to amend. On April 11, 2019, TBPI filed its Second Amended Complaint in Twentieth Judicial Circuit In and For Lee County, Florida against Tigrent Inc. ("Tigrent"), Legacy Education Alliance Holding, Inc. ("Holdings), and certain shareholders of the Company. The suit includes claims for Breach of Contract, Breach of Fiduciary Duty against Tigrent, Civil Conspiracy against Tigrent and Holdings, and various Counts of Fraudulent Transfer against various shareholders of the Company. On May 24, 2019, with leave from the court, TBPI filed its Third Amended Complaint in Twentieth Judicial Circuit In and For Lee County, Florida against Tigrent Inc. ("Tigrent"), Legacy Education Alliance Holding, Inc. ("Holdings), and certain shareholders of the Company. The suit includes claims for Breach of Contract against Tigrent, Breach of Fiduciary Duty against Tigrent, Damages for Violation of Unfair and Deceptive Business Practices Act against Tigrent, Civil Conspiracy against Tigrent and Holdings, and various Counts of Fraudulent Transfer against various shareholders of Tigrent, including the Company's CEO, James E. May. On July 8, 2019, the Court Denied the defendants's Motions to Dismiss. The Company believes the claims of the plaintiff are without merit and intends to defend this matter vigorously.

Note 12 - Leases

Right-of-Use Assets and Leases Obligations

The Company leases office space and office equipment under non-cancelable operating leases, with terms typically ranging from one to three years, subject to certain renewal options as applicable. The Company considers those renewal or termination options that are reasonably certain to be exercised in the determination of the lease term and initial measurement of lease liabilities and right-of-use assets. Lease expense for lease payments is recognized on a straight-line basis over the lease term. Leases with an initial term of 12 months or less are not recorded on the balance sheet.

The Company determines whether a contract is or contains a lease at inception of the contract and whether that lease meets the classification criteria of a finance or operating lease. When available, the Company uses the rate implicit in the lease to discount lease payments to present value; however, most of the Company's leases do not provide a readily determinable implicit rate. Therefore, the Company must discount lease payments based on an estimate of its incremental borrowing rate.

The Company does not separate lease and nonlease components of contracts. There are no material residual value guarantees associated with any of the Company's leases. There are no significant restrictions or covenants included in the Company's lease agreements other than those that are customary in such arrangements.

On August 1, 2019, we entered into a new non-cancelable 36-month operating lease agreement for an office space in our UK segment. As a result of this agreement, we recognized a right of use asset and lease payable obligation in our Condensed Consolidated Balance Sheets of approximately $0.6 million, respectively.

Lease Position as of September 30, 2019

The table below presents the lease related assets and liabilities recorded on the Company's Condensed Consolidated Balance Sheets as of September 30, 2019:

(in thousands)	**Classification on the Balance Sheet**	**September 30, 2019**
Assets		
Operating lease assets	Operating lease right of use assets	$ 1,788
	Total lease assets	$ 1,788
Liabilities		
Current liabilities:		
Operating lease liabilities	Current operating lease liabilities	$ 894
Noncurrent liabilities:		
Operating lease liabilities	Long-term operating lease liabilities	$ 832
	Total lease liabilities	$ 1,726

Lease cost for the three and nine months ended September 30, 2019

The table below presents the lease related costs recorded on the Company's Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2019:

(in thousands)		**Three Months Ended September 30, 2019**	**Nine Months Ended September 30, 2018**
Lease cost	**Classification**		
Operating lease cost	General and administrative expenses	$ 242	$ 578
	Total lease cost	$ 242	$ 578

Other Information

The table below presents supplemental cash flow information related to leases for the nine months ended September 30, 2019:

(in thousands)	Nine Months Ended September 30, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows for operating leases	$ 640
Supplemental non-cash amounts of lease liabilities arising from obtaining right-of-use assets	$ 2,335

Lease Terms and Discount Rates

The table below presents certain information related to the weighted average remaining lease terms and weighted average discount rates for the Company's operating leases as of September 30, 2019:

	Nine Months Ended September 30, 2019
Weighted average remaining lease term - operating leases	2.29 years
Weighted average discount rate - operating leases	12.00%

Undiscounted Cash Flows

The table below reconciles the fixed component of the undiscounted cash flows for each of the first five years and the total remaining years to the operating lease liabilities recorded on the Condensed Consolidated Balance Sheet as of September 30, 2019:

Amounts due within twelve months of September 30,	**Operating Leases (in thousands)**
2019	$ 929
2020	735
2021	112
Total minimum lease payments	1,776
Less: effect of discounting	(50)
Present value of future minimum lease payments	1,726
Less: current obligations under leases	(894)
Long-term lease obligations	$ 832

There are no lease arrangements where the Company is the lessor.

Note 13 – Subsequent Events

Litigation

In the Matter of Legacy Education Alliance International Ltd., CR-2019-007199. On October 28, 2019, an Application for Administration was filed in the High Court of Justice, Business and Property Courts of England and Wales, whereby four creditors of Legacy Education Alliance, International Ltd., one of our UK subsidiaries, seek an administration order with respect to the business affairs of the subsidiary, the appointment of an administrator, and such other ancillary orders as the applicants may request or as the court deems appropriate. We are opposing the Application for Administration. The matter was adjourned until November 15, 2019 to allow the parties the opportunity to negotiate a Company Voluntary Arrangement ("CVA"), but there can be no assurances that an agreement with the claimants will be reached or that an Order of Administration will not be issued.

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, 2018. 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 workshops, basic trainings, symposiums, telephone mentoring, one-on-one mentoring, coaching and e-learning, we market our products and services under a variety of brands including Making Money from Property with Martin Roberts™; Brick Buy Brick™; Building Wealth; Robbie Fowler Property Academy™; Women in Wealth™; Perform in Property™, and Teach Me to Trade™. In October 2019, we launched our new proprietary line of coaching products to support our students through every phase of their journey with us, from beginner to experienced investor. 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 upon the earlier of (i) when our students take their courses or (ii) the term for taking their course expires, both of which could be several quarters after the student purchases a program and pays the fee. We recognize revenue immediately when we sell our (i) proprietary products delivered at time of sale and (ii) third party products sales. 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 students' 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.

Our operations are managed through three operating segments: (i) North America, (ii) the United Kingdom, and (iii) Other Foreign Markets.

We were founded in 1996, and through a reverse merger, 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.

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 have 8 brands, which include:

- Legacy Education: Our core training program provides practical, high-quality and value-based educational training on the topics of personal finance, entrepreneurship, real estate, financial markets and investing strategies and techniques. This training program encompasses hands-on experience and the true spirit of investing from beginner to educated investor.

- 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.

- 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.

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- 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.

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- 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.

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Recent Developments

On September 16, 2019, we received notice from Rich Dad Operating Company, LLC ("RDOC"), indicating that RDOC did not intend to extend the term of the September 1, 2013, Rich Dad Operating License Agreement (as amended, the "License Agreement") by and between the Company and RDOC. The term of the License Agreement expired on September 30, 2019. Notwithstanding the expiration of the License Agreement, the Company may continue to use Licensed Intellectual Property, as defined in the License Agreement, including, but not limited to, the Rich Dad trademark and stylized logo, for the purpose of honoring and fulfilling orders by its customers in existence as of the date of the expiration of the Agreement.

On October 21, 2019, we launched our new proprietary line of coaching products to support our students through every phase of their journey with us, from beginner to experienced investor. It also represents a milestone in our going forward strategy of diversifying our sources of cash sales through the introduction of new brands and product lines. We offer coaching and mentoring services at a variety of price points that includes content ranging from mindset and motivation, continuing through coaching from subject matter experts in real estate investing techniques and strategies, and culminating in a personalized one-on-one onsite mentorship with one of the Company's experienced mentors.

As we previously disclosed, the Company will continue to attempt to reduce its operating expenses and increase the revenues derived from its other brands. However, the termination of the License Agreement may have a material adverse effect on the Company's business, financial condition and results of operations. At end of the third quarter of 2019, we launched our core brand, Legacy Education, to continue providing our students with practical, high-quality, and value-based educational training on the topics of personal finance, entrepreneurship, real estate, financial markets, investing strategies and techniques.

On October 28, 2019, an Application for Administration was filed in the High Court of Justice, Business and Property Courts of England and Wales, whereby four creditors of Legacy Education Alliance, International Ltd., one of our UK subsidiaries, seek an administration order with respect to the business affairs of the subsidiary, the appointment of an administrator, and such other ancillary orders as the applicants may request or as the court deems appropriate. We are opposing the Application for Administration. The matter was adjourned until November 15, 2019 to allow the parties the opportunity to negotiate a Company Voluntary Arrangement ("CVA"), but there can be no assurances that an agreement with the claimants will be reached or that an Order of Administration will not be issued.

Results of Operations

Our financial results in Q3 2019 were not impacted by the factors that affected our previous 2019 quarterly and 2018 annual financial results. During those prior periods, the primary factors were increases in labor, litigation, and software costs in connection with our new ERP system which was placed into production in January 2018. The aggregate increase in expense related to these items was $1.2 million, of which $1.1 million was related to litigation primarily associated with the installation of our ERP/CRM system which first went into production in January 2018. We anticipate no further expenses in this matter.

Our Results of Operations in 2019 and 2018 were as follows:

(in thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenue	$ 25,936	$ 22,557	$ 74,210	$ 73,534
Operating costs and expenses:				
Direct course expenses	13,461	12,929	38,925	42,940
Advertising and sales expenses	5,208	5,691	16,141	17,261
Royalty expenses	1,719	1,172	4,411	3,981
General and administrative expenses	3,870	4,584	13,606	14,630
Total operating costs and expenses	24,258	24,376	73,083	78,812
Income/(loss) from operations	1,678	(1,819)	1,127	(5,278)
Other income (expense):				
Interest income/(expense)	29	(5)	(86)	(13)
Other income (expense), net	(111)	(194)	115	(242)
Total other income (expense), net	(82)	(199)	29	(255)
Income/(loss) before income taxes	1,596	(2,018)	1,156	(5,533)
Income tax (expense) benefit	51	797	111	1,040
Net income/(loss)	$ 1,647	$ (1,221)	$ 1,267	$ (4,493)
Basic income/(loss) per common share	$ 0.07	$ (0.05)	$ 0.05	$ (0.20)
Diluted income/(loss) per common share	$ 0.07	$ (0.05)	$ 0.05	$ (0.20)
Basic weighted average common shares outstanding	22,799	23,005	22,641	23,007
Diluted weighted average common shares outstanding	23,163	23,005	23,134	23,007
Comprehensive income/(loss):				
Net income/(loss)	$ 1,647	$ (1,221)	$ 1,267	$ (4,493)
Foreign currency translation adjustments, net of tax of $0	825	334	774	1,320
Total comprehensive income/(loss)	$ 2,472	$ (887)	$ 2,041	$ (3,173)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenue	100%	100%	100%	100%
Operating costs and expenses:				
Direct course expenses	51.9	57.3	52.5	58.4
Advertising and sales expenses	20.1	25.2	21.8	23.5
Royalty expenses	6.6	5.2	5.9	5.4
General and administrative expenses	14.9	20.3	18.3	19.9
Total operating costs and expenses	93.5	108.0	98.5	107.2
Income/(loss) from operations	6.5	(8.0)	1.5	(7.2)
Other income (expense):				
Other income (expense), net	(0.3)	(0.9)	0.1	(0.3)
Total other income (expense), net	(0.3)	(0.9)	0.1	(0.3)
Income/(loss) before income taxes	6.2	(8.9)	1.6	(7.5)
Income tax (expense) benefit	0.2	3.5	0.1	1.4
Net income/(loss)	6.4%	(5.4)%	1.7%	(6.1)%

Outlook

Cash sales were $83.2 million for the nine months ended September 30, 2019 compared to $75.6 million for the nine months ended September 30, 2018, an increase of $7.6 million or 10.1%.

The increase was driven primarily by a $4.2 million increase in our North American segment, a $4.1 million increase in our U.K. segment, partially offset by a $0.7 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 upon the earlier of (i) when our students take their courses or (ii) the term for taking their course expires, both of 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.

Operating Segments

Our operations are managed through three operating segments: (i) North America, (ii) the United Kingdom, and (iii) Other Foreign Markets. The proportion of our total revenue attributable to each segment is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
As a percentage of total revenue	**2019**	**2018**	**2019**	**2018**
North America	55.7%	56.1%	58.5%	56.9%
U.K.	18.6%	23.0%	20.9%	22.3%
Other foreign markets	25.7%	20.9%	20.6%	20.8%
Total consolidated revenue	100.0%	100.0%	100.0%	100.0%

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Segment revenue	**(In thousands)**		**(In thousands)**	
North America	$ 14,452	$ 12,662	$ 43,419	$ 41,848
U.K.	4,816	5,191	15,518	16,400
Other foreign markets	6,668	4,704	15,273	15,286
Total consolidated revenue	$ 25,936	$ 22,557	$ 74,210	$ 73,534

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 $11.7 million and $10.6 million or as a percentage of total segment revenue was 81.0% and 83.7% for the three months ended September 30, 2019 and 2018, and $34.9 million and $33.3 million or as a percentage of total segment revenue was 80.3% and 79.6% for the nine months ended September 30, 2019 and 2018, respectively. The majority pertained to real estate-related education, with the balance pertaining to financial markets training.

The North America segment revenue was $14.5 million and $12.7 million or as a percentage of total revenue was 55.7% and 56.1% for the three months ended September 30, 2019 and 2018, and $43.4 million and $41.8 million or as a percentage of total revenue was 58.5% and 56.9% for the nine months ended September 30, 2019 and 2018, respectively. The increase in revenue of $1.8 million or 14.2% during the three months ended September 30, 2019 compared to the same period in 2018, was due to an increase in recognition of revenue from increased attendance (i.e. fulfillment) of $1.2 million or 11.3% and increase in revenue from expired contracts of $0.6 million or 27.5%. The increase in revenue of $1.6 million or 3.8% during the nine months ended September 30, 2019 compared to the same period in 2018, was due to an increase in recognition of revenue from increased attendance (i.e. fulfillment) of $0.1 million or 0.4% and increase in revenue from expired contracts of $1.4 million or 19.5%.

U.K.

In contrast to our North America segment, our U.K. segment is more diversified among several different brands. Revenue derived from the Rich Dad brands was $1.4 million and $1.1 million or as a percentage of total segment revenue was 28.8% and 20.9% for the three months ended September 30, 2019 and 2018, and $5.1 million and $4.5 million or as a percentage of total segment revenue was 32.7% and 27.4% for the nine months ended September 30, 2019 and 2018, respectively. The majority pertained to real estate-related education, with the balance pertaining to financial markets education.

The U.K. segment revenue was $4.8 million and $5.2 million or as a percentage of total revenue was 18.6% and 23.0% for the three months ended September 30, 2019 and 2018, and $15.5 million and $16.4 million or as a percentage of total revenue was 20.9% and 22.3% for the nine months ended September 30, 2019 and 2018, respectively. The decrease in revenue of $0.4 million or 7.7% for the three months ended September 30, 2019 compared to the same period in 2018, was due to a decreased attendance (i.e. fulfillment) of $0.2 million or 3.4% and decrease in recognition of revenue from expired contracts of $0.2 million or 23.4%. The decrease in revenue of $0.9 million or 5.5% for the nine months ended September 30, 2019 compared to the same period in 2018, was due to a decrease in recognition of revenue from decreased attendance (i.e. fulfillment) of $1.0 million or 7.5%, partially offset by an increase in revenue from expired contracts of $0.1 million or 3.4%.

Other Foreign Markets

We operate in other foreign markets, including Australia, New Zealand, South Africa, Hong Kong and other European, Asian and African countries. Revenue derived from the Rich Dad brands was $5.3 million and $4.6 million or as a percentage of total segment revenue was 79.7% and 98.1% for the three months ended September 30, 2019 and 2018, and $13.8 million and $14.7 million or as a percentage of total segment revenue was 90.1% and 96.1% for the nine months ended September 30, 2019 and 2018, respectively.

The Other Foreign Markets segment revenue was $6.7 million and $4.7 million or as a percentage of total revenue was 25.7% and 20.9% for the three months ended September 30, 2019 and 2018, and $15.3 million and $15.3 million or as a percentage of total revenue was 20.6% and 20.8% for the nine months ended September 30, 2019 and 2018, respectively. The increase in revenue of $2.0 million or 42.6% for the three months ended September 30, 2019 compared to the same period in 2018, was due to an increase in revenue from expired contracts of $1.9 million or 136.4% and an increase in recognition of revenue from increased attendance (i.e. fulfillment) of $0.1 million or 3.0%. Revenue was flat in the nine months ended September 30, 2019 and 2018, since a decrease in recognition of revenue from decreased attendance (i.e. fulfillment) of $2.6 million or 23.3%, was offset by an increase in revenue from expired contracts of $2.6 million or 67.8%.

Three months ended September 30, 2019 Compared to Three months ended September, 2018

Revenue

Revenue was $25.9 million for the three months ended September 30, 2019 compared to $22.6 million for the three months ended September 30, 2018. Revenue increased $3.3 million or 14.6% during the three months ended September 30, 2019 compared to the same period in 2018. The increase in revenue was mainly due to an increased attendance (i.e. fulfillment) of $2.3 million or 48.8% and an increase in recognition of revenue from increased attendance (i.e. fulfillment) of $1.0 million or 6.3%.

Cash sales were $28.0 million for the three months ended September 30, 2019 compared to $23.3 million for the three months ended September 30, 2018, an increase of $4.7 million or 20.2%. The increase was driven by a $3.0 million increase in our North American segment, a $1.3 million increase in our U.K. segment and a $0.4 million increase in our Other Foreign Markets segment.

Operating Expenses

Total operating costs and expenses were $24.3 million for the three months ended September 30, 2019 compared to $24.4 million for the three months ended September 30, 2018, a decrease of $0.1 million or 0.4%. The decrease was primarily due to a $0.7 million decrease in general and administrative expenses and a $0.5 million decrease in advertising and sales expenses, which was partially offset by a $0.6 million increase in direct course expenses and a $0.5 million increase in royalty 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 $13.5 million for the three months ended September 30, 2019 compared to $12.9 million for the three months ended September 30, 2018, an increase of $0.6 million or 4.7%, which was primarily related to increases in sales and training compensation, due to improved internal sales performance metrics, venue expenses, and mentor fulfilment costs.

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 $5.2 million for the three months ended September 30, 2019 compared to $5.7 million for the three months ended September 30, 2018, a decrease of $0.5 million, or 8.8 %. As a percentage of revenue, advertising and sales expenses were 20.1% and 25.2% of revenue for the three months ended September 30, 2019 and 2018, a decrease of 5.1%.

Royalty expenses

Until the expiration of their term on September 30, 2019, we had licensing and related agreements with Rich Dad Operating Company (RDOC), whereby we had 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 $1.7 million for the three months ended September 30, 2019 compared to $1.2 million for the three months ended September 30, 2018, an increase of $0.5 million or 41.7%.

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 $3.9 million for the three months ended September 30, 2019 compared to $4.6 million for the three months ended September 30, 2018, a decrease of $0.7 million, or 15.2 %. The decrease in general and administrative expenses was the result of concluding the new ERP software implementation costs.

Income tax expense

We recorded an income tax benefit of $51 thousand and $797 thousand for the three months ended September 30, 2019 and 2018, respectively. Our effective tax rate was (3.2%) and 39.5% for the three months ended September 30, 2019 and 2018, respectively. Our effective tax rates differed from the U.S. statutory corporate tax rate of 21% 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 September 30, 2019, and December 31, 2018, valuation allowances of $7.0 million and $6.9 million, respectively have been provided against net operating loss carryforwards and other deferred tax assets. Our valuation allowance increased by $0.1 million for the three months ended September 30, 2019. There were no significant changes in our valuation allowance during the three months ended September 30, 2018.

Net Income/(Loss)

Net income was $1.6 million or $0.07 per basic and diluted common share for the three months ended September 30, 2019, compared to a net loss of $1.2 million or ($0.05) per basic and diluted common share for the three months ended September 30, 2018, an increase in net income of $2.8 million or $0.12 per basic and diluted common share.

Nine months ended September 30, 2019 Compared to Nine months ended September 30, 2018

Revenue

Revenue was $74.2 million for the nine months ended September 30, 2019 compared to $73.5 million for the nine months ended September 30, 2018. Revenue increased $0.7 million or 1.0% during the nine months ended September 30, 2019 compared to the same period in 2018. The increase in revenue was due to an increase in revenue from expired contracts of $4.2 million or 29.0%, partially offset by a decreased attendance (i.e. fulfillment) of $3.5 million or 5.9%.

Cash sales were $83.2 million for the nine months ended September 30, 2019 compared to $75.6 million for the nine months ended September 30, 2018, an increase of $7.6 million or 10.1%. The increase was driven primarily by a $4.2 million increase in our North American segment, a $4.1 million increase in our U.K. segment, partially offset by a $0.7 million decrease in our Other Foreign Markets segment.

Operating Expenses

Total operating costs and expenses were $73.1 million for the nine months ended September 30, 2019 compared to $78.8 million for the nine months ended September 30, 2018, a decrease of $5.7 million or 7.2%. The decrease was primarily due to a $3.9 million decrease in direct course expenses, a $1.2 million decrease in advertising and sales expenses, a $1.0 million decrease in general and administrative expenses, partially offset by a $0.4 million increase in royalty 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 $39.0 million for the nine months ended September 30, 2019 compared to $42.9 million for the nine months ended September 30, 2018, a decrease of $3.9 million or 9.1%, which was primarily related to decreases in preview product costs and sales and training compensation, mainly due to the adjustments to our sales compensation programs. We have adjusted our sales compensation programs to align them with sales forecasts for the year ending December 31, 2019.

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 $16.1 million for the nine months ended September 30, 2019 compared to $17.3 million for the nine months ended September 30, 2018, a decrease of $1.2 million, or 6.9%. As a percentage of revenue, advertising and sales expenses were 21.8% and 23.5% of revenue for the nine months ended September 30, 2019 and 2018, a decrease of 1.7%.

Royalty expenses

Until the expiration of their term on September 30, 2019, we had licensing and related agreements with RDOC, whereby we had 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 $4.4 million for the nine months ended September 30, 2019 compared to $4.0 million for the nine months ended September 30, 2018, an increase of $0.4 million or 10.0%.

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 $13.6 million for the nine months ended September 30, 2019 compared to $14.6 million for the nine months ended September 30, 2018, a decrease of $1.0 million, or 6.8%. The decrease in general and administrative expenses was the result of concluding the new ERP software implementation costs.

Income tax expense

We recorded an income tax benefit of $111 thousand and $1,040 thousand for the nine months ended September 30, 2019 and 2018, respectively. Our effective tax rate was (9.2) and 18.8% for the nine months ended September 30, 2019 and 2018, respectively. Our effective tax rates differed from the U.S. statutory corporate tax rate of 21% 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 September 30, 2019, and December 31, 2018, valuation allowances of $7.0 million and $6.9 million, respectively have been provided against net operating loss carryforwards and other deferred tax assets. Our valuation allowance increased by $0.1 million for the nine months ended September 30, 2019. There were no significant changes in our valuation allowance during the nine months ended September 30, 2018.

Net Income/(Loss)

Net income was $1.3 million or $0.05 per basic and diluted common share for the nine months ended September 30, 2019, compared to a net loss of $4.5 million or ($0.20) per basic and diluted common share for the nine months ended September 30, 2018, an increase in net income of $5.8 million or $0.25 per basic and diluted common share.

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, 2018.

LIQUIDITY AND CAPITAL RESOURCES

Known Trends and Uncertainties

In general, 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, favorable terms from our merchant processors, seasonality, and fluctuations in foreign currency exchange rates. Our unrestricted cash position has improved during the nine months ended September 30, 2019 with the addition of new merchant processors in the second half of 2018, who retain a significantly lower reserve than our main merchant processor had done for most of fiscal year 2018. As a result, our unrestricted cash in fiscal year 2018 was limited. As a result of these improved terms, our unrestricted cash should continue to improve. On July 18, 2019, one of our former merchant processors released a reserve of $1.9 million. In addition, this former merchant processor has agreed to refund an additional $1.5 million in November 2019, subject to certain conditions.

We continue to take steps to ensure our expenses are in line with our projected cash sales and liquidity requirements for 2019 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 fiscal year 2019. However, for the quarter ended September 30, 2019, we had an accumulated deficit and a working capital deficit. These circumstances raise substantial doubt as to our ability to continue as a going concern. Our ability to continue as a going concern is dependent upon our ability to generate profits by expanding current operations globally as well as reducing our costs and increasing our operating margins, and to sustain adequate working capital to finance our operations. The failure to achieve the necessary levels of profitability and cash flows would be detrimental to us.

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

	Nine Months Ended September 30,	
	2019	**2018**
Net cash provided by (used in) operating activities	6,257	(1,643)
Net cash provided by (used in) investing activities	(27)	(839)
Net cash provided by (used in) financing activities	(7)	491
Effect of exchange rate differences on cash	269	157
Net increase (decrease) in cash and cash equivalents and restricted cash	6,492	(1,834)

Operating Cash Flows and Liquidity

Net cash provided by operating activities was $6.3 million in the nine months ended September 30, 2019 compared to net cash used in operating activities of $1.6 million in the nine months ended September 30, 2018, representing a period-over-period increase of $7.9 million. This increase was primarily the result of increased earnings, and an increase in current liabilities for deferred revenue.

Investing Cash Flows

Net cash used in investing activities totaled $27.0 thousand in the nine months ended September 30, 2019 compared to net cash used in investing activities of $839.0 thousand in the nine months ended September 30, 2018, representing our net sale of property and equipment.

Financing Cash Flows

Our consolidated capital structure as of September 30, 2019 and December 31, 2018 was 100.0% equity.

Net cash used in financing activities totaled $7.0 thousand during the nine months ended September 30, 2019 compared to net cash provided by financing activities of $491.0 thousand in the nine months ended September 30, 2018. Net cash provided by financing activities during the nine months ended September 30, 2018, primarily represents the proceeds from issuance of the Promissory Note, which is due March 13, 2020.

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 September 30, 2019, and December 31, 2018, our consolidated current deferred revenue was $61.2 million and $57.4 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 September 30, 2019.

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 and Chief Financial Officer. As of September 30, 2019, based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were not effective.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934, as amended. Internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Further, because of changes in conditions, the effectiveness of internal control over financial reporting may vary over time.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation to assess the effectiveness of our internal control over financial reporting as of September 30, 2019 based upon criteria set forth in the *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment, as of September 30, 2019, we have determined that we presently do not have an internal control system or procedures that are effective and may be relied upon in connection with our financial reporting. The weaknesses in our internal control system that were identified by our management generally include weakness that present a reasonable possibility that a material misstatement of our annual or interim financial statements will not be identified, prevented or detected on a timely basis, and specifically include:

- Financial Reporting Systems: We did not maintain a fully integrated financial consolidation and reporting system throughout the period and as a result, extensive manual analysis, reconciliation and adjustments were required in order to produce financial statements for external reporting purposes. The weaknesses in our internal control system that were identified by our management generally relate to the implementation of our new ERP system, which went into production on January 1, 2018.

If we fail to effectively remediate any of these material weaknesses or other material weaknesses or deficiencies in our control environment that may be identified in the future, we may be unable to accurately report our financial results or report them within the time frames required by law or exchange regulations, to the extent applicable, which would have a negative impact on us and our share price.

This Quarterly Report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to rules of the SEC that permit us to provide only management's report in this Quarterly Report.

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, 2018.

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 nine months ended September 30, 2019.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

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	August 16, 2019, Amendment to September 1, 2013 Rich Dad Operating License Agreement, as amended, by and between the Company and Rich Dad Operating Company, LLC.
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 September 30, 2019, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of September 30, 2019 (Unaudited) and December 31, 2018, (ii) Condensed Consolidated Statements of Operations and Comprehensive Income/(Loss) for the three and nine months ended September 30, 2019 and 2018 (Unaudited), (iii) Condensed Consolidated Statement of Changes in Stockholders' Deficit for the three and nine months ended September 30, 2019 and 2018 (Unaudited), (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2019 and 2018 (Unaudited) and (v) Notes to Condensed Consolidated Financial Statements (Unaudited).

* Filed herewith.

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: November 13, 2019	By: /s/ JAMES E. MAY **James E. May** ***Chief Executive Officer and Director***
Dated: November 13, 2019	By: /s/ VANESSA GUZMÁN-CLARK **Vanessa Guzmán-Clark** ***Chief Financial Officer***

RICH DAD

August 14, 2019

Legacy Education Alliance Holdings, LLC
Attn: James E. May, CEO
1612 E. Cape Coral Parkway
Cape Coral, Florida 33904

Re: Agreement to Extend Expiration Date Under License Agreement

Dear Jim:

Further to our meeting in Scottsdale, Arizona last week, this letter constitutes the agreement of Rich Dad Operating Company, LLC and Legacy Education Alliance Holdings, LLC to amend Section 10.1 of the License Agreement between the parties dated as of September 1, 2013, as amended by the First Amendment thereto dated as of April 22, 2014 and the Second Amendment thereto dated as of January 25, 2018 (collectively, the "License Agreement"). In such regard, for good and valuable consideration, the parties agree that Section 10.1 of the License Agreement is hereby amended to read as follows:

"10.1 The Term hereunder shall commence upon the Effective Date and shall expire on September 30, 2019 unless the Agreement is sooner terminated pursuant to Section 10.2 or 10.3."

Please confirm the agreement of Legacy Education Alliance Holdings, LLC as to this amendment by counter-signing this letter in the space provided below and returning a copy of this letter to the undersigned. The foregoing amendment shall only become effective upon your delivery to the undersigned of such counter-signed letter.

Yours truly,

Rich Dad Operating Comport, LLC

/s/ Kim Kiyosaki
Kim Kiyosaki
Member

The foregoing amendment is agreed to and accepted.

Legacy Education Alliance Holdings, LLC

By: /s/ James E. May
Name: James E. May
Title: CEO
8/16/19

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

I, James E. May, 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: November 13, 2019

/s/ JAMES E. MAY
James E. May
Chief Executive Officer

Exhibit 31.2

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

I, Vanessa Guzmán-Clark, 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: November 13, 2019

/s/ VANESSA GUZMÁN-CLARK
Vanessa Guzmán-Clark
Chief Financial Officer

Exhibit 32.1

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 September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Form 10-Q"), I, James E. May, Chief Executive 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: November 13, 2019

/s/ JAMES E. MAY
James E. May
Chief Executive 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.

Exhibit 32.2

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 September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Form 10-Q”), I, Vanessa Guzmán-Clark, 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: November 13, 2019

/s/ VANESSA GUZMÁN-CLARK
Vanessa Guzmán-Clark
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.