we enable greatness

# Annual Report 2009

FranklinCovey®

## Mission Statement

We enable greatness in people and organizations everywhere.

## Vision

Our vision is to profoundly impact the way billions of people throughout the world live, work, and achieve their own great purposes.

## Foundational Beliefs

We believe

1. People are inherently capable, aspire to greatness, and have the power to choose.
2. Principles are timeless and universal and the foundation for lasting effectiveness.
3. Leadership is a choice, built inside out on a foundation of character. Great leaders unleash the collective talent and passion of people toward the right goal.
4. Habits of effectiveness come only from the committed use of integrated processes and tools.
5. Sustained superior performance requires P/PC Balance—a focus on achieving results and on building capability.

## Values

1. Commitment to Principles
   We are passionate about our content and strive to be models of the principles and practices we teach.
2. Lasting Customer Impact
   We are relentless about delivering on our promise to our customers. Our success comes only with their success.
3. Respect for the Whole Person
   We value each other and treat each person with whom we work as a true partner.
4. Profitable Growth
   We embrace profitability and growth as the lifeblood of our organization; they give us the freedom to fulfill our mission and vision.

FranklinCovey

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# Financial Highlights

| August 31, | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| *In thousands, except per share data* | | | | | |
| **Income Statement Data:** | | | | | |
| Net sales | $ 130,118 | $ 259,193 | $ 284,125 | $ 278,623 | $ 283,542 |
| Income (loss) from operations | (11,439) | 15,999 | 17,711 | 13,981 | 8,443 |
| Net income (loss) before income taxes | (14,461) | 13,073 | 15,292 | 13,566 | 9,101 |
| Income tax benefit (provision)(1) | 3,629 | (7,546) | (7,827) | 14,967 | 1,085 |
| Net income (loss)(1) | (10,832) | 5,527 | 7,465 | 28,533 | 10,186 |
| Net income (loss) available to common shareholders(1) | (10,832) | 5,527 | 5,250 | 24,148 | (5,837) |
| Earnings (loss) per share: | | | | | |
| Basic | $ (.81) | $ .28 | $ .27 | $ 1.20 | $ (.34) |
| Diluted | $ (.81) | $ .28 | $ .26 | $ 1.17 | $ (.34) |
| **Balance Sheet Data:** | | | | | |
| Total current assets | $ 40,142 | $ 66,661 | $ 69,653 | $ 87,056 | $ 105,182 |
| Other long-term assets | 11,608 | 11,768 | 14,542 | 12,249 | 9,051 |
| Total assets | 143,878 | 177,677 | 196,181 | 216,495 | 233,233 |
| Long-term obligations | 32,191 | 38,762 | 35,178 | 35,347 | 46,171 |
| Total liabilities | 74,874 | 99,500 | 95,476 | 83,185 | 100,407 |
| Preferred stock(2) | - | - | - | 37,345 | 57,345 |
| Shareholders' equity | 69,004 | 78,177 | 100,705 | 133,310 | 132,826 |

(1) Net income in fiscal 2006 includes the impact of deferred tax asset valuation allowance reversals totaling $20.3 million.
(2) During fiscal 2007, we redeemed all remaining outstanding shares of Series A preferred stock at its liquidation preference of $25 per share plus accrued dividends.

| Common Stock Price Range | FIRST QUARTER | SECOND QUARTER | THIRD QUARTER | FOURTH QUARTER |
|---|---|---|---|---|
| Fiscal Year Ended August 31, 2009: | | | | |
| High | $ 9.45 | $ 6.05 | $ 5.69 | $ 7.24 |
| Low | 4.02 | 3.61 | 3.20 | 5.30 |
| Fiscal Year Ended August 31, 2008: | | | | |
| High | $ 7.75 | $ 8.00 | $ 8.76 | $ 9.32 |
| Low | 5.91 | 6.86 | 6.72 | 7.35 |

## To Our Fellow Shareholders

Having just completed the sale of our Consumer Solutions Business Unit (CSBU), we entered fiscal 2009 enthused about focusing our full efforts on continuing to build our training and consulting business. The principle units in this business had grown revenues significantly during the previous four years, and their contribution to Operating Income had grown even more significantly.

**Revenue Momentum Returning**

Just five weeks into our new year, however, events combined to trigger the world economic crisis and deepen the recession. Our business was not unaffected by these factors. While a substantial portion of our revenue for Q1 in fiscal 2009 had either already been received or was under contract, revenues in Q2 declined significantly as a number of new clients delayed the implementation of programs to which they had previously committed, and potential clients delayed making commitments. The year-over-year revenue gap narrowed in Q3, driven significantly by increases in the training investments made by existing clients, and improved further in Q4. In August, the last month of our fiscal year, revenues actually increased compared to a strong prior year Q4, reflecting the impact of strengthening bookings and our historical Q4 training materials promotion for our licensed facilitators.

Due to solid bookings in the fourth quarter, we started our new fiscal year with a pipeline of contracted training revenue that was significantly larger than we had at the beginning of last year's Q1. With this, and continued solid booking momentum, we have seen revenue trends strengthen during our first quarter of fiscal 2010.

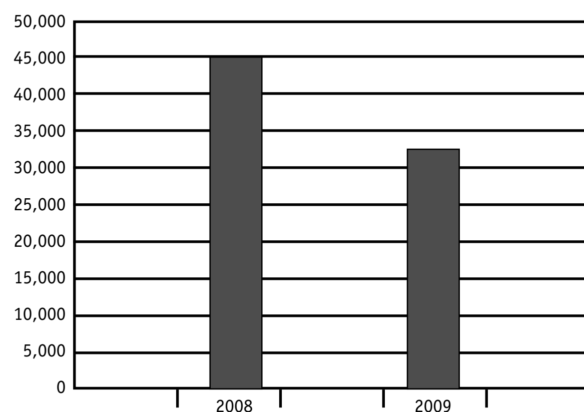
**Significantly Reduced Cost Structure and Improved Business Model in Place**

The sale of the CSBU was extremely important. It represented the final step in our multi-year effort to exit all businesses or activities not central to our training and consulting business, and it also allowed us to reduce central operating costs and improve our overall business model by: (1) collapsing our holding company structure and moving to a streamlined central organization; and (2) completing the consolidation of direct offices in North America, both of which we completed during fiscal 2009.

During the year we also identified and implemented other cost reduction and business model improvement actions to ensure that in the future, even at the reduced revenue levels of fiscal 2009, we would earn attractive levels of profitability. These actions reduced our central costs by $12.8 million in fiscal 2009 compared to fiscal 2008[1] (Figure 1), and the annualization of these actions will provide additional year-over-year cost benefits in fiscal 2010 and beyond.

**FIGURE 1**

Fiscal 2008 and 2009 Central SG&A (In Thousands)




**Our Sources Of Strategic Advantage Each Help To Drive Future Growth**

The combination of: a significantly lower cost structure, stabilizing revenues, solid current bookings, and a strong pipeline of revenue opportunities, establishes the foundation for what we expect will be a significant increase in profitability in fiscal 2010. We also expect that the five areas of strategic strength discussed below will underpin the achievement of strong top and bottom line growth in the future and allow us to continue to widen and deepen the size of our strategic moat in our training and consulting business.

1. The strength of our "purpose" and "endorser" brands
2. The size, reach, strength, and growth of our sales and delivery network, including:
   a) our direct sales forces
   b) our International Licensee Partners
   c) our Practices

[1] Central selling, general, and administrative is defined as Total Company SG&A less SG&A related to Direct Offices, Practices – National Accounts, International Licensees and CSBU.

3. The strength of our relationships with our large and loyal base of existing customers
4. The increased "reach" enabled by our new technology delivery platforms
5. The strength, experience, and quality of our people

A brief discussion of each follows:

**1. The Strength of our "Purpose" and "Endorser" Brands**

Most training and consulting organizations have good offerings that teach principles or processes, or offer insights that can help people or organizations become more effective. It is rare for a training or consulting organization to have such a deep understanding of a specific challenge or "job-to-be-done" in all of its dimensions, and such extensive experience in successfully addressing those challenges, that it is able to develop a simple, powerful, scalable solution which becomes the recognized best-in-class solution for addressing that problem. Developing such a "purpose brand" allows the training or consulting company to effectively "own" the solution to that problem. This both creates a strategic moat around the solution, and establishes the basis for building a business franchise around it.

FranklinCovey developed and owns two of the training industry's most powerful purpose brands, each of which addresses different jobs-to-be-done in the "individual effectiveness" space:

- *7 Habits of Highly Successful People* - has become the "gold standard" course for increasing individual and interpersonal effectiveness: more than six million people have been trained in the course's content; and an additional 200,000 people are trained in this content every year. In addition more than 16 million people have purchased the book, and 21 years after it was first published, *7 Habits* retains its place high on the bestseller list in the U.S. and in many other countries.
- *Focus: Achieving Your Highest Priorities* – is the world's most attended course for improving personal productivity through time management. More than five million people have attended the course, and its principles were so powerfully adopted by those taking the course that the implementation tool utilized in the training, *The Franklin DayPlanner*, became a brand of its own and spawned a significant retail business and still sells more than 5 million planners annually (this business was sold as part of the sale of the CSBU). While several boutique training organizations also have good time management training offerings, far more people are trained in *Focus* each year than in all these other courses combined.

The magnitude and pervasiveness of the challenges these courses address, and their effectiveness in helping people and organizations to address them, have allowed FranklinCovey: (a) to build extremely strong relationships with its clients. The client organizations have paid to have employees within their organizations become certified to teach these courses so that these solutions can be implemented pervasively throughout their organizations. In any given year, more than 9,600 of these certified facilitators teach courses to employees within their organizations; (b) to build a worldwide network of licensee partners whose businesses are dedicated to selling and delivering these courses and content in more than 100 countries; and (c) to have such loyalty among those who have taken the courses that when they switch jobs, they often encourage their new employer to implement this training.

While these "franchise courses" continue to represent the bulk of our sales among our Individual Effectiveness offerings (which also include courses to improve individuals' presentation, writing, and project management skills), over the past years we have invested enormous intellectual resources and many millions of dollars to develop or acquire content in the job-to-be-done categories of "Leadership Effectiveness" and "Execution" that have been extremely well-accepted and which also have the potential to become "franchise" brands:

- *The Speed of Trust* – we have developed a suite of products in the "Leadership Effectiveness" category, including *Leadership: Great Leaders, Great Teams, Great Results* (which features modules created and taught by such prominent practitioners and academics as Ram Charan, Clayton Christensen, Jack Welch, and Fred Reichheld), and *7 Habits for Managers.* Our potential franchise brand in this category is a course called *The Speed of Trust,* based on the book of the same name written by Stephen M.R. Covey. This course identifies the "trust taxes" that low-trust organizations pay and the "trust dividends" available to those who develop high levels of trust will all of their key constituencies. It emphasizes that nothing is faster in moving an organization toward its goals than the speed of trust, and teaches leaders the behaviors that establish this foundation. This course and process has been adopted pervasively in a number of

large organizations, and we believe this category can become a very strong purpose brand.

- *The 4 Disciplines of Execution* – during the past seven years a major focus for us has been researching and gaining a deep understanding of the execution-related factors that help organizations both to create "campfires" or pockets of great performance, and to get these campfires to spread and become bonfires and wildfires of great performance that spread throughout the entire organization.

  In this effort we have studied the problem of execution from a front-row, real time perspective deep in the operations of more than 1,700 different organizational clients who were in the middle of performance transformation efforts. We collected survey data regarding execution practices from more than 300,000 employees in these organizations, and interviewed the members of more than 17,000 teams. We also collected data on the various outcomes - financial, customer loyalty, and employee engagement - that these teams produced.

  Base on these in-depth studies, and our execution-related experiences with hundreds of clients, we developed the content, processes, and supporting tools that now make up our *4 Disciplines of Execution* offering. Supported by a proprietary software tool set, a large number of significant organizations have adopted this methodology and with dramatic results.

In addition to these "franchise brands", FranklinCovey is developing a series of more specialized purpose brands in some key vertical markets and around some large, intractable problems. These include: *Winning Customer Loyalty* – a measurement system and process for significantly and systematically increasing customer satisfaction and loyalty; *The Leader in Me* – an integrated process, including web-based lesson plans and tools, to help K-6 schools develop the character and leadership abilities of students at a young age; and *Helping Clients Succeed* – a process for helping the sales forces of professional services and technology firms to sell, by attaining a deep understanding of the customer's needs and develop solutions that help their clients succeed.

We believe that continuing to focus on building and strengthening these purpose brands so that we can "own" certain training categories will accelerate our growth and competitive position in the marketplace.

These individual purpose brands fit under the overarching FranklinCovey "endorser" brand – which has very high levels of name recognition, is viewed extremely positively, and has as its mission to *enable greatness (or great performance), in people and organizations everywhere.*

**2. The Size, Reach, Strength, and Growth of Our Sales and Delivery Capability Worldwide**

A key strategic advantage and growth driver is the size, reach, strength, and growth of our various sales and delivery channels. As discussed below, our sales and delivery capability, which includes direct offices, licensee offices, and national practice accounts provides FranklinCovey with the unique ability to serve truly global clients, and allows us to attract content from key thought leaders who are interested in accessing our distribution capabilities.

**a) Our Eight Direct Offices**

During fiscal 2005 - fiscal 2008, revenues in our eight direct offices- five in North America, and one each in Japan, the United Kingdom, and Australia – grew significantly, both in percentage and dollar terms, and their contribution to Operating Income grew even more substantially.

The key drivers of this growth were: (a) the significant increase in the size, capability, and productivity of our sales and delivery forces in these offices; and (b) a business model cost structure which is highly variable, with client partners (sales representatives), paid primarily on commission, and delivery consultants who are paid primarily on a "per consulting day" for delivering or facilitating training. During these years we invested heavily in the recruitment and training of new client partners and delivery consultants – and added more than 71 new client partners and more than 18 full-time and 21 on-call delivery consultants in these offices. Our investments in training and the addition of new offerings also helped to increase the productivity of our "alumni" sales force (those already in place at the beginning of fiscal 2005), by more than 29% during these years.

While the weakness in the economy resulted in a decline in the productivity of the average client partner during fiscal 2009, we expect the growth in the size and productivity of our sales and delivery forces to continue to be a key driver of our overall growth in the future as we:

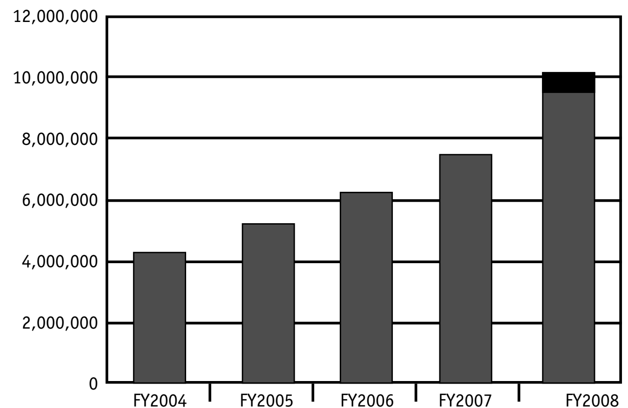
- Continue to add new "geographic" client partners – we could more than double the number of client partners working out of our geography-based direct offices in the coming years, and still be well-short of

having what would be considered substantial market penetration.

- Continue to benefit from the "ramp-up" in productivity of new client partners – most of the new client partners added in our direct offices over the past five years are still in the middle of their planned five year revenue ramp-up period. Even without the addition of new client partners, the increases in revenue and profitability expected to result just from these client partners achieving their expected revenue ramp-up over the next several years should be substantial.
- Addition of vertical market client partners – in addition to adding new geographic client partners, we expect that our direct offices will also add new client partners whose efforts will be focused on meeting the needs of clients in specific vertical markets (i.e. healthcare, retailing, etc.). The addition of these client partners could add meaningfully to our growth in the coming years.

**b) Our Thirty-eight International Licensee Partner Operations**

As shown in Figure 2, during fiscal 2005 – fiscal 2008, the licensee royalties received from our international licensee partners increased from \$4.3 million to \$9.2 million (+112%), without considering the conversion of our direct offices in Brazil and Mexico to licensees in fiscal 2008, and from \$4.3 million to \$10.2 million including the conversion of those offices. Utilizing our average licensee royalty percentage, this suggests that our international licensee partners' gross revenues grew from approximately \$30 million to approximately \$60 million, during those years. Our international licensee partners' operations have grown, largely because of the




same factors that have driven the growth of our direct offices, specifically, the growth in the size, capabilities, and productivity of their sales and delivery forces. In the past years we have made significant investments to provide resources and support to our licensee partners in the training and development of their people and in the development of offerings that can much more easily be customized to their local needs.

Despite what was a more difficult year for many of our licensee partners in fiscal 2009, we are confident that the quality and strength of our licensee partners' organizations, the enormous untapped potential in their markets, and their ability to significantly increase the size and productivity of their sales forces for many years to come will continue to drive our growth throughout the world.

**c) Our Five "Practices"**

To ensure our continued market leadership in our historical content areas, and to develop strong purpose brands in our new selected job-to-be-done content areas, including: Execution, Education, Customer Loyalty, Speed of Trust, and Sales Performance, we have or are establishing "practices" in each of these areas.

These practice teams: (1) bring world class thought leadership to bear on the specific area of challenge (i.e. Execution), to ensure that we have deep understanding of the key factors underlying the challenge, and are correctly defining the specific problems and challenges which our clients have in those areas. These teams also decide where in the "value chain" for solving that challenge we are going to participate, and develop content, solutions, and delivery architecture to ensure that our offerings and processes predictably deliver high impact results for our clients. In addition, they determine the target markets for each solution and work to build the capabilities of our sales and consulting teams to sell and deliver solutions to these targeted clients. They also develop business with their own client base which includes selected "national accounts." Generating their own business with these accounts helps the practices' leaders to refine their understanding of how the solution works in large organizations and to sharpen their go-to-market strategies. The practices share revenue from these national accounts with our field offices to encourage their involvement, to accelerate their learning, and to leverage local delivery capabilities. The practices' portion of the revenue generated from these national accounts also covers the practice's costs and provides a profit-sharing opportunity for practice leaders.

Our new practice categories have grown significantly since their inception, and much of the revenue for which they are responsible is recognized in the revenues of our direct offices or licensees. The practices' own share of revenue coming from their national account efforts has also become quite substantial. Even in fiscal 2009's difficult environment, our practices' national account revenues grew by 54% (off a relatively small base). We expect our practices' to build significant bases of revenue as a result of their national account activities.

### 3. The Strength of Our Relationships with Our Large and Loyal Base of Existing Customers

We are grateful and honored to have the chance to work closely with our large and loyal base of more than 6,000 clients worldwide. Helping each of our clients to achieve great results is what drives us each day, and we request and receive client feedback on a significant portion of all our training and consulting engagements. Utilizing that data, we work with our consultant delivery, product development, and sales teams to understand and eliminate dissatisfaction, and continually increase the percentage of our clients who are not only "satisfied" but "delighted" with our solutions, processes, and delivery excellence.

Importantly, during fiscal 2009 when most of our clients were facing very challenging times, they not only continued to engage us to help them achieve their critical objectives, but in many cases, they expanded their relationship with us (Figures 3A & 3B). Similarly, our more than 9,500 licensed facilitators (employees of client organizations who have been certified by us to facilitate and deliver our courses within their organization), also ordered more training materials so that they could continue delivering our courses than in fiscal 2008.

**FIGURE 3A**

Average Revenue Per Repeat Customer

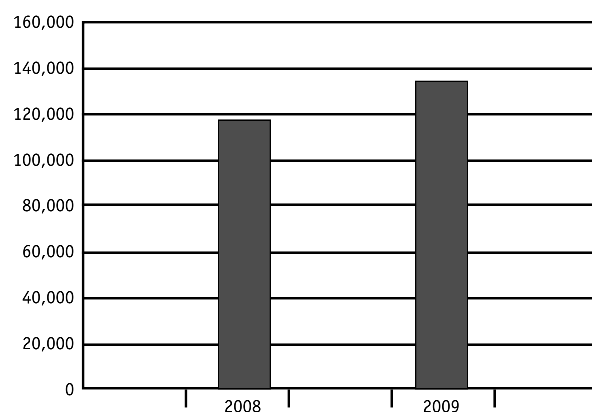
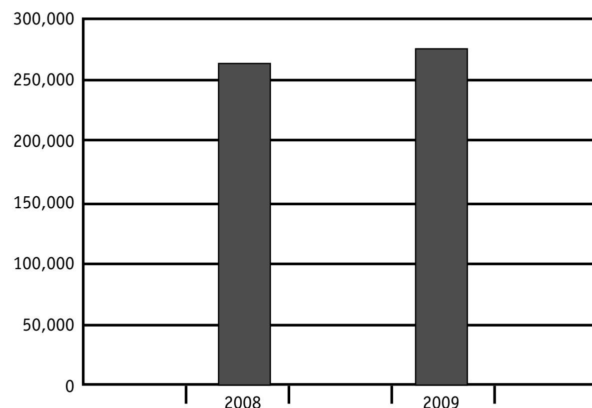



**FIGURE 3B**

Number of Manuals Sold




The single most important factor that will underpin our future growth is to be viewed by our client organizations as a key partner in helping them to achieve those results they have determined are critical. When this happens, our involvement in our client organizations becomes deeper, more pervasive, and ongoing. We continue to refine our research, our

offerings, and our delivery methodologies to strengthen our impact on and relationship with our large number of client organizations.

**4. The "Reach" Provided by Our New Technology Delivery Platforms**

Historically, organizations in industries with large numbers of front-line employees (including healthcare, lodging, retailing, and manufacturing), would often choose to send managers, but not front-line employees, to traditional "one day" or "multi-day" training programs, because their staffing models would not allow front-line team members to be away from their customer-facing responsibilities. In the past years, large amounts of technology-based training have been developed to train front-line employees, particularly in technical skills, but these approaches have typically been less effective for teaching performance, behavioral, and leadership skills and achieving real behavioral change.

Over the past several years FranklinCovey has made significant investments - intellectually, organizationally, and financially - to create alternative approaches delivering its training and consulting solutions that utilize technology to reach new populations and give organizations the resources and tools to allow them to implement training in ways most useful to them, and which are both engaging and impactful both at the individual and team levels. These new offerings include:

- *Insights* – drawing from our large library of powerful customized films which teach principles in powerful ways, *Insights* provides leaders with the tools to engage and train their teams in high-impact, "bite-size" modules that teams can either discuss together (say, in a fifteen minute pre-shift team meeting), or which individuals can complete individually and then discuss with other team members (either face-to-face or through e-mail).
- *LiveClicks* – webinar workshops are one-to-two hour live training courses delivered over the internet right to a client's desk. They are taught through FranklinCovey consultants, open-enrollment webinars, and exclusive client webinars. Our Client Facilitators are also able to certify to teach LiveClicks webinars through an online fast-track certification program. The courses include the high-impact content of our traditional in-person workshops, including our award-winning videos. Attendees are able to interact directly with the instructor, asking questions and receiving answers in a live setting.
- *7 Habits Interactive* - this self-paced online workshop takes learners through an interactive, video-based parable with characters the learners relate to. Learners watch a story where one person sees the results of learning to practice The 7 Habits. Then users complete interactive activities that teach them how the 7 Habits work and how to apply it to their own situation. They are then drawn into the story to see if they can get it right through a video simulation where the user makes the choices and lives with the consequences. Attendees may also attend a one-day classroom training to reinforce the interactive learning.
- *The Leader in Me Portal* – is a 3 year solution and process designed to help elementary schools improve student achievement and create a culture of excellence. The Leader in Me portal is a community that is designed for all of the K-12 schools around the globe that are implementing the Leader in Me process. It contains blogs, forums, videos, best practices and thousands of lesson plans designed and shared by teachers from around the world. It was designed to allow us to scale The Leader in Me process to eventually thousands of schools.
- *Winning Customer Loyalty Portal* – provides a platform whereby frontline managers of multi unit operations (like a retail chain of stores) can get accurate scores on customer experience for their unit on a monthly basis. It also provides a way for store managers to reach out and contact customers about their service experience, good or bad. The portal allows unit leaders to access data on the culture within their units and provides access to training and videos to help them improve the loyalty of their customer base.

While most of these offerings are in their early launch phases, they are being extremely well-received by our clients and are enabling us to have new levels of training flexibility and organizational impact. Over time, we expect these offerings to allow us to significantly extend our reach within our existing clients' organizations, and provide us with the opportunity to significantly increase the impact of our offerings on the large numbers of front-line employees on whom the achievement of extraordinary results most often depends.

**5. The Strength, Quality, Experience, and Passion of Our People**

FrankinCovey's goal is to be, "the workplace of choice for achiever's with heart." We want to attract extremely bright, high-achieving, people of great character and personal initiative, who are drawn to our mission of helping organizations to achieve great results through unleashing the individual and collective power and contributions of their people.

This is more than an inspiring statement, it is an imperative! We know that our ability to create, sell, and deliver solutions to address some of the most intractable problems organizations face, depends on being able to attract and retain great people who can sell and deliver our solutions at a world class level. To this end, we operate with a "partnership" mentality that allows people to participate meaningfully in the financial results they help to create and to operate with significant levels of autonomy within the parameters of how we define "winning." "Winning" means:

- Winning Financially – including growing top and bottom line, growing relative to the potential of your market, and doing so within targeted business model parameters relating to profitability and asset utilization.
- Winning with Our Customers – including earning high marks on the Net Promoter Score question "on a 0-10 scale, how likely is it that you would recommend [the FranklinCovey solution] to others," and the percentage of clients who continue to come back and also grow their relationship with us.
- Winning with Our People – including earning high marks from team members on our xQ survey and on the likelihood that our people would recommend their team and FranklinCovey overall to other "achievers with heart" as a great place to work; and
- Winning Strategically in the Marketplace - including being able to sell and deliver the full range of our solutions, and increase the size of the strategic moat around his/her business.

We truly do have extraordinary people, and this includes more than just our employees – it also includes our licensee partners, our other strategic partners, our third-party sales agents, and our suppliers.

**Looking Forward**

We believe that the factors described above can not only drive substantial top and bottom line growth in fiscal 2010 and beyond, but set us apart strategically in the marketplace.

We express gratitude to our thousands of clients worldwide who provide us the opportunity to work hand-in-hand with them in pursuit of their critical objectives and their own great purposes; to our associates and partners, who with such great competency, character, and passion, represent our solutions in markets and communities throughout the world; and to you, our shareholders, for your continued trust and support.

Sincerely,

Robert A. Whitman
Chairman & CEO

# Proxy Statement

## Notice Of Annual Meeting Of Shareholders

**Franklin Covey Co.**

You are cordially invited to attend the Annual Meeting of Shareholders of Franklin Covey Co. (the Company), which will be held on Friday, January 29, 2010 at 8:30 a.m., at the Hyrum W. Smith Auditorium, 2200 West Parkway Boulevard, Salt Lake City, Utah 84119-2331 (the Annual Meeting), for the following purposes:

(i) To elect three directors of the Company, each to serve a term of three years expiring at the annual meeting of shareholders of the Company to be held following the end of fiscal year 2012 and until their respective successors shall be duly elected and shall qualify;

(ii) To consider and vote on a proposal to ratify the appointment of KPMG LLP as the Company's independent registered public accountants for the fiscal year ending August 31, 2010; and

(iii) To transact such other business as may properly come before the Annual Meeting or at any adjournment or postponement thereof.

**Important Notice Regarding the Availability of Proxy Materials for the 2010 Annual Shareholders' Meeting.** This year, we will take advantage of the rules of the Securities and Exchange Commission that allow us to furnish our proxy materials over the Internet. As a result, for the first time, we are mailing a notice of availability of the proxy materials over the Internet, rather than a full paper set of the proxy materials, to many of our shareholders. The notice of availability contains instructions on how to access our proxy materials on the Internet, as well as instructions on how shareholders may obtain a paper copy of the proxy materials. All shareholders who do not receive such a notice of availability, including shareholders who have previously requested to receive a paper copy of the materials, will receive a full set of paper proxy materials by United States mail. This distribution process will reduce the costs of printing and distributing our proxy materials.

The Proxy Statement and our 2009 Annual Report are available at: www.shareholdermaterial.com/FC.

The Board of Directors has fixed the close of business on December 1, 2009 as the record date for the determination of shareholders entitled to receive notice of and to vote at the Annual Meeting and at any adjournment or postponement thereof.

All shareholders are urged to attend the meeting.

By Order of the Board of Directors,

Robert A. Whitman
Chairman of the Board of Directors
December 17, 2009

## IMPORTANT

**Whether or not you expect to attend the Annual Meeting in person, to assure that your shares will be represented, please promptly complete your proxy. Your proxy will not be used if you are present at the Annual Meeting and desire to vote your shares personally.**

## SOLICITATION OF PROXIES

This Proxy Statement is being made available to the shareholders of Franklin Covey Co., a Utah corporation (FranklinCovey, the Company, us, our, or we), in connection with the solicitation by the board of directors (the Board or Board of Directors) of the Company of proxies from holders of outstanding shares of our Common Stock, $0.05 par value per share (the Common Stock) for use at our Annual Meeting of Shareholders to be held on Friday, January 29, 2010, at 8:30 a.m., at the Hyrum W. Smith Auditorium, 2200 West Parkway Boulevard, Salt Lake City, Utah 84119-2331, and at any adjournment or postponement thereof (the Annual Meeting). Directions to the Hyrum W. Smith Auditorum may be obtained by calling (801) 817-1776, for shareholders who plan to vote in person at the annual meeting. On or about December 18, 2009 we began mailing to some of our shareholders a notice (the Notice) that these proxy materials are available on the Internet. This Notice contains instructions on how to access the proxy materials on the Internet. On or about December 18, 2009, we also began mailing a full set of proxy materials to certain shareholders, including shareholders who have previously requested to receive a paper copy of the proxy materials.

## PURPOSE OF THE ANNUAL MEETING

Shareholders of the Company will consider and vote on the following proposals: (i) to elect three directors to serve for a term of three years; (ii) to consider and vote on a proposal to ratify the appointment of KPMG LLP (KPMG) as our independent registered public accountants for the fiscal year ending August 31, 2010; and (iii) to transact such other business as may properly come before the Annual Meeting or at any adjournment or postponement thereof.

## COSTS OF SOLICITATION

We will bear all costs and expenses relating to the solicitation of proxies, including the costs of preparation, assembly, printing, and mailing the Notice of Internet Availability of Proxy Materials, this Proxy Statement, the proxy, and any additional solicitation materials that we may provide to shareholders. In addition to the solicitation of proxies by use of the mails, our directors, officers, and employees, without receiving additional compensation, may solicit proxies personally or by telephone, facsimile, or electronic mail. Arrangements will be made with brokerage firms and other custodians, nominees and fiduciaries for the forwarding of solicitation materials to the beneficial owners of the shares of Common Stock held by such persons, and we will reimburse such brokerage firms, custodians, nominees and fiduciaries for reasonable out-of-pocket expenses incurred by them in connection therewith.

## INTERNET AVAILABILITY OF PROXY MATERIALS

Under rules recently adopted by the Securities and Exchange Commission, we are now furnishing proxy materials on the Internet in addition to mailing paper copies of the materials to each shareholder of record. Instructions on how to access and review the proxy materials on the Internet can be found on the proxy card sent to stockholders of record and on the Notice of Internet Availability of Proxy Materials sent to shareholders who hold their shares in "street name." The notice will also include instructions for stockholders who hold their shares in street name on how to access the proxy card to vote over the Internet.

## VOTING

Our Board of Directors has fixed the close of business on December 1, 2009 as the record date for determination of shareholders entitled to notice of, and to vote at, the Annual Meeting (the Record Date). As of the Record Date, there were 16,958,483 shares of our Common Stock issued and outstanding. The holders of record of the shares of Common Stock on the Record Date are entitled to cast one vote per share on each matter submitted to a vote at the Annual Meeting.

**Shareholders Of Record**

If you are a shareholder of record and you received printed proxy materials, you may submit your vote by completing, signing and dating each proxy card received before the Annual Meeting. Sign your name exactly as it appears on the proxy card. If you provide specific voting instructions, your shares will be voted as you have instructed. Proxy cards submitted by mail must be received by our transfer agent no later than January 28, 2010 to be voted at the Annual Meeting.

**Beneficial Shareholders**

Beneficial owners should have received a Notice or voting instructions from the broker, bank, or other

nominee holding their shares. You should follow the instructions in the Notice or voting instructions provided by your bank, broker, or nominee in order to instruct your broker, bank or other nominee on how to vote your shares. The availability of Internet voting will depend on the voting process of the bank, broker, or nominee holding your shares. Shares held beneficially may also be voted in person at the Annual Meeting only if you obtain a legal proxy from the broker, bank, or nominee that holds your shares of record, giving you the right to vote the shares.

## PROXIES

Shares of Common Stock which are entitled to be voted at the Annual Meeting and which are represented by properly executed proxies will be voted in accordance with the instructions indicated on such proxies. If no instructions are indicated, such shares will be voted (i) **FOR** the election of each of the three director nominees; and (ii) **FOR** the ratification of the appointment of KPMG as our independent registered public accountants for the fiscal year ending August 31, 2010, and in the discretion of the proxy holders as to any other matters as may properly come before the Annual Meeting or at any adjournment or postponement thereof. It is not anticipated that any other matters will be presented at the Annual Meeting.

You may revoke your proxy at any time prior to its exercise at the Annual Meeting by returning a proxy bearing a later date, by filing with the Secretary of the Company, at the address set forth above, a written notice of revocation bearing a later date than the proxy being revoked, or by voting the Common Stock covered thereby in person at the Annual Meeting.

## VOTE REQUIRED

A majority of the votes entitled to be cast at the Annual Meeting is required for a quorum at the Annual Meeting. Abstentions and broker non-votes are counted for purposes of determining the presence or absence of a quorum for the transaction of business. Holders of Common Stock will vote as a single class.

In the election of the directors, the three nominees receiving the highest number of votes will be elected. Accordingly, abstentions and broker non-votes will not affect the outcome of the election for directors.

The ratification of the appointment of KPMG as the Company's independent registered public accountants requires that the number of votes cast in favor of the proposal exceeds the number of votes cast in opposition. Abstentions and broker non-votes will not affect the outcome of this proposal.

# PROPOSAL I

## TO APPROVE THE ELECTION OF THE THREE NOMINEES AS DIRECTORS

At the Annual Meeting, three directors are to be elected to serve three-year terms expiring at the annual meeting of shareholders to be held following the end of fiscal year 2012 and until their successors shall be duly elected and qualified. Unless the shareholder indicates otherwise, each proxy will be voted in favor of the following persons: Joel C. Peterson, E. Kay Stepp, and Robert A. Whitman. If any of the nominees should be unavailable to serve, which is not now anticipated, the proxies solicited hereby will be voted for such other persons as shall be designated by the present Board of Directors. The three nominees receiving the highest number of votes at the Annual Meeting will be elected.

**THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE FOR EACH OF THE THREE NOMINEES TO THE BOARD OF DIRECTORS.**

**Nominees for Election to the Board of Directors**

Certain information with respect to the nominees is set forth below.

***Joel C. Peterson***, 62, has been a director of the Company since May 1997. Mr. Peterson served as a director of Covey Leadership Center from 1993 to 1997, and as Vice Chairman of Covey Leadership Center from 1994 to 1997. Mr. Peterson founded Peterson Partners, a Salt Lake City-based private equity group with some $400 million under management, which focuses on providing growth and buyout capital to businesses with strong management teams and a track record of success. Separate from this private equity business, Mr. Peterson founded Peterson Ventures to fulfill a passion for partnering with talented entrepreneurs in earlier stage or smaller ventures. Mr. Peterson has been on the faculty at the Graduate School of Business at Stanford University since 1992 where he has taught courses in real estate investment, entrepreneurship,

and leadership. He was recently selected by students to receive the Distinguished Teacher Award. He currently serves as Director at Stanford's Center for Leadership Development and Research, as a member of the Dean's Advisory Group, and as an Overseer at the Hoover Institution. Between 1973 and 1991, he was Treasurer, Chief Financial Officer (CFO), Board member, and Chief Executive Officer (CEO) of Trammell Crow Company, the world's largest private real estate development firm. Mr. Peterson is currently Chairman of the Board at JetBlue Airways (NASDAQ), and he is on the board of Ladder Capital Finance, a billion-dollar real estate investment company. Over the past 35 years, he has served on dozens of public and private boards including Asurion, the Dallas Market Center, Texas Commerce Bank (Dallas), the Advisory Board at the GSB at Stanford, and on the President's Council at Brigham Young University. He was valedictorian at his undergraduate institution, Brigham Young University, and earned an MBA from Harvard Business School in 1973.

***E. Kay Stepp***, 64, has been a director of the Company since May 1997. Ms. Stepp served as a director of Covey Leadership Center from 1992 to 1997. Ms. Stepp is the chairperson of the board of Providence Health and Services, and served as President and Chief Operating Officer of Portland General Electric, an electric utility, from 1978 to 1992. Ms. Stepp is also currently a director of StanCorp Financial Group (NYSE) and Planar Systems, Inc. (NASDAQ). She formerly was principal of Executive Solutions, an executive coaching firm, from 1994 to 2001, and was a director of the Federal Reserve Bank of San Francisco from 1991 to 1995. She received her Bachelor of Arts degree from Stanford University and a Master of Arts in Management from the University of Portland. Ms. Stepp also attended the Stanford Executive Program and the University of Michigan Executive Program.

***Robert A. Whitman***, 56, has been a director of the Company since May 1997. Mr. Whitman has served as Chairman of the Board of Directors since June 1999 and as President and Chief Executive Officer of the Company since January 2000. Mr. Whitman previously served as a director of the Covey Leadership Center from 1994 to 1997. Prior to joining us, Mr. Whitman served as President and Co-Chief Executive Officer of The Hampstead Group from 1992 to 2000. Mr. Whitman received his Bachelor of Arts degree in Finance from the University of Utah and his MBA from Harvard Business School.

**Directors Whose Terms of Office Continue**

In addition to the directors to be elected at the Annual Meeting, the directors named below will continue to serve their respective terms of office as indicated. Clayton M. Christensen, E.J. Jake Garn, and Donald J. McNamara are currently serving terms which expire at the Annual Meeting to be held following the end of fiscal year 2010. Stephen R. Covey, Robert H. Daines, and Dennis G. Heiner are currently serving terms which expire at our Annual Meeting to be held following the end of fiscal year 2011.

***Clayton M. Christensen***, 57, was appointed as a director of the Company in March 2004 and began his service in July 2004. Dr. Christensen is the Robert and Jane Cizik Professor of Business Administration at the Harvard Business School where he has been a faculty member since 1992. His research and teaching interests center on building new growth businesses and sustaining the success of companies. His specific area of focus is in developing organizational capabilities. Dr. Christensen was a Rhodes Scholar and received his Masters of Philosophy degree from Oxford and his MBA and DBA from the Harvard Business School. He also served as President and Chairman of Ceramics Process Systems from 1984 to 1989. From 1979 to 1984 he worked as a consultant and project manager for the Boston Consulting Group. He serves on the boards of directors of Tata Consultancy Services (NYSE), W.R. Hambrecht, and Vanu. Dr. Christensen is also the owner of Rose Park Advisors.

***E. J. "Jake" Garn***, 76, was elected to serve as a director of the Company in January 1993. Mr. Garn is a self-employed consultant. From December 1974 to January 1993, Mr. Garn was a United States Senator from the State of Utah. During his term in the Senate, Mr. Garn served six years as Chairman of the Senate Banking, Housing, and Urban Affairs Committee and served on the Appropriations, Energy and Natural Resources, and Senate Rules Committees. Prior to his election to the Senate, Mr. Garn served as Mayor of Salt Lake City, Utah, from January 1972 to December 1974. Mr. Garn also currently serves as a director for Headwaters, Inc. (NYSE), and Nu Skin Enterprises, Inc. (NYSE).

***Donald J. McNamara***, 56, was appointed to serve as a director of the Company in June 1999. Mr. McNamara is the founder of The Hampstead Group, LLC (The Hampstead Group), a private equity investor based in Dallas, Texas, and has served as its Chairman since its inception in 1989. He currently serves as a Director of Kimpton Hotel and Restaurant Group, LLC. Mr.

McNamara received an undergraduate degree in architecture from Virginia Tech in 1976 and an MBA from Harvard University in 1978. The Hampstead Group is the sponsor of Knowledge Capital, and Mr. McNamara serves as a designee of Knowledge Capital.

***Stephen R. Covey***, 77, has been Vice Chairman of the Board of Directors since June 1999. He served as Co-Chairman of the Board of Directors from May 1997 to June 1999. Dr. Covey founded Covey Leadership Center and served as its Chief Executive Officer and Chairman of the Board from 1980 to 1997. Dr. Covey received his MBA degree from Harvard Business School and his doctorate from Brigham Young University, where he was a professor of organizational behavior and business management from 1957 to 1983, except for periods in which he was on leave from teaching, and served as Assistant to the President and Director of University Relations. Dr. Covey is the author of several acclaimed books, including *The 7 Habits of Highly Effective People*, *Principle-Centered Leadership*, *The 7 Habits of Highly Effective Families*, *Living the 7 Habits: Stories of Courage and Inspiration*, *The 8th Habit: From Effectiveness to Greatness*, *The Nature of Leadership*, *Everyday Greatness*, and *The Leader in Me*. Dr. Covey is also the co-author of *First Things First*. Dr. Covey is the father of David M.R. Covey and Sean M. Covey, two of our executive officers.

***Robert H. Daines***, 75, has been a director of the Company since April 1990. Dr. Daines is an Emeritus Driggs Professor of Strategic Management at Brigham Young University, where he was employed for 44 years. While employed by Brigham Young University, Dr. Daines taught courses in finance, strategic financial management, and advanced financial management. During that time, Dr. Daines also taught financial strategy and management controls courses for corporations such as Chase Manhattan Bank, Bank of America, and British Petroleum. He also co-authored the finance textbook *Strategic Financial Management*, published by Irwin as well as several articles and cases. Additionally, Dr. Daines served as a consultant to Aetna Life and Casualty where he managed their treasury services including cash management, accounting controls, and financial policies and procedures. Dr. Daines received his MBA from Stanford and his DBA from Indiana University.

***Dennis G. Heiner***, 66, was appointed as a director of the Company in January 1997. Mr. Heiner currently serves as Managing Member of Sunrise Oaks Capital Fund, LLC, a small private bridge loan financing fund. Mr. Heiner served from 1999 to 2004 as President and Chief Executive Officer of Werner Holding Co., a leading manufacturer of climbing products and aluminum extrusions. Prior to joining Werner, he was employed by Black & Decker Corporation from 1985 to 1999 where he served as Executive Vice President and President of the Hardware and Home Improvement Group, a world leader in residential door hardware and plumbing fixtures. From 1979 to 1985, Mr. Heiner was employed by Beatrice Foods where he served as a Division President. From 1972 to 1979, Mr. Heiner was employed by Conroy Inc, a manufacturer of recreational vehicles, where he held positions of Director of Marketing and Vice President of Finance and International Marketing. Mr. Heiner received his Bachelor of Arts degree from Weber State University and his MBA degree from Brigham Young University. He also completed Executive programs at Northwestern's Kellogg School of Management and Harvard Business School.

## CORPORATE GOVERNANCE

FranklinCovey upholds a set of basic values and principles to guide our actions and we are committed to maintaining the highest standards of business conduct and corporate governance. We have adopted a code of business conduct and ethics for our directors, officers, senior financial officers that includes the Chief Executive Officer and Chief Financial Officer and other members of our financial leadership team, and other employees. The Corporate Governance Guidelines and Code of Business Conduct and Ethics are available on our website at www.franklincovey.com. In addition, each of the Corporate Governance Guidelines and the Code of Business Conduct and Ethics are available in print free of charge to any shareholder by making a written request to Investor Relations, Franklin Covey Co., 2200 West Parkway Boulevard, Salt Lake City, Utah 84119-2331. The Code of Business Conduct and Ethics applies to all directors, officers, and employees of FranklinCovey.

**Affirmative Determination Regarding Board Independence**

The Board of Directors has determined each of the following directors to be an "independent director" under the listing standards of the New York Stock Exchange (NYSE): Clayton M. Christensen, Robert H. Daines, E.J. "Jake" Garn, Dennis G. Heiner, Donald J. McNamara, and E. Kay Stepp.

In assessing the independence of the directors, the Board of Directors determines whether or not any director has a material relationship with us (either directly, or as a partner, shareholder, or officer of an organization that has a relationship with us). The Board of Directors considers all relevant facts and circumstances in making independence determinations, including the director independence standards adopted by the Board of Directors and the existence of related party transactions as described in the section entitled "Certain Relationships and Related Transactions" found in this report.

## BOARD OF DIRECTOR MEETINGS AND COMMITTEES

During the fiscal year ended August 31, 2009, there were four meetings held by our Board of Directors. All of the members of our Board of Directors were able to attend at least 75 percent of the Board and committee meetings for which they were entitled to participate. Although we encourage Board members to attend the Annual Meetings, we do not have a formal policy regarding director attendance at our annual shareholder meetings. Eight members of our Board of Directors attended the Annual Meeting held in January 2009.

The non-management directors meet regularly in executive sessions, as needed, without the management directors or other members of management. Dennis G. Heiner, the Lead Independent Director, generally presides over these meetings.

The Board of Directors has a standing Audit Committee, Nominating and Corporate Governance Committee (the Nominating Committee), and an Organization and Compensation Committee (the Compensation Committee). The members of the Audit Committee are Messrs. Jake Garn, Chairperson, Robert H. Daines, Dennis G. Heiner, and Ms. E. Kay Stepp. The Nominating Committee consists of Messrs. Dennis G. Heiner, Chairperson, Robert H. Daines, and Ms. E. Kay Stepp. The Compensation Committee consists of Ms. E. Kay Stepp, Chairperson, and Messrs. Dennis G. Heiner and Robert H. Daines.

The Board of Directors has adopted a written charter for each of the committees. These charters are available on our website at www.franklincovey.com. In addition, shareholders may obtain a printed copy of any of these charters free of charge by making a written request to Investor Relations, Franklin Covey Co., 2200 West Parkway Boulevard, Salt Lake City, Utah 84119-2331.

**The Audit Committee**

The Audit Committee functions on behalf of the Board of Directors in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the Exchange Act), and met six times during fiscal 2009. The Audit Committee's primary functions are: (i) to review and approve the selection of, and all services performed by, our independent registered public accountants; (ii) to review our internal controls and audit functions; and (iii) to review and report to the Board of Directors with respect to the scope of our internal and external audit procedures, accounting practices and internal accounting, and financial and risk controls. Each of the members of the Audit Committee is independent as described under NYSE rules. The Board of Directors has determined that one of the Audit Committee members, Robert H. Daines, is a "financial expert" as defined in Item 407(d)(5)(ii) of Regulation S-K.

**The Nominating Committee**

The Nominating Committee met four times during the fiscal year ended August 31, 2009. The Nominating Committee assists the Board of Directors by: (i) identifying individuals who are qualified and willing to become Board members; (ii) recommending that the Board nominate as many identified individuals as needed for appointment as a director for each annual shareholder meeting; (iii) ensuring that the Audit Committee, the Compensation Committee, and the Nominating Committees of the Board are comprised of qualified and experienced "independent" directors; (iv) developing and recommending succession plans for the Chief Executive Officer (CEO); (v) developing corporate governance policies and procedures applicable to the Company and recommending that the Board adopt said policies and procedures; and (vi) conducting the annual board self-assessment. All of the members of the Nominating Committee are "independent" as defined under NYSE rules.

**The Compensation Committee**

The Compensation Committee met eight times during fiscal 2009. Its functions are: (i) to review and approve corporate goals and objectives relevant to CEO compensation, evaluate CEO performance in light of those goals and objectives, determine and approve CEO compensation (salaries, bonuses, and other compensation) based on this evaluation, and ensure that the CEO's compensation plan is aligned with business strategies and designed to deliver shareholder value; (ii) to review and approve compensation for executives other than the CEO following recommendation by the CEO; (iii) to review and make recommendations to the Board for any incentive compensation and equity-based plans that are subject to Board approval; (iv) to review and administer any stock option plan, stock purchase plan, stock award plan and employee benefit plan, or arrangement established by the Board of Directors for the benefit of our executive officers, employees, and independent directors; and (v) to review management development plans and succession plans to ensure business continuity. All of the Compensation Committee members are "independent" as defined under NYSE rules.

***Role of the Compensation Committee***

The Compensation Committee administers all elements of our executive compensation program, including the Long-Term Incentive Plan. The Compensation Committee has responsibility for all compensation-related matters, including equity awards for Robert A. Whitman, our Chairman of the Board of Directors and CEO. This committee also determines any equity awards under the incentive plan for all other executive officers. In consultation with the Compensation Committee, Mr. Whitman annually reviews and establishes compensation for the other Named Executive Officers (as defined below). The Compensation Committee reports quarterly to the full Board on decisions related to our executive compensation program.

***Compensation Committee Membership and Process***

The Compensation Committee is composed of independent directors who are not employees of the Company or our subsidiaries. For fiscal 2009, the members of the Compensation Committee were E. Kay Stepp, who serves as Chairperson, Robert H. Daines, and Dennis G. Heiner. Except as described below in "Compensation Committee Interlocks and Insider Participation" and "Certain Relationships and Related Transactions," none of the Compensation Committee members have any material business relationships with us. The Compensation Committee held eight meetings during fiscal year 2009 and regularly meets without any employees present to discuss executive compensation matters, including Mr. Whitman's compensation package.

***Compensation Committee Charter***

The Compensation Committee and the Board periodically review and revise the Committee's charter to ensure it accurately reflects these responsibilities and also conducts an annual committee assessment. A copy of the Compensation Committee charter is available at www.franklincovey.com.

***Compensation Consultants***

Within its charter, the Compensation Committee has the authority to engage the services of outside advisors, experts, and others to assist the committee. Accordingly, the Compensation Committee has engaged Mercer U.S., Inc. (Mercer) for advice on matters related to CEO, executive, and Board of Director compensation. The Compensation Committee has the authority to determine the scope of the consulting firm's services and retains the right to terminate the consultant's contract at any time. Mercer's services included the following:

- Executive compensation program design
- Total rewards benchmarking
- Long-term incentive plan design
- Executive severance policy design
- Change-in-control policy design
- Timing of equity grant awards

Additionally, Mercer assists with calibrating the executive compensation program incentive targets to our performance and the competitive market and monitors overall program effectiveness.

***Compensation Committee Interlocks and Insider Participation***

No member of the Compensation Committee was or is an officer or employee of the Company or any of our subsidiaries.

During fiscal 2009, we employed Boyd Craig, who is the son-in-law of Robert H. Daines, a member of the Compensation Committee, and paid him compensation totaling $156,300.

The following table shows the current membership of each of our committees.

| Director | Audit | Nominating | Compensation |
|---|---|---|---|
| Clayton M. Christensen | - | - | - |
| Stephen R. Covey | - | - | - |
| Robert H. Daines | X | X | X |
| E.J. "Jake" Garn | Chair | - | - |
| Dennis G. Heiner | X | Chair | X |
| Donald J. McNamara | - | - | - |
| Joel C. Peterson | - | - | - |
| E. Kay Stepp | X | X | Chair |
| Robert A. Whitman | - | - | - |

## OUR DIRECTOR NOMINATION PROCESS

As indicated above, the Nominating Committee of the Board of Directors oversees the director nomination process. The Nominating Committee is responsible for identifying and evaluating candidates for membership on the Board of Directors and recommending to the Board of Directors nominees to stand for election. Each candidate to serve on the Board of Directors must be able to fulfill the responsibilities for directors set out in the Corporate Governance Guidelines approved by the Board of Directors. These Corporate Governance Guidelines may be found on our website at www.franklincovey.com. In addition to the qualifications set forth in the Corporate Governance Guidelines, nominees for Director will be selected on the basis of such attributes as their integrity, experience, achievements, judgment, intelligence, personal character, ability to make independent analytical inquiries, willingness to devote adequate time to Board duties, and the likelihood that he or she will be able to serve on the Board for a sustained period. In connection with the selection of nominees for director, consideration will be given to the Board's overall balance of diversity of perspectives, backgrounds, and experiences.

Although not an automatically disqualifying factor, the inability of a candidate to meet independence standards of the NYSE will weigh negatively in any assessment of a candidate's suitability.

The Nominating Committee intends to use a variety of means of identifying nominees for director, including outside search firms and recommendations from current Board members and from shareholders. In determining whether to nominate a candidate, the Nominating Committee will consider the current composition and capabilities of serving Board members, as well as additional capabilities considered necessary or desirable in light of existing Company needs and then assess the need for new or additional members to provide those capabilities.

Unless well known to one or more members of the Nominating Committee, normally at least one member of the Nominating Committee will interview a prospective candidate who is identified as having high potential to satisfy the expectations, requirements, qualities, and capabilities for Board membership.

**Shareholder Nominations**

The Nominating Committee, which is responsible for the nomination of candidates for appointment or election to the Board of Directors, will consider, but shall not be required to nominate, candidates recommended by our shareholders who beneficially own at the time of the recommendation not less than one percent of our outstanding stock (Qualifying Shareholders).

Generally speaking, the manner in which the Nominating Committee evaluates nominees for director recommended by a Qualifying Shareholder will be the same as that for nominees from other nominating sources. However, the Nominating Committee will seek and consider information concerning the relationship between a Qualifying Shareholder's nominee and that Qualifying Shareholder to determine whether the nominee can effectively represent the interests of all shareholders.

Qualifying Shareholders wishing to make such recommendations to the Nominating Committee for its consideration may do so by submitting a written recommendation, including detailed information on the proposed candidate, including education, professional experience and expertise, via mail addressed as follows:

Franklin Covey Co.
c/o Stephen D. Young, Corporate Secretary
2200 West Parkway Boulevard, Salt Lake City, UT 84119-2331

**Contractual Rights of Knowledge Capital to Designate Nominees**

Under the Amended and Restated Shareholders Agreement dated March 8, 2005 between Knowledge Capital and us, we are obligated to nominate one designee of Knowledge Capital for election to the Board of Directors. Donald J. McNamara, a current member of our Board of Directors, is the designee of

Knowledge Capital pursuant to this agreement. Upon the mutual agreement of the Company and Knowledge Capital, Robert A. Whitman, the Chairman of the Board of Directors, does not currently serve as a designee of Knowledge Capital. To the extent requested by Knowledge Capital, we are obligated at each meeting of our shareholders at which directors are elected to cause the Knowledge Capital designee to be nominated for election and will solicit proxies in favor of such nominee and vote all management proxies in favor of such nominee except for proxies that specifically indicate to the contrary.

The Amended and Restated Shareholders Agreement also provides that we are obligated, if requested by Knowledge Capital, and to the extent permitted by law and applicable rules of the New York Stock Exchange, to ensure that at least one designee of Knowledge Capital is a member of all committees of the Board other than any special committee of directors formed as a result of any conflict of interest arising from any Knowledge Capital designee's relationship with Knowledge Capital. Knowledge Capital has not requested that its designee serve on any committees of the Board and Donald J. McNamara does not currently serve on any Board of Director committees.

## COMMUNICATIONS WITH DIRECTORS

Shareholders or other interested parties wishing to communicate with the Board of Directors, the non-management directors as a group, or any individual director may do so in writing by addressing the correspondence to that individual or group, c/o Stephen D. Young, Corporate Secretary, Franklin Covey Co., 2200 West Parkway Boulevard, Salt Lake City, Utah 84119-2331 or by using our website at www.franklincovey.com. All such communications will initially be received and processed by the office of the Corporate Secretary. Depending on the nature of the correspondence, the Secretary or Assistant Secretary will initially review such correspondence and either (i) immediately forward the correspondence to the indicated director and to the Chair of the Nominating Committee, or (ii) hold for review for before or after the next regular meeting of the Board of Directors.

## DIRECTOR COMPENSATION

In July 2008, the Compensation Committee received a report from Mercer regarding competitive compensation practices for Boards of Directors of similar sized public companies. Based upon this report, and to provide closer alignment with current and emerging market practices which support the Board's stewardship role, the Compensation Committee recommended the following modifications to the Board of Director compensation plan which were implemented in fiscal 2009:

- Maintain current board, committee, and committee chair retainers at fiscal 2008 levels, which is consistent with the current philosophy of targeting board compensation at the market median for similar sized companies.
- Modify the annual stock award to a dollar denominated amount of $40,000, rather than a fixed number of shares, to provide consistency during a time of market and share price volatility. Further, shares awarded under this plan shall vest one year from the date of grant.
- Modify ownership guidelines for each Director to maintain Common Stock equivalent to three years of the Board cash retainer or $90,000.

Robert A. Whitman, our Chairman of the Board of Directors and CEO, does not currently receive compensation for Board or committee meetings. In fiscal 2009, the remaining directors were paid as follows:

- Each Board member was paid an annual retainer of $30,000, paid quarterly, for service on the Board and attending Board meetings.
- In lieu of committee meeting fees, each Board member was paid an additional annual retainer of $7,000 for service on each committee on which he/she served.
- Committee chairpersons were paid an additional annual retainer of $5,000 for the Audit and Compensation Committees and $3,000 for all other committees.
- Each non-employee member of the Board of Directors received a restricted stock award of shares equivalent to $40,000 which vests over a one-year service period.
- Directors were reimbursed by the Company for their out-of-pocket travel and related expenses incurred in attending all Board and committee meetings.

**Fiscal 2009 Director Compensation**

| A | B | C | D | E | F | G | H |
|---|---|---|---|---|---|---|---|
| Name | Fees earned or paid in cash ($) | Stock awards ($) | Option Awards ($) | Non-stock Incentive Plan Compensation ($) | Change in pension value and nonqualified deferred compensation earnings ($) | All other Comp ($) | Total ($) |
| Clayton Christensen | $30,000 | $56,625 | - | - | - | - | $86,625 |
| Robert H. Daines | $51,000 | $56,625 | - | - | - | - | $107,625 |
| E.J. "Jake" Garn | $42,000 | $56,625 | - | - | - | - | $98,625 |
| Stephen R. Covey | $30,000 | $49,765 | - | - | - | - | $79,765 |
| Dennis G. Heiner | $54,000 | $56,625 | - | - | - | - | $110,625 |
| Joel C. Peterson | $30,000 | $56,625 | - | - | - | - | $86,625 |
| E. Kay Stepp | $56,000 | $56,625 | - | - | - | - | $112,625 |
| Donald J. McNamara | $30,000 | $37,915 | - | - | - | - | $67,915 |
| Robert A. Whitman | - | - | - | - | - | - | - |

Amounts reported in Column C represent the share-based compensation expense recognized under SFAS No. 123R in our fiscal 2009 financial statements. Assumptions used in the calculation of these amounts are included in Note 14 to our financial statements in the Form 10-K for the year ended August 31, 2009 as filed with the SEC. Beginning in fiscal 2009, all Board of Director restricted stock awards are made annually in January following the Annual Meeting, and have one year vesting terms. All restricted shares awarded during fiscal years 2006-2008 vest three years from the date of grant. Accordingly, restricted shares awarded in March 2006 vested in March 2009; and restricted shares awarded in January 2009 will vest in January 2010. The grant date fair value of the stock awards granted under SFAS No. 123R during fiscal 2009 was $4.84 per share. At August 31, 2009, the directors named above, other than Mr. Whitman, held a total of 133,612 shares of restricted stock. At August 31, 2009, each of the directors held 17,264 shares or restricted stock, except for Mr. McNamara, who held 12,764 shares of restricted stock. Mr. Covey and Mr. McNamara began their participation in the non-employee director stock award program subsequent to other board members. We did not grant any stock options in fiscal 2009 and we have not granted stock options to members of the Board of Directors in recent fiscal years.

## EXECUTIVE OFFICERS

In addition to Mr. Whitman, whose biographical information was previously presented, the following information is furnished with respect to our executive officers, who served in the capacities indicated for all or part of fiscal 2009:

***Jennifer Colosimo***, 40, joined FranklinCovey in 1996, became the Vice President for Global Sales Effectiveness in September 2008, and was appointed Chief Learning Officer in September 2009. Ms. Colosimo brings 19 years of values-based change management, organizational and leadership development, and global sales experience to her work with our clients and with internal sales personnel. Prior to joining us, she was a Change Management Consultant with Accenture. Jennifer earned her bachelors degree from the University of Utah and holds a master's degree in organizational communication and business administration from Purdue University.

***David M.R. Covey***, 43, currently serves as Co-Chief Operating Officer, Global Operations. In this capacity, he is responsible for the success of our eight directly owned offices and numerous licensees that operate in other countries and territories around the world. Prior to this appointment, David was Senior Vice President of U.S. Sales from September 2004 to August 2009, and was the President and General Manager of our International Division from September 2001 to August 2004. David also served as the Managing Director of

Franklin Covey Australia 1997-1999. David earned his MBA from Harvard University and prior to receiving his MBA, David worked for two years for Procter & Gamble in Phoenix, Arizona as a Sales Representative. David is the son of Stephen R. Covey, who currently serves as Vice-Chairman of our Board of Directors, and he is the brother of Sean Covey.

***M. Sean Covey***, 45, currently serves as Chief Product Officer, a position that he has held since September 2009. Prior to this appointment, he served as Senior Vice President of Innovations and Product Development from April 2006 to September 2009. Prior to April 2006, Sean served as the leader of our Innovations and Product Development group. Most of our current organizational offerings, including: Focus; The 7 Habits curriculum; xQ; The 4 Disciplines of Execution; and Leadership were developed under Sean's leadership. Mr. Covey is also the author of several books, including *The 6 Most Important Decisions You'll Ever Make, The 7 Habits of Happy Kids*, and the international bestseller, *The 7 Habits of Highly Effective Teens*. Sean graduated with honors from Brigham Young University with a Bachelor's degree in English and later earned his MBA from Harvard Business School. Sean is the son of Stephen R. Covey, who serves as Vice-Chairman of our Board of Directors, and he is the brother of David M.R. Covey.

***C. Todd Davis***, 52, currently serves as Chief People Officer, and has over 27 years of experience in training, training development, executive recruiting, human resources, and sales & marketing. Mr. Davis has been with FranklinCovey for the past 13 years. While at FranklinCovey, Todd has served as a director in the Innovations group, director of recruitment, and Vice President of People Services. Prior to joining us, Todd worked in the medical industry for nine years where he recruited physicians and medical executives along with marketing physician services to hospitals and clinics throughout the country.

***Stephan Mardyks***, 46, became Co-Chief Operating Officer for Global Operations in September 2009. In this role, he co-leads the global strategy, sales, delivery and operations for FranklinCovey in over 140 countries. Stephan joined us as a Regional Director in International Sales in April 2002. In August 2004 he was promoted to Vice President of FranklinCovey International, and became Senior Vice President of FranklinCovey International in April 2006. Prior to joining us, Stephan served as Senior Vice President for Global Operations at Frontline Group, Worldwide Managing Director for DOOR Training International, and Vice President of Raytheon Training LLC, where he contributed to forming the global business strategy and management of its corporate university. Mr. Mardyks is a graduate of University of Paris-Nanterre with two postgraduate degrees in Law and Educational Science.

***Stephen D. Young***, 56, joined FranklinCovey as Executive Vice President of Finance, was appointed Chief Accounting Officer in January 2001, Chief Financial Officer in November 2002, and Corporate Secretary in March 2005. Prior to joining us, he served as Senior Vice-President of Finance, Chief Financial Officer, and director of international operations for Weider Nutrition for seven years. Mr. Young has 30 years of accounting and management experience. Mr. Young is a Certified Public Accountant and holds a Bachelor of Science in Accounting degree from Brigham Young University.

## COMPENSATION COMMITTEE REPORT

The Organization and Compensation Committee has reviewed and discussed with management the contents of the Compensation Discussion and Analysis set forth below. Based on this review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in FranklinCovey's proxy statement on Schedule 14A filed with the Securities and Exchange Commission for the fiscal year ended August 31, 2009.

Date: November 30, 2009

THE COMPENSATION COMMITTEE
E. Kay Stepp, Chairperson
Robert H. Daines
Dennis G. Heiner

## COMPENSATION DISCUSSION AND ANALYSIS

The following compensation discussion and analysis contains information regarding future performance targets and goals. These targets and goals are disclosed in the limited context of our compensation programs and should not be understood to be statements of management's performance expectations or guidance or anticipated results. Investors should not apply these performance targets and goals to other contexts.

**Executive Compensation Philosophy**

***Guiding Principles***

Overall, the same principles that govern the compensation of all our salaried associates apply to the compensation of our Named Executive Officers (NEOs). Specifically:

- **Franklin Covey pays for performance**. Executives – who have the greatest direct influence on organizational performance – have a significant portion of their compensation at risk based on annual business performance and each individual's contribution to that performance. Therefore, executives are held accountable through the compensation program for overall organizational performance as well as specific business unit results.
- **Compensation rewards successful execution of the business strategy**. Therefore, the executive compensation program is aligned with achieving our strategic business plan and directly related to our performance.
- **Our success depends on teamwork from the executive level down through the organization**. Therefore, the compensation program is designed to promote shared destiny and reward entity/team success, as well as individual effort.
- **All compensation components are aligned to attract and retain qualified executive talent.** Successful execution of the business strategy necessitates keeping our management team in place and focused on achieving business goals. Therefore, our program is competitive and equity awards are granted with vesting schedules designed to promote retention.
- **Executive pay is aligned with the interests of shareholders**. Equity awards are used to reward executives for creating shareholder value over a multi-year horizon.

***Importance of Governing Values***

The FranklinCovey Governing Values guide our actions and the actions of our leaders as they fulfill their responsibilities to our employees, customers, shareholders, and the communities they serve. These Governing Values include the following:

1. Commitment to Principles
2. Lasting Customer Impact
3. Respect for the Whole Person
4. Profitable Growth

Each component of the executive compensation program is supported by the Governing Values. In assessing the contributions of our executive officers to our performance, the Committee looks primarily to the quantitative results obtained, but also considers how the results were achieved–and whether the decisions and actions leading to the results are consistent with the Governing Values.

**Objectives of the Executive Compensation Program**

We began fiscal 2009 with a simplified and streamlined organization focused on our training and consulting business and a new corporate structure designed to adapt quickly to new client opportunities and changing market conditions. The compensation objectives have been adapted to support the objectives of the new organization. These objectives are specifically designed to:

1. Ensure total target compensation is both competitive, to attract and retain executive talent, and affordable in support of increasing shareholder value.
2. Provide wider ranges in the target positioning for executive total compensation, recognizing that FranklinCovey puts more pay at risk than our market comparators.
3. Emphasize incentive payouts tied to goal achievement over base salary when structuring the total pay mix which results in a highly leveraged total compensation program.

We believe these refined compensation objectives will further position the organization for success, enable greater consistency between the CEO and his direct reports in terms of overall compensation structure, and provide competitive pay to retain executive talent.

**Compensation Reviews**

Executive compensation is reviewed annually by the Compensation Committee. The Committee requests analysis and data, as needed, from Mercer, an external consultant. The executive compensation policy for fiscal 2009 was established during the fourth quarter of fiscal 2008. While determining the total compensation package for the Named Executive Officers in fiscal 2009, the Compensation Committee considered the impact of a continued sluggish economy, the smaller company size following the sale of the CSBU, and the change in the number and makeup of the executive team, as well as the following:

***Competitiveness to the External Market***

To assess the competitiveness of executive compensation, the Compensation Committee used public survey data from general industry and professional services companies similar in size to us, rather than relying on data from a specific peer group. This procedure normalized the potential of market compensation data to be biased one way or the other due to practices intrinsic to any one industry segment. Survey sources covered companies similar to us in terms of size, revenues, and/or market capitalization. For fiscal 2009 compensation decisions, the published survey data was comprised of companies with revenues of approximately $150 million. Specifically, the Compensation Committee reviewed compensation data for base salary, short-term incentives, total cash compensation, long-term incentives, and total direct compensation for positions comparable to those of FranklinCovey from a job role and responsibility perspective using the following sources:

- Mercer, *2007 Americas Executive Remuneration Database*
- Watson Wyatt, *2007/2008 Report on Top Management Compensation*

Market data from the listed surveys was aged to September 1, 2008 by an annual rate of 4.1%. This represents a blend of aging factors for executives in general industry (3.9%) and executives in the professional services industry (4.2%). In addition to published survey data, the Compensation Committee relied on current market pay practices, trends, plan design, and consulting services pertaining to executive compensation which were provided by Mercer.

The Compensation Committee targeted the 50$^{th}$ to 75$^{th}$ percentile (depending on maturity in the position and previous performance) of the general industry group for total direct compensation (base pay, short-term incentive pay at target, and long-term incentive pay) at 100% of budget, i.e., for target level of performance.

***Tally Sheets***

The Compensation Committee reviewed tally sheets prepared by Mercer and FranklinCovey management for all NEOs, which showed each NEO's current compensation components and provided context for fiscal 2009 compensation discussions.

***Recommendations from the Chairman and Chief Executive Officer***

While the CEO made recommendations regarding the total compensation for those executives who report directly to him, the Compensation Committee reviewed each person's compensation and made final compensation decisions. The CEO did not participate in any decisions that determined his own compensation.

***Compensation Committee Knowledge of the Performance of Each NEO and His/Her Business Unit or Group as Reported Quarterly to the Compensation Committee during the Fiscal Year.***

Following review of market data, tally sheets, and CEO recommendations, the Compensation Committee took into consideration individual contribution to the business, experience, and ability to impact our financial results before determining the level of pay. After considering all the factors as described above, the Compensation Committee set the final target total direct compensation opportunity for each NEO in fiscal 2009 within the approximate range of the 50$^{th}$ to 75$^{th}$ percentile of the market (depending on role and previous performance). The NEOs could earn more or less relative to the opportunity described below based on actual performance:

**Fiscal 2009 Target Total Direct Compensation**

| Name | Base Salary | Target STIP | Target Total Cash | Target LTIP | Total Direct Compensation |
|---|---|---|---|---|---|
| Robert A. Whitman<br>Chief Executive Officer | 500,000 | 500,000 | 1,000,000 | - | 1,000,000 |
| Stephen D. Young<br>Chief Financial Officer | 250,000 | 175,000 | 425,000 | - | 425,000 |
| David Covey<br>Co-Chief Operating Officer, Global Operations | 250,000 | 175,000 | 425,000 | - | 425,000 |
| Stephan Mardyks<br>Co-Chief Operating Officer, Global Operations | 250,000 | 175,000 | 425,000 | - | 425,000 |
| M. Sean Covey<br>Chief Product Officer | 250,000 | 150,000 | 400,000 | - | 400,000 |

The target STIP for Mr. Whitman was set at 100% of his base salary. The target STIP was set at 70% of base salary for Mr. Young, David Covey, and Stephan Mardyks. The target STIP was set at 60% of base salary for Sean Covey. Differences in target STIP amounts as a percentage of base salary are linked to each NEO's role and potential organizational impact. The base salary plus target STIP for each NEO resulted in target total direct compensation at approximately the 50th to the 75th percentile of the market.

During the first quarter of fiscal 2009, the Compensation Committee approved LTIP awards for 205,700 shares of common stock (the target award) to be awarded if we achieved specified financial results of grant. However, due to ongoing organizational changes, our structure evolved to the extent that the fiscal 2009 LTIP award criteria were no longer consistent with our organization and performance goals and, in some cases, the approved award criteria were no longer measurable. As a result of these changes, we determined that no shares would be awarded to any of the NEOs, other members of management, or other employees and the fiscal 2009 LTIP grant was terminated. As a result of this decision, the actual total direct compensation for each NEO in fiscal 2009 was below the 50th percentile of the market.

For determining the CEO's compensation, the Compensation Committee met in an executive session to consider the same inputs for the CEO's compensation as used for the other NEOs. In addition to all of the foregoing factors, the Compensation Committee discussed the CEO Performance Feedback Survey administered to the Board of Directors and senior management during the first quarter of 2009 and the CEO's self assessment.

**Elements of Executive Compensation**

Our Executive Compensation Plan incorporates five main elements:

1. Base Salary
2. Short-Term Incentive Plan (STIP)
3. Long-term Incentive Plan (LTIP) – Performance-Based Equity Grants
4. Certain other benefits
5. Severance benefits

Each element of our executive compensation program addresses different purposes, as described below:

**1. Base Salary**

Base salaries for NEOs are determined by considering the relative importance of the position, the competitive marketplace, and the individual's performance and contribution. Base salaries are targeted between the 50th and 75th percentiles, reviewed annually, and may be adjusted to reflect changing market levels. For fiscal 2009, the Compensation Committee increased base salaries from $200,000 to $250,000 for David Covey, Stephan Mardyks, and Sean Covey, commensurate with each person's expanded role and to align with market competitive levels. Base compensation was also reviewed for Mr. Whitman and Mr. Young; the Compensation Committee determined that their base salaries were competitive with the market and no changes were made for fiscal 2009.

**2. Short-Term Incentive Plan**

The annual short-term incentive plan reinforces our pay for performance philosophy and rewards the

achievement of specific business and financial goals achieved during the fiscal year.

For Mr. Whitman and Mr. Young, whose primary focus is overall corporate performance, the fiscal 2009 STIP program was designed to reward financial performance (Operating Income) and the achievement of individual objectives aligned with our Wildly Important Goals (WIGs). Their STIP payout is weighted so that 70% of the incentive is based on corporate financial goals, while 30% of the incentive is based on the achievement of individual goals. The 70/30 split found in the STIP is focused on achieving line-of-sight performance tied to our strategic and operational objectives. The largest portion of the incentive (70%) is aligned with achieving financial results (Operating Income), which the Compensation Committee believes is the best driver of shareholder value.

Sean Covey has primary responsibility for the development and success of all of our products and programs. As such, his STIP is weighted so that 66 – 70% of the incentive is based on product development, market research, book publishing, and meeting overall SG&A and EBITDA budgets each quarter. Approximately 30% of his incentive is tied to achieving overall corporate operating results (Operating Income), thus maintaining focus on our strategy while driving completion of products and programs in support of the strategy.

For fiscal 2009, the STIP for David Covey and Stephan Mardyks was focused 100% on achieving EBITDA results domestically (Covey) and internationally (Mardyks) in support of our strategy.

***STIP Payout Opportunities: Whitman, Young, and Sean Covey***

The annual STIP payout opportunities for fiscal 2009, as a percentage of base salary for Robert Whitman, Stephen Young, and Sean Covey are shown below. The target earnings opportunity is established to position total cash compensation of these NEOs between the 50th and 75th percentiles of the market when performance is at targeted levels.

Based on actual performance relative to performance goals for fiscal 2009, these NEOs can earn from 0% to 200% of their target incentive per the payout scaling tabulated below. The Compensation Committee has established the payout scale illustrated below with the goal of the plan paying out at target five to six times every ten years and paying out at maximum one to two times every ten years. Maximum payout under the plan would result in total cash compensation at or above the market 75th percentile.

The chart below shows the target STIP payout at 100% is possible only when we reach our financial performance targets and each NEO achieves his individual performance objectives. Payouts tied to financial performance are a straight line from threshold to target and from target to maximum.

**Annual Stip Payout at Various Performance Levels as a Percentage of Base Salary: Whitman, Young, and Covey**

| Name | Minimum Payout when Financial Performance is Less than 60% of Budget | Threshold Payout when Financial Performance is at 60% of Budget [1] | Target Payout when Financial Performance is at 100% of Budget | Maximum Payout when Financial Performance is at 110% of Budget |
|---|---|---|---|---|
| Robert A. Whitman<br>Chief Executive Officer | - | 1% | 100% | 200% |
| Stephen D. Young<br>Chief Financial Officer | - | 1% | 70% | 140% |
| M. Sean Covey<br>Chief Product Officer | - | 1% | 60% | 120% |

[1] Financial Performance is defined as Operating Income for Mr. Whitman, Mr. Young, and Sean Covey.

For Mr. Whitman, Mr. Young, and Sean Covey, the maximum STIP payout could only be achieved based on the achievement of our annual financial goals. In the event of performance greater than target, the maximum payout percent would be applied to both financial and individual portions of the STIP.

***STIP Payout Opportunities: David M. R. Covey and Stephan Mardyks***

Fiscal 2009 was a transition year in the STIP for David Covey and Stephan Mardyks as they move from an incentive structure based 100% on EBITDA, consistent with their sales leadership roles, to a fiscal 2010 STIP that rewards EBITDA performance as well as growing specific program areas in support of the business strategy. For fiscal 2009, the annual STIP payout opportunities are based 100% on domestic (Covey) and international (Mardyks) EBITDA. Our EBITDA is calculated as earnings before interest, taxes, depreciation, and amortization and may not be calculated the same as other companies.

David M. R. Covey and Stephan Mardyks receive a percentage of EBITDA from their respective business unit's performance. Once the unit EBITDA is greater than the EBITDA achieved in the prior year, the respective manager receives an accelerated percentage of EBITDA during the remainder of the fiscal year. The target earnings opportunity is established to position total cash compensation for David Covey and Stephan Mardyks between the 50th and 75th percentiles of the market when performance is at targeted levels. Commissions for EBITDA results greater than budget would continue to be paid at the same accelerated percentage.

Based on actual performance relative to performance goals for fiscal 2009, these NEOs can earn from 0% to 140% of their target incentive per the payout scaling tabulated below. The Compensation Committee has established the payout scale illustrated below with the goal of the plan paying out at target five to six times every ten years and paying out at maximum one to two times every ten years. Maximum payout under the plan would result in total cash compensation at or above the market 75th percentile.

**Annual STIP Payouts at Various Performance Levels as a Percentage of Base Salary: David M. R. Covey and Stephan Mardyks**

| Name | Minimum Payout for no Financial Performance[1] | Payout for Financial Performance equal to FY08 Revenues[2] | Target Payout for Financial Performance at 100% of Budget | Maximum Payout for Financial Performance at 110% of Budget |
|---|---|---|---|---|
| David M.R. Covey<br>Co-Chief Operating Officer for Global Operations | - | 38% | 70% | 140% |
| Stephan Mardyks<br>Co-Chief Operating Officer for Global Operations | - | 38% | 70% | 140% |

(1) Financial Performance is defined as domestic sales EBITDA (Covey) and international sales EBITDA (Mardyks).

(2) Payouts for performance up to and equal to prior year EBITDA is a straight line calculation based on actual EBITDA and may range from 0 to approximately 38% of base salary.

David M. R. Covey and Stephan Mardyks also are individually eligible for quarterly bonuses based on the number of consecutive quarters in which domestic and/or international EBITDA targets are achieved. As shown in the chart below, these bonuses may range from $8,000 to $15,000 per quarter to a target payout of $38,000 per year during fiscal 2009, or an amount approximately equal to 15% of base salary. If the EBITDA target is missed during a quarter, the payout is zero and the target quarterly bonus is reset to begin at $8,000 the next time the quarterly EBITDA target is achieved.

**Quarterly EBITDA Budget Achievement**

| | |
|---|---|
| First quarter of achieving EBITDA budget | $ 8,000 |
| Second successive quarter of achieving budget | $ 9,000 |
| Third successive quarter of achieving budget | $ 10,000 |
| Fourth successive quarter of achieving budget | $ 11,000 |
| Fifth successive quarter of achieving budget | $ 12,000 |
| Sixth successive quarter of achieving budget | $ 13,000 |
| Seventh successive quarter of achieving budget | $ 14,000 |
| Eighth and subsequent successive quarter of achieving budget | $ 15,000 |

***Performance Measures***

Financial Performance Measures

Short-Term Incentive Payouts are based on corporate financial performance and individual objectives. The table below presents the corporate financial measures for the NEOs:

In the process of establishing target Operating Income and EBITDA performance ranges for fiscal 2009, the executive team, in conjunction with business unit leaders and finance leaders, review historical performance data, general economic and market trends, industry-specific trends and results, new and updated product offerings that will be available during the year, and other variables related to business unit performance.

**Individual Performance Objectives**

The individual objectives for the NEOs are determined by the CEO for his direct reports and by the Board for the CEO. These goals are confidential in nature and disclosing specifics could cause potential competitive harm. In general, targets may be set for goals related to revenue growth, sales proficiency, product development, customer relations, balance sheet management, and winning culture. Named executive officers generally average three to four major goals per year – the majority of which are related to achieving our long-term strategy. Achievement of the goals is not automatic. The goals established for each NEO are stretch goals tied to achieving our long-term strategy. Each goal is linked to one of our Wildly Important Goals that are cascaded annually throughout the Company; progress toward each of these goals is reported weekly. Because of the focus on and individual/team accountability for reaching these goals, there is generally a 90% or greater probability that the goals will be achieved.

| Name | Financial Measure | FY2009 Target | FY09 Quarterly Targets |
|---|---|---|---|
| Robert A. Whitman<br>Chief Executive Officer | Operating Income for Franklin Covey Co. | $9.2 million | n/a |
| Stephen D. Young<br>Chief Financial Officer | Operating Income for Franklin Covey Co. | $9.2 million | n/a |
| David Covey<br>Co-Chief Operating Officer, Global Operations | EBITDA for Franklin Covey Domestic Sales | $21.470 million | Q1 $4.367 million<br>Q2 $2.722 million<br>Q3 $6.032 million<br>Q4 $8.348 million |
| Stephan Mardyks<br>Co-Chief Operating Officer, Global Operations | EBITDA for Franklin Covey International Sales | $14.853 million | Q1 $4.478 million<br>Q2 $2.335 million<br>Q3 $3.159 million<br>Q4 $4.880 million |
| M. Sean Covey<br>Chief Product Officer | Operating Income for Franklin Covey Co. | $ 9.2 million | n/a |

To maintain operating flexibility, enable rapid responses to changing market conditions, and provide greater feedback and direction to his new management team, the fiscal 2009 plan was structured so that Mr. Whitman could establish new goals every quarter for his direct reports if needed to ensure attention to specific results.

Achievement of individual performance objectives accounted for up to 30% of the target STIP amount for Mr. Whitman and Mr. Young, and between 66% and 70% of the target STIP amount for Sean Covey for fiscal 2009. Individual objectives are weighted based on difficulty and stretch required to achieve the goal, with most goals weighted between 10% and 35% of the individual portion of the STIP. The following table provides an example of an NEO with 4 individual objectives, and shows the STIP amount tied to achieving the payout for the individual portion of the STIP.

**Payout Calculations Tied to Individual Performance Objectives – Example Based on 4 Individual Performance Objectives**

| Number of Individual Performance Objectives Achieved | Weighting of Each Performance Objective | Percentage of STIP Payout for Individual Performance (30% portion) |
|---|---|---|
| 1 | 35% | 35% |
| 2 | 35% | 70% |
| 3 | 20% | 90% |
| 4 | 10% | 100% |

***Fiscal 2009 Actual Performance and Short-Term Incentive Plan (STIP) Payouts***

For fiscal 2009, actual payouts relative to targets were as follows:

| Name | Year | Target Annual STIP ($) | Financial Performance Component as a Percentage of Total STIP (%) | Individual Performance Component as a Percentage of Total STIP (%) | Total STIP Payout ($) |
|---|---|---|---|---|---|
| Robert A. Whitman<br>Chief Executive Officer | 2009 | 500,000 | 70% | 30% | 150,000 |
| Stephen D. Young<br>Chief Financial Officer | 2009 | 175,000 | 70% | 30% | 52,500 |
| David Covey<br>Co-Chief Operating Officer, Global Operations | 2009 | 175,000 | 100% | - | 77,086 |
| Stephan Mardyks<br>Co-Chief Operating Officer, Global Operations | 2009 | 175,000 | 100% | - | 84,734 |
| M. Sean Covey<br>Chief Product Officer | 2009 | 150,000 | 42.5% | 57.5% | 72,614 |

The above STIP payouts resulted in actual total short-term incentive plan compensation that was approximately 36.4% of target, averaged for all NEOs. The NEO STIP incentives were less than the target amount primarily due to our not achieving specified financial performance goals during fiscal 2009.

***STIP Plan Changes for Fiscal 2009 and 2010***

The following changes were made to the STIP for fiscal 2009 and fiscal 2010:

- Fiscal 2009 goals for Operating Income were set at levels considerably above actual results achieved by the portion of the company that remained following the sale of the CSBU in fiscal 2008, which increased the difficulty of NEOs attaining the goals and receiving STIP payouts tied to goal achievement.
- Timing of the fiscal 2009 STIP payout was amended to provide for a 2-quarter extension of the performance period if financial goals are not met at the end of fiscal 2009. This action recognized the uncertainty of the marketplace while maintaining the integrity of annual goals, and may result in additional STIP payouts for fiscal 2009 being made in fiscal 2010.
- The three new NEOs (David Covey, Stephan Mardyks, and Sean Covey) retained the same STIP structure during fiscal 2009 that was in place prior to their being named to the executive team at the beginning of fiscal 2009, including monthly and quarterly payouts.
- The mix between financial objectives and individual performance will be adjusted in fiscal 2010 to bring the new NEOs closer to the 70% financial and 30% individual performance targets.
- Financial targets may be established for each NEO to best reflect the areas of the company over which he may have the greatest influence, and may incorporate company-wide, operating unit, practice, and/or individual product and program results.
- The maximum payout for any executive for overachievement will be 200% of target. This change maintains the emphasis on paying for performance and drives each named executive officer to achieve stretch goals that enhance shareholder value.

**3. Long-Term Incentive Plan (LTIP)**

In fiscal 2005, the Compensation Committee adopted a new long-term incentive strategy solely using performance-based shares. The LTIP was established as a performance incentive for certain members of management, including the NEOs, and other employees to reward progress toward achieving our long-term financial plan as determined by revenue growth and cumulative operating income over a 3-year period. Under this plan, shares were to be awarded only after specific goals were attained. Long-term Incentive Plan grants made in fiscal 2006 and fiscal 2007 were made in accordance with the terms of our Amended and Restated 1992 Stock Incentive Plan which was last approved by the shareholders in January 2006.

The committee did not make LTIP grants in fiscal 2008 due to our reorganization. The Compensation Committee terminated the fiscal 2009 LTIP grant primarily due to internal changes that made the approved award criteria inconsistent with our performance goals, and thus no longer measurable.

Because the LTIP is included as part of our overall compensation plan, and due to no LTIP awards being made during fiscal 2008 and fiscal 2009, and the expiration of all other LTIP awards made prior to fiscal 2009, total target compensation for the NEOs was below the $50^{th}$ percentile for the general industry group for fiscal 2008 and fiscal 2009.

The Compensation Committee has approved a LTIP award that is expected to be granted in fiscal 2010. The fiscal 2010 LTIP award is expected to be offered to a small group of participants including the NEOs, other members of the executive team, and those who lead significant divisions or segments of the business.

***LTIP Plan Changes for Fiscal 2010***

The following changes in the LTIP have been approved by the Compensation Committee for grants expected to be made in fiscal 2010:

- This plan has a 4-year performance period with a 60% payout; the payout accelerates to 80% if the performance targets are achieved within 3.5 years; the payout accelerates to 100% if the performance targets are achieved within 3 years.
- Participants must reach 50% of the target to achieve the minimum payout. The minimum payout percentage is 30%; the maximum payout percentage is 200%.
- Operating EBITDA is used as the performance target because it demonstrates the magnitude of the financial achievement. (Historically, LTIP awards were based on achieving Operating Income targets.)

- The LTIP payout is in shares with a net exercise option.
- The Committee may modify the Plan.
- The fiscal 2010 LTIP grants will be made under the 1992 Stock Incentive Plan.
- The new LTIP agreements with each named executive officer will include similar non-compete and non-hire provisions as those in the previous LTIP.

**Stock Ownership Guidelines**. Philosophically, we believe that ownership of our Common Stock is important for executives and outside directors and further aligns their interests with those of our shareholders. Through the LTIP and issuance of Restricted Share Awards (RSAs), executives have the opportunity to increase stock ownership as we achieve specific sales and operating income or operating EBITDA targets. As a general guideline, and consistent with industry best practices, beginning in fiscal 2009 outside directors are encouraged to maintain stock ownership equal to at least 3 times the annual retainer or $90,000. Executives are encouraged to maintain stock ownership where the market value of shares held is equivalent to at least two times base salary.

The Compensation Committee annually reviews executives' and directors' progress toward meeting these guidelines. Based on our closing share price on August 31, 2009, multiplied by the number of shares (including common shares and vested and unvested RSAs) held by each director and executive:

- All directors meet the fiscal 2009 guidelines.
- Three of the five NEOs meet the fiscal 2009 guidelines; the remaining two NEOs and other executives, all of whom are new to the requirement, are progressing and expected to meet the guideline within a three- to five-year time frame.

**4. Other Benefits and Perquisites**

We maintain a number of other broad-based employee benefit plans in which, consistent with our values, executive officers participate on the same terms as other employees who meet the eligibility requirements, subject to any legal limitations on amounts that may be contributed to or benefits payable under the plans. These benefits include:

- Our **cafeteria plan** administered pursuant to Section 125 of the Internal Revenue Code of 1986, as amended (the Code).
- Our **401(k) plan**, in which we match 100% of the first 1% contributed and 50% of the next 4% contributed for a net 3% match on a 5% contribution. Contributions to the 401(k) plan from highly compensated employees are currently limited to a maximum of 7% of compensation, subject to statutory limits.
- Our **Employee Stock Purchase Plan** implemented and administered pursuant to Section 423 of the Code.

In addition to the benefits available to all full-time associates, we provide the following benefits to the Named Executive Officers as specified below:

- **Term Life Insurance**. We provide a portable 20-year term life policy for the CEO and CFO. The coverage amount is 2.5 times each executive's target cash compensation (base salary + target annual incentive).
- **Supplemental Disability Insurance**. We provide Mr. Whitman with long-term disability insurance which, combined with our current group policy, provides, in aggregate, monthly long-term disability benefits equal to 75% of his fiscal 2009 target cash compensation. Executives and other highly compensated associates may purchase voluntary supplemental disability insurance at their own expense.

We believe that these benefits are critical to retaining key executive talent and are required as part of a competitive executive compensation and benefits package.

***Perquisites**:* Keeping with the spirit of partnership at FranklinCovey, there are no executive perquisites.

**5. Severance and Change–in-Control Benefits**

We do not have an employment agreement with any of our NEOs, including Robert A. Whitman, the Chief Executive Officer and Chairman of the Board.

***Severance Policy***

Based on market data, we have implemented a severance policy to establish, in advance, the appropriate treatment for terminating executives and to ensure market competitiveness. Named executive officers who are terminated involuntarily without cause receive an equivalent of one year of base salary and target annual short-term incentive compensation. Additionally, we pay COBRA medical and dental insurance premiums for the term of the severance. Consistent with our severance payment policy, all severance payments are made as a lump sum and we do not gross-up severance

payments to compensate for taxes withheld. At Mr. Whitman's request, his target severance was set at the same level as those who report to him.

In return for receiving severance pay, employees agree to specific confidentiality, non-solicitation, and non-disparagement terms.

***Change-in-Control Severance Agreements***

Subsequent to fiscal 2009, we established change-in-control severance agreements for all NEOs. The change-in-control policy is designed to retain our executives in the event a change-in-control transaction is proposed. In such situations, the change-in-control benefit may alleviate some of the financial and career concerns normally associated with a change in control and assure executives of fair treatment.

Based on a market assessment, the Compensation Committee determined the following change-in-control severance benefits to be appropriate for a company of our size and revenues. In addition, the annual on-going compensation is designed to reward executives for our and their individual performance and does not impact the level of benefits that become payable in the event of a contingent event like a change in control.

Specifically, in the event an executive officer's or key employee's employment were terminated, without good reason, and as the result of a change in control, as defined in the policy, the executive officer would be entitled to receive a lump sum cash payment equal to one times his or her current annual target compensation (base salary + STIP). At Mr. Whitman's request, his change-in-control severance agreement was set at the same level as those executives who report to him. Executive Officers would also be entitled to reimbursement for the payment of premiums to secure continuation coverage pursuant to Section 4980B of the Code (or any successor provision thereto) under our medical, dental and other group health plans, and would be entitled to have immediately vested, as of his or her employment termination date, all awards we have granted which at that time are not yet vested according to their terms. Long-term incentive plan awards vest in accordance with the terms and provisions of the plan and award documents.

We do not gross-up change-in-control payments to compensate for taxes withheld.

These change-in-control severance agreements are separate from the standard severance policy. NEOs may not receive payments under both the severance policy and the change-in-control severance agreements. Payments made under the change-in-control severance policy are reduced by an amount equal to the aggregate amount of any other cash payments paid under any other severance policy, agreement, program, arrangement, or requirement of statutory or common law.

**Section 162(m) Implications for Executive Compensation**

Section 162(m) of the Internal Revenue Code of 1986, as amended, imposes a $1.0 million limit on the amount that a public company may deduct for compensation paid to the company's principal executive officer or any of the company's three other most highly compensated executive officers, other than the company's chief financial officer, who are employed as of the end of the year. This limitation does not apply to compensation that meets the requirements under Section 162(m) for "qualifying performance-based" compensation (i.e., compensation paid only if the individual's performance meets pre-established objective goals based on performance criteria approved by shareholders). None of our NEOs received compensation in excess of $1.0 million in fiscal 2009.

To maintain flexibility in compensating executive officers in a manner designed to promote varying corporate goals, the Compensation Committee reserves the right to recommend and award compensation that is not deductible under Section 162(m). Our STIP payments in fiscal 2009 were not considered qualified performance-based compensation under Section 162(m).

**Fiscal 2010 Equity Awards for the CEO and CFO**

The Board of Directors has approved 500,000 stock options to be awarded to the CEO during fiscal 2010. This grant will replace, in part, Mr. Whitman's original stock option grant that expires on August 31, 2010. The grant to Mr. Whitman represents approximately 2.5% of our common shares outstanding. The Board also approved 175,000 stock options for the CFO. These grants are expected to be made in January 2010. The purpose of these grants is to encourage and reward the CEO and CFO for achieving significant shareholder value creation. The stock options will be premium priced and divided into four equal tranches with exercise prices of $9, $10, $12, and $14 per share. The grants are expected to have a term of 10 years, and vesting will be a 5-year cliff.

## COMPENSATION TABLES

### Summary Compensation Table

The salary, bonus, other compensation, long-term compensation and share-based awards for Robert A. Whitman, our Chairman and Chief Executive Officer, and the other named executive officers listed below (collectively, the Named Executive Officers) as of August 31, 2009, the most recent fiscal year end, are shown on the following Summary Compensation Table. For a complete understanding of the data on the table, please refer to the narrative disclosures that follow.

**2009 Summary Compensation Table**

| A | B | C | D | E | F | G | H | I | J |
|---|---|---|---|---|---|---|---|---|---|
| Name and Principal Position | Year | Salary ($) | Bonus ($) | Stock Awards ($) | Option Awards ($) | Non-Equity Incentive Plan Compensation ($) | Change in Pension Value and Nonqualified Deferred Compensation Earnings ($) | All Other Compensation ($) | Total ($) |
| Robert A. Whitman | 2009 | 500,000 | 241,500 | - | - | 150,000 | - | 49,380 | 940,880 |
| Chairman and Chief | 2008 | 500,000 | 645,134 | - | - | 295,000 | - | 56,750 | 1,496,884 |
| Executive Officer | 2007 | 500,000 | - | 264,776 | - | 668,012 | - | 56,870 | 1,489,658 |
| Stephen D. Young | 2009 | 250,000 | 70,000 | - | - | 52,500 | - | 7,462 | 379,962 |
| Chief Financial Officer | 2008 | 250,000 | 177,913 | - | - | 103,250 | - | 15,072 | 546,235 |
| | 2007 | 250,000 | 50,000 | 74,093 | - | 167,003 | - | 12,318 | 553,414 |
| David M.R. Covey Co-Chief Operating Officer, Global Operations | 2009 | 250,000 | 25,300 | - | - | 98,474 | - | 7,277 | 381,051 |
| Stephan Mardyks Co-Chief Operating Officer, Global Operations | 2009 | 250,000 | 25,300 | - | - | 124,734 | - | 14,210 | 414,244 |
| M. Sean Covey Chief Product Officer | 2009 | 250,000 | 70,000 | - | - | 72,614 | - | 164,048 | 556,662 |

**Salary (Column C)**

The amounts reported in Column C represent base salaries paid to each NEO in fiscal 2009.

**Bonus (Column D)**

The bonus amount in Column D for each NEO is in lieu of LTIP awards made in fiscal 2006 and fiscal 2007 which expired as of August 31, 2009 with no shares vesting to participants, in lieu of LTIP awards that were not made in fiscal 2008, and in lieu of LTIP awards that were made in fiscal 2009 and then terminated, resulting in target total compensation at less than the 50$^{th}$ percentile.

**Stock Awards (Column E)**

No awards were made to NEOs during fiscal 2009 for the long-term incentive plan. Amounts in this Column represent the compensation expense we recognized under SFAS No. 123R for previously issued awards.

Assumptions used in the calculation of these amounts are included in Note 13 to our Financial Statements in the Form 10-K for the year ended August 31, 2008, as filed with the SEC.

**Option Awards (Column F)**

We did not award any stock options during fiscal 2009 or fiscal 2008.

**Non-Equity Incentive Plan Compensation (Column G)**

The amounts reported in Column G represent the amounts paid to each NEO under the STIP, which is discussed previously in the section entitled "Compensation Discussion and Analysis – Elements of Executive Compensation." Payouts are based on completing objectives established quarterly or annually and meeting quarterly and annual financial targets. Incentive amounts were approved by the Compensation Committee and were paid following each of the fiscal quarters and at the conclusion of the fiscal year. Payments made to David Covey and Stephan Mardyks were made monthly. The amount for David Covey includes $21,388 in quarterly bonuses for meeting quarterly EBITDA targets. The amount for Stephan Mardyks includes $40,000 in quarterly bonuses for meeting quarterly EBITDA targets; the actual amount awarded to Mr. Mardyks was adjusted to make an allowance for the effects of foreign currency exchange rates on his EBITDA targets.

**Change in Pension Value and Nonqualified Deferred Compensation Earnings (Column H)**

We do not maintain any pension plans.

The Nonqualified Deferred Compensation (NQDC) plan was frozen to new contributions as of January 1, 2005. Effective August 15, 2005, NQDC balances invested in our stock will be distributable to participants only in the form of shares of our stock. None of the NEOs participate in the NQDC plan.

**All Other Compensation (Column I)**

The amounts reported in Column I represent the aggregate dollar amount for each NEO for other personal benefits, tax reimbursements, company contributions to 401(k) accounts, and insurance premiums. The 2009 All Other Compensation Table presents the detail of the amounts included in Column I for fiscal 2009.

**Total Compensation (Column J)**

The amounts reported in Column J reflect the sum of Columns C through I for each NEO, including all amounts paid and deferred. The Compensation committee made the following compensation changes for the NEOs:

Effective September 1, 2008, base compensation for David Covey, Stephan Mardyks, and Sean Covey increased from $200,000 to $250,000 per year as a result of their new roles as members of our executive team and an increase in their responsibilities. Their short-term incentive compensation targets remained unchanged.

**All Other Compensation Table**

The All Other Compensation Table provides numerical information that is incorporated into Column I, All Other Compensation, on the 2009 Summary Compensation Table. For a complete understanding of the data on the table, please refer to the narrative disclosures that follow.

**2009 All Other Compensation Table**

| A | B | C | D | E | F | G | H |
|---|---|---|---|---|---|---|---|
| Name | Year | Contributions to DC Plans ($) | Executive Life Insurance Premiums ($) | Executive Disability Premiums ($) | President's Club ($) | Other ($) | Total ($) |
| Robert A. Whitman<br>Chief Executive Officer | 2009 | 7,192 | 7,310 | 34,878 | - | - | 49,380 |
| Stephen D. Young<br>Chief Financial Officer | 2009 | 5,192 | 2,270 | - | - | - | 7,462 |
| David M.R. Covey<br>Co-Chief Operating Officer, Global Operations | 2009 | 7,005 | - | - | - | 272 | 7,277 |
| Stephan Mardyks<br>Co-Chief Operating Officer, Global Operations | 2009 | 6,624 | - | - | 7,586 | - | 14,210 |
| M. Sean Covey<br>Chief Product Officer | 2009 | - | - | - | - | 164,048 | 164,048 |

**Company Contribution to Defined Contribution Plans (Column C)**

We match, dollar for dollar, the first 1% contributed to the 401(k) plan, and 50 cents on the dollar of the next 4% contributed. Our match for executives is the same match received by all associates who participate in the 401(k) plan.

**Executive Life Insurance Premiums (Column D)**

The Compensation Committee evaluated the market competitiveness of the executive benefit package to determine the most critical and essential benefits necessary to retain executives. Based on information on benefits prevalence from Mercer, the Compensation Committee determined to include executive life insurance for specific NEOs. For the CEO and CFO, we maintain an executive life insurance policy with a face value of approximately 2.5 times their target annual cash compensation. The amounts in Column D show the annual premiums paid for each 20-year term executive life insurance policy.

**Executive Disability Premiums (Column E)**

We provide Mr. Whitman with long-term disability insurance which, combined with our current group policy, provides, in aggregate, monthly long-term disability benefits equal to 75% of his fiscal 2009 target cash compensation. The amount in Column E shows the premiums paid for Mr. Whitman's supplemental long-term disability coverage.

**President's Club (Column F)**

For Mr. Mardyks, the amount in Column F refers to travel and travel-related awards received during fiscal 2009 for performance during fiscal 2007 and fiscal 2008.

**Other (Column G)**

For Sean Covey, the amount in Column G refers to royalties of $163,776 paid during fiscal 2009 and a length of service award received in fiscal 2009.

For David Covey, the amount in Column G refers to a length of service award he received in fiscal 2009.

**Total (Column H)**

The amounts reported in Column H reflect the sum of Columns C through G for each NEO. These numbers are reflected in Column I (All Other Compensation) of the Fiscal 2008 Summary Compensation Table, as presented above.

**Grants of Plan-Based Awards Table**

The following table summarizes annual Short-Term Incentive Plan awards made to each of the NEOs in fiscal 2009. No Long-Term Incentive Plan shares were awarded in fiscal 2009. For a complete understanding of the data on the table, please refer to the narrative disclosures that follow.

**Fiscal 2009 Grants of Plan-Based Awards**

| A | C | D | E | F | G | H | I | J | K |
|---|---|---|---|---|---|---|---|---|---|
| | Estimated future payouts under non-equity incentive plan awards | | | Estimated future payouts under equity incentive plan awards | | | | | |
| Name | Threshold ($) | Target ($) | Max ($) | Threshold (#) | Target (#) | Max (#) | All other stock awards: Number of shares of stock or units (#) | All other option awards: Number of securities underlying options (#) | Exercise or base price of option awards ($/share) |
| Robert A. Whitman<br>Chief Executive Officer | - | 500,000 | 1,000,000 | - | - | - | - | - | - |
| Stephen D. Young<br>Chief Financial Officer | - | 175,000 | 350,000 | - | - | - | - | - | - |
| David M.R. Covey<br>Co-Chief Operating Officer, Global Operations | - | 175,000 | 350,000 | - | - | - | - | - | - |
| Stephan Mardyks<br>Co-Chief Operating Officer, Global Operations | - | 175,000 | 350,000 | - | - | - | - | - | - |
| M. Sean Covey<br>Chief Product Officer | - | 150,000 | 300,000 | - | - | - | - | - | - |

Estimated future payouts under non-equity incentive plan awards (Columns C-E) refer to target awards under the Short-Term Incentive Plan as described below. Actual amounts paid to each NEO in fiscal 2009 are shown in Column G of the Summary Compensation Table.

**Threshold (Column C)**

Column C shows the threshold STIP payment for each NEO based on achievement of financial and individual objectives established for fiscal 2009. Named Executive Officer performance must be greater than threshold level before any payout is received. For Mr. Whitman, Mr. Young, and Sean Covey, threshold performance is defined as financial performance greater than 60% of the budget or completion of at least one individual objective. The threshold payout for all NEOs is $0 with a straight line payout to target based on achieving financial and individual objectives. Additional details about the STIP are included in the Elements of Executive Compensation section of this Compensation Discussion and Analysis.

**Target (Column D)**

Column D shows the target STIP payment for each NEO based on achievement of financial and individual objectives established for fiscal 2009. Named Executive Officers receive the target payout when financial results are at 100% of the budgeted performance level and 100% of individual objectives are achieved. Additional details about the STIP are included in the Elements of Executive Compensation section of this Compensation Discussion and Analysis.

**Maximum (Column E)**

Column E shows the maximum STIP payment for each NEO based on financial performance ranging from 100.01% to 110% of target and 100% of individual objectives established for fiscal 2009.

**Estimated future payouts under equity incentive plan awards (Columns F-H)**

These Columns refer to share grants under our LTIP. As discussed earlier, no LTIP grants were outstanding as of August 31, 2009 and no shares were awarded to participants under those grants.

## Outstanding Equity Awards at Fiscal Year-End

| A | B | C | D | E | F | G | H | I | J |
|---|---|---|---|---|---|---|---|---|---|
| | Option Awards | | | | | Stock Awards | | | |
| Name | Number of securities underlying unexercised options (#) Exercisable | Number of securities underlying unexercised options (#) Unexercisable | Equity Incentive Plan Awards: Number of securities underlying unexercised unearned options (#) | Option exercise price ($) | Option expiration date | Number of shares or unit of stock that have not vested (#) | Market value of shares or units of stock that have not vested ($) | Equity Incentive Plan Awards: Number of unearned shares, units or other rights that have not vested (#) | Equity Incentive Plan Awards: Market or payout value of unearned shares, units or other rights that have not vested ($) |
| Robert A. Whitman Chief Executive Officer | 1,602,000 | - | - | 14.00 | 8/31/2010 | - | - | - | - |
| Stephen D. Young Chief Financial Officer | 35,000 | - | - | 8.00 | 1/16/2011 | - | - | - | - |
| David M.R. Covey Co-Chief Operating Officer, Global Operations | - | - | - | - | - | - | - | - | - |
| Stephan Mardyks Co-Chief Operating Officer, Global Operations | - | - | - | - | - | - | - | - | - |
| M. Sean Covey Chief Product Officer | - | - | - | - | - | - | - | - | - |

The table above provides information concerning the unexercised stock options outstanding and unvested restricted share awards for each of the NEOs at August 31, 2009.

### Number of shares or units of stock that have not vested (Column G)

Due to changes in the number of shares expected to be awarded under the LTIP, there were no unvested shares or units of stock outstanding as of August 31, 2009.

### Change-in-Control Severance Benefits

Subsequent to the end of fiscal 2009, change-in-control severance agreements were established for each NEO. Under the terms of the agreement, each executive officer would receive one times his or her current target compensation plus reimbursement of premiums to secure benefit continuation coverage during the severance period.

**Estimated Change-in-Control Severance Amounts as of August 31, 2009**

| A | B | C | D | E | F | G |
|---|---|---|---|---|---|---|
| Name | Year | Target Total Severance Payment ($) | Base Salary ($) | Target Annual STIP ($) | Target Annual Cash Compensation ($) | Target COBRA Premiums for 12 months ($) |
| Robert A. Whitman<br>Chief Executive Officer | 2009 | 1,007,300 | 500,000 | 500,000 | 1,000,000 | 7,300 |
| Stephen D. Young<br>Chief Financial Officer | 2009 | 435,755 | 250,000 | 175,000 | 425,000 | 10,755 |
| David M.R. Covey<br>Co-Chief Operating Officer, Global Operations | 2009 | 437,767 | 250,000 | 175,000 | 425,000 | 12,767 |
| Stephan Mardyks<br>Co-Chief Operating Officer, Global Operations | 2009 | 437,152 | 250,000 | 175,000 | 425,000 | 12,152 |
| M. Sean Covey<br>Chief Product Officer | 2009 | 410,755 | 250,000 | 150,000 | 400,000 | 10,755 |

**Target Total Change-in-Control Severance Payment (Column C)**

The target total severance payment in Column C equals the target annual cash compensation (Column F) plus target COBRA premiums for the severance period (Column G).

**Severance Benefits**

Under our severance policy, NEOs who terminate involuntarily without cause receive a lump sum payment equivalent to one year of base salary and target annual incentive. Additionally, we pay COBRA medical and dental premiums for the term of the severance. In return for the receipt of severance payment, the NEO agrees to abide by specific non-compete, non-solicitation, and confidentiality requirements.

**Estimated Severance Amounts as of August 31, 2009**

| A | B | C | D | E | F | G |
|---|---|---|---|---|---|---|
| Name | Year | Target Total Severance Payment ($) | Base Salary ($) | Target Annual STIP ($) | Target Annual Cash Compensation ($) | Target COBRA Premiums for 12 months ($) |
| Robert A. Whitman<br>Chief Executive Officer | 2009 | 1,007,300 | 500,000 | 500,000 | 1,000,000 | 7,300 |
| Stephen D. Young<br>Chief Financial Officer | 2009 | 435,755 | 250,000 | 175,000 | 425,000 | 10,755 |
| David M.R. Covey<br>Co-Chief Operating Officer, Global Operations | 2009 | 437,767 | 250,000 | 175,000 | 425,000 | 12,767 |
| Stephan Mardyks<br>Co-Chief Operating Officer, Global Operations | 2009 | 437,152 | 250,000 | 175,000 | 425,000 | 12,152 |
| M. Sean Covey<br>Chief Product Officer | 2009 | 410,755 | 250,000 | 150,000 | 400,000 | 10,755 |

**Target Total Severance Payment (Column C)**

The target total severance payment in Column C equals the target annual cash compensation (Column F) plus target COBRA premiums for the severance period (Column G).

## PRINCIPAL HOLDERS OF VOTING SECURITIES

The following table sets forth information as of December 1, 2009, with respect to the beneficial ownership of shares of Common Stock by each person known by us to be the beneficial owner of more than five percent of Common Stock, by each director, by the Named Executive Officers at August 31, 2009, and by all directors and officers as a group. Unless noted otherwise, each person named has sole voting and investment power with respect to the shares indicated.

In computing the number of shares of common stock beneficially owned by a person or entity and the percentage ownership of that person or entity, we deemed outstanding shares of common stock subject to options or warrants held by that person or entity that are currently exercisable or exercisable within 60 days of December 1, 2009. We did not deem these shares outstanding, however, for the purpose of computing the percentage ownership of any other person or entity. The percentages set forth below have been computed without taking into account treasury shares held by us and are based on 16,958,483 shares of Common Stock outstanding as of December 1, 2009. At the date of this report, there are no shares of Series A or B Preferred Stock outstanding.

## BENEFICIAL OWNERSHIP

| As of December 1, 2009 | Number of Common Shares | Percentage of Class |
|---|---|---|
| Donald J. McNamara[1][2][3][6]<br>c/o Franklin Covey Co.<br>2200 West Parkway Blvd.<br>Salt Lake City, UT 84119-2331 | 7,261,902 | 31.8% |
| Knowledge Capital Investment Group[1][2]<br>3232 McKinney Ave.,<br>Dallas, TX 75204 | 6,928,404 | 30.3% |
| Robert A. Whitman[5]<br>c/o Franklin Covey Co.<br>2200 West Parkway Blvd.<br>Salt Lake City, UT 84119-2331 | 2,244,750 | 12.1% |
| Dimensional Fund Advisors, Inc.[4]<br>1299 Ocean Avenue<br>Santa Monica, CA 90401 | 1,327,143 | 7.8% |
| Stephen R. Covey[3][6]<br>c/o Franklin Covey Co.<br>2200 West Parkway Blvd.<br>Salt Lake City, UT 84119-2331 | 1,063,648 | 6.3% |
| John H. Lewis[7]<br>Osmium Partners, LLC<br>388 Market Street, Suite 920<br>San Francisco, CA 94111 | 918,799 | 5.4% |
| M. Sean Covey | 283,642 | 1.7% |
| Joel C. Peterson[6] | 215,813 | 1.3% |
| Dennis G. Heiner[6] | 121,521 | *% |
| Stephen D. Young[5] | 104,312 | *% |
| Robert H. Daines[6] | 57,896 | *% |
| E. Kay Stepp[6] | 46,673 | *% |
| David M.R. Covey | 40,418 | *% |
| E.J. "Jake" Garn[6] | 33,221 | *% |
| Clayton M. Christensen[6] | 29,646 | *% |
| Stephan Mardyks | 15,024 | *% |
| C. Todd Davis | 13,142 | *% |
| Jennifer Colosimo | 617 | *% |
| All directors and executive officers as a group[5][6](15 persons) | 11,532,225 | 47.1% |

(1) The Common Stock shares indicated for Knowledge Capital include 5,913,402 warrants. The warrants are exercisable into a share of Common Stock at $8.00 per share.

(2) Mr. McNamara, who is a director of the Company, is a principal of The Hampstead Group, the private investment firm that sponsors Knowledge Capital, and therefore may be deemed the beneficial owner of the Common Stock and the warrants of Common Stock held by Knowledge Capital. Mr. McNamara disclaims beneficial ownership of the Common Stock and warrants of Common Stock held by Knowledge Capital.

(3) The share amounts include those held for Stephen R. Covey by SANSTEP Properties, L.C. with respect to 1,046,384 shares; and those indicated by Donald J. McNamara by the Donald J. and Joan P. McNamara Foundation with respect to 23,000 shares. Mr. McNamara is the trustee of his foundation, having sole voting and dispositive control of all shares held by the foundation, and may be deemed to have beneficial ownership of such shares. Mr. Covey, as co-manager of SANSTEP Properties, L.C., has shared voting and dispositive control over the shares held by those entities and may be deemed to have beneficial ownership of such shares.

(4) Dimensional Fund Advisors' information is provided as of September 30, 2009, the filing of its last 13F Report.

(5) The share amounts indicated include shares subject to currently exercisable stock options held by the following persons in the following amounts: Robert A. Whitman, 1,602,000 shares and Stephen D. Young, 35,000 shares; all directors and executive officers as a group, 1,637,000 shares.

(6) The share amounts indicated include unvested stock awards currently not vested held by the following persons in the following amounts: Clayton M. Christensen, 17,264 shares; Stephen R. Covey, 17,264 shares; Robert H. Daines, 17,264 shares; E.J. "Jake" Garn, 17,264 shares; Dennis G. Heiner, 17,264 shares; Donald J. McNamara, 12,764 shares; Joel C. Peterson, 17,264 shares; E. Kay Stepp, 17,264 shares; and all directors as a group, 133,612 shares.

(7) John H. Lewis serves as the controlling member of Osmium Partners, LLC, which serves as the general partner of Osmium Capital, LP; Osmium Capital II, LP; and Osmium Spartan, LP (the Funds); and which manages other accounts on a discretionary basis. Mr. Lewis and Osmium Partners, LLC may be deemed to share with the Funds and discretionary accounts voting and dispositive power with respect to such shares, except for the 167,000 shares that are directly owned by Mr. Lewis. Each of Mr. Lewis, Osmium Partners, LLC, and the Funds disclaim beneficial ownership with respect to any shares other than the shares owned directly by such person or entity. The information regarding the number of shares beneficially owned or deemed to be beneficially owned by Mr. Lewis, Osmium Partners, LLC, and the Funds was taken from a Schedule 13G filed by those entities and Mr. Lewis with the Securities and Exchange Commission, dated December 2, 2009.

## SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our directors and executive officers, and persons who own more than 10 percent of our common stock, to file with the Securities and Exchange Commission (the SEC or Commission) initial reports of ownership and reports of changes in ownership of the Common Stock and other securities which are derivative of the Common Stock. Executive officers, directors and holders of more than 10 percent of the Common Stock are required by SEC regulations to furnish us with copies of all such reports they file. Based upon a review of the copies of such forms received by us and information furnished by the persons named above, we believe that all reports were filed on a timely basis except as listed below:

- We filed a Form 3 for each of Jennifer Colosimo, David M.R. Covey, M. Sean Covey, C. Todd Davis, and Stephan Mardyks on October 1, 2008. These forms should have been filed in September 2008 following the appointments of these individuals as our new executive officers.
- We filed a Form 5 for each of Clayton M. Christensen and Robert A. Whitman in November 2008 that should have been filed in October 2008.
- We filed a Form 4 for Robert H. Daines on November 25, 2008 that should have been filed one day earlier.
- A Form 4 was filed for each of Clayton M. Christensen, Stephen R. Covey, Robert H. Daines, E.J. "Jake" Garn, Dennis G. Heiner, Donald J. McNamara, Joel C. Peterson, and E. Kay Stepp in April 2009 for the annual grant of unvested stock awards. These forms should have been filed in January 2009.
- A Form 4 was filed for David M.R. Covey on August 13, 2009 that should have been filed one day earlier.

## CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

**Review and Approval of Related Party Transactions**

We review all relationships and transactions in which the Company and our directors, Named Executive Officers, or their immediate family members are participants, to determine whether such persons have a direct or indirect material interest. Our legal and accounting departments have responsibility for the development and implementation of processes and controls to obtain information from the directors and Named Executive Officers with respect to related party transactions and for then determining, based upon the facts and circumstances, whether the Company or a related party has a direct or indirect material interest in the transaction. As required under SEC rules, transactions that are determined to be directly or indirectly material to us or the related party are disclosed in our proxy statement. In addition, a disinterested majority of the full Board of Directors or Compensation Committee reviews and approves any related party transaction that is required to be disclosed.

**Related Party Transactions**

On December 31, 2008 we acquired the assets of CoveyLink Worldwide, LLC (CoveyLink). CoveyLink conducts seminars and training courses and provides consulting based upon the book *The Speed of Trust* by Stephen M.R. Covey, who is the son of the Vice Chairman of the Board of Directors. The purchase price was $1.0 million in cash plus or minus an adjustment for specified working capital and the costs necessary to complete the transaction, which resulted in a total initial purchase price of $1.2 million. The previous owners of CoveyLink, which includes Stephen M.R. Covey, are also entitled to earn annual contingent payments based upon earnings growth over the next five years. Prior to the acquisition date, CoveyLink had granted a non-exclusive license to us related to *The Speed of Trust* book and related training courses for which we paid CoveyLink specified royalties. As part of the CoveyLink acquisition, an amended and restated license of intellectual property was signed that granted us an exclusive, perpetual, worldwide, transferable, royalty-bearing license to use, reproduce, display, distribute, sell, prepare derivative works of, and perform the licensed material in any format or medium and through any market or distribution channel. The amount expensed for these royalties due to Stephen M.R. Covey totaled $0.5 million during the fiscal year ended August 31, 2009. In connection with CoveyLink acquisition, we also signed a speaking services agreement that pays Stephen M.R. Covey a portion of the speaking revenues received for his presentations. During fiscal 2009, we expensed $0.8 million for payment from these presentations.

Stephen R. Covey, who is currently the Vice-Chairman of the Board of Directors, receives book royalties on books he has authored and has a speaker services agreement with us pursuant to which Dr. Covey

receives 80 percent of the net proceeds from personal speaking engagements. During fiscal 2009, we expensed $1.5 million based upon these agreements.

We pay Sean Covey, who is a son of Stephen R. Covey, and who is also an employee of the Company, a percentage of the royalty proceeds received from the sales of certain books authored by him. During fiscal 2009, we expensed $0.1 million for these royalty payments.

We employ John Covey, a brother of Stephen R. Covey, and paid him compensation totaling $109,700 during fiscal 2009. During fiscal 2009, we also employed Boyd Craig, who is the son-in-law of Robert H. Daines, a member of our Board of Directors, and paid him compensation totaling $156,300.

Robert A. Whitman, our Chairman of the Board of Directors, President, and CEO beneficially owns a partnership interest in Knowledge Capital. Donald J. McNamara, a member of our Board of Directors, also beneficially owns a partnership interest in Knowledge Capital. Knowledge Capital beneficially owns 1,015,002 shares of our common stock and holds 5,913,402 warrants to purchase shares of our common stock.

M. Sean Covey, David M. R. Covey, and C. Todd Davis were among the approximately 147 participants in our management stock loan program since March 2000 and under that program owed the Company $759,417 (51,970 shares), $270,597 (18,518 shares), and $192,037 (13,142 shares), respectively, at December 10, 2009. To settle the loans, they will each surrender their loan shares (valued at market) to the Company in partial payment of their loans and we will collect or forgive the remaining loan balances. To the extent necessary, we also intend to pay them each a bonus to cover the related taxes they will incur as a result of this action.

Each of these listed transactions was approved according to the procedures cited above.

## Proposal II

## TO APPROVE THE RATIFICATION OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

The Audit Committee has selected the independent registered accounting firm KPMG to audit our financial statements for the fiscal year ending August 31, 2010, and is seeking ratification of that choice by our shareholders. However, the Audit Committee is responsible for the selection and ongoing oversight of the auditors and has the authority to replace KPMG as the auditors for the 2010 fiscal year, if it deems it appropriate to do so. Any such change subsequent to the Annual Meeting will not be submitted to the shareholders for ratification. The Board of Directors anticipates that one or more representatives of KPMG will be present at the Annual Meeting and will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

### Principal Accountant Fees

The following table shows the fees paid or accrued by us for audit and other services provided by KPMG for the fiscal years ended August 31, 2009 and 2008:

| | Fiscal 2009 | Fiscal 2008 |
|---|---|---|
| Audit Fees[1] | $1,071,000 | $1,153,000 |
| Audit-Related Fees[2] | - | 25,000 |
| Tax Fees[3] | 71,000 | 108,000 |
| All Other Fees | - | - |
| | $1,142,000 | $1,286,000 |

(1) Audit fees represent fees and expenses for professional services provided in connection with the audit of our consolidated financial statements and the effectiveness of internal controls over financial reporting found in the Annual Report on Form 10-K and reviews of our financial statements contained in Quarterly Reports on Form 10-Q, procedures related to registration statements, the sale of the Consumer Solutions Business Unit in fiscal 2008, and accounting consultations on actual transactions.

(2) Audit-Related Fees primarily consisted of accounting consultation on proposed transactions.

(3) Tax Fees consisted primarily of fees and expenses for services related to tax compliance, tax planning, and tax consulting.

The Audit Committee pre-approves all services to be performed by our independent registered public accountants and subsequently reviews the actual fees and expenses paid to KPMG. All the audit-related and non-audit services provided by KPMG during the fiscal years ended August 31, 2009 and 2008 were pre-approved by the Audit Committee. The Audit Committee has determined that the fees paid to KPMG for non-audit services are compatible with maintaining KPMG's independence as our independent registered public accountants.

## AUDIT COMMITTEE REPORT

In accordance with its written charter adopted by the Board of Directors, the Audit Committee assists the Board in fulfilling its responsibility for oversight of the quality and integrity of our accounting, auditing, and financial reporting practices.

The Audit Committee discussed with the Company's independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 61, *Communication with Audit Committees*, as amended by Statement on Auditing Standards, *Audit Committee Communications*, including the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of the disclosures in the financial statements.

The Audit Committee has received and reviewed the written disclosures and the letter from the independent registered public accountants required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the Audit Committee concerning independence, and has discussed with the independent registered public accountants its independence.

The Audit Committee discussed and reviewed with the independent registered public accountants all communications required by auditing standards generally accepted in the United States of America, including those described in Statement on Auditing Standards No. 114, *The Auditors Communication with Those Charged with Governance*, with and without management present, and discussed and reviewed the results of the independent registered public accountants' work.

The Audit Committee reviewed the audited financial statements of the Company as of and for the fiscal year ended August 31, 2009, and met with and discussed such financial statements with management and the independent registered public accountants.

Based on the above-mentioned review and discussions with management and the independent auditors, the Audit Committee recommended to the Board that our audited financial statements be included in the Annual Report on Form 10-K for the fiscal year ended August 31, 2009, for filing with the Securities and Exchange Commission. The Audit Committee also recommended the reappointment, subject to shareholder approval, of KPMG.

Date: November 5, 2009

E.J. "Jake" Garn, Chairperson
Robert H. Daines
Dennis G. Heiner
E. Kay Stepp

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE IN FAVOR OF THE PROPOSAL TO RATIFY THE SELECTION OF KPMG AS INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS FOR THE COMPANY FOR THE FISCAL YEAR ENDING AUGUST 31, 2010.**

## OTHER MATTERS

As of the date of this Proxy Statement, the Board of Directors knows of no other matters to be presented for action at the meeting. However, if any further business should properly come before the meeting, the persons named as proxies in the accompanying form of proxy will vote on such business in accordance with their best judgment.

## PROPOSALS OF SHAREHOLDERS

Proposals which shareholders intend to present at the annual meeting of shareholders to be held in calendar year 2011 must be received by us, at our executive offices (2200 West Parkway Boulevard, Salt Lake City, Utah 84119-2331) no later than August 20, 2010, provided that this date may be changed in the event that the date of the annual meeting of shareholders to be held in calendar year 2011 is changed by more than 30 days from the date of the annual meeting of shareholders to be held in calendar year 2010. Such proposals must also comply with the requirements as to form and substance established by the SEC if such proposals are to be included in our proxy statement and form of proxy.

Pursuant to rules adopted by the SEC, if a shareholder intends to propose any matter for a vote at our Annual Meeting to be held in calendar year 2011 but fails to notify us of that intention prior to November 3, 2010, then a proxy solicited by the Board of Directors may be voted on that matter in the discretion of the proxy holder, provided that this date may be changed in the event that the date of the annual meeting of shareholders to be held in calendar year 2011 is changed by more than 30 days from the date of the annual meeting of shareholders to be held in calendar year 2010.

## WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly, and current reports, proxy statements and other information with the SEC. You may read and copy any document we file at the SEC's public reference room, 100 F Street NE, Washington, D.C. 20549. You can also request copies of the documents, upon payment of a duplicating fee, by writing the Public Reference Section of the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. These SEC filings are also available to the public from the SEC's web site at http://www.sec.gov.

**We will provide without charge to any person from whom a Proxy is solicited by the Board of Directors, upon the written request of such person, a copy of our 2009 Annual Report on Form 10-K, including the financial statements and schedules thereto (as well as exhibits thereto, if specifically requested), required to be filed with the Securities and Exchange Commission. Written requests for such information should be directed to Franklin Covey Co., Investor Relations Department, 2200 West Parkway Boulevard, Salt Lake City, Utah 84119-2331, Attn: Mr. Stephen D. Young.**

You should rely only on the information contained in this Proxy Statement. We have not authorized anyone to provide you with information different from that contained in this Proxy Statement. The information contained in this Proxy Statement is accurate only as of the date of this Proxy Statement, regardless of the time of delivery of this Proxy Statement.

FranklinCovey

# Form 10-K

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

# FORM 10-K

☑ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED AUGUST 31, 2009

OR

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

## FRANKLIN COVEY CO.

(Exact name of registrant as specified in its charter)

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

2200 West Parkway Boulevard
Salt Lake City, Utah 84119-2331
(Address of principal executive offices, including zip code)

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

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

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

Securities registered pursuant to Section 12(g) of the Act: None.

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

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

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

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

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

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

☐ Large accelerated filer ☑ Accelerated filer

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

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

As of February 27, 2009, the aggregate market value of the Registrant's Common Stock held by non-affiliates of the Registrant was approximately $53.9 million, which was based upon the closing price of $4.13 per share as reported by the New York Stock Exchange.

As of November 2, 2009, the Registrant had 16,960,319 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Parts of the Registrant's Proxy Statement for the Annual Meeting of Shareholders, which is scheduled to be held on January 29, 2010, are incorporated by reference in Part III of this Form 10-K.

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# PART I

## Item 1. Business

**Disclosure Regarding Forward-Looking Statements**

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), relating to our operations, results of operations, and other matters that are based on our current expectations, estimates, assumptions, and projections. Words such as "may," "will," "should," "likely," "anticipates," "expects," "intends," "plans," "projects," "believes," "estimates," and similar expressions are used to identify these forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties, and assumptions that are difficult to predict. Forward-looking statements are based upon assumptions as to future events that might not prove to be accurate. Actual outcomes and results could differ materially from what is expressed or forecast in these forward-looking statements. Risks, uncertainties, and other factors that might cause such differences, some of which could be material, include, but are not limited to, the factors discussed below under the section entitled "Risk Factors."

## GENERAL

Franklin Covey Co. (the Company, we, us, our, or FranklinCovey) is a leading global provider of execution, leadership, and personal-effectiveness training with over 600 employees worldwide delivering principle-based curriculum and effectiveness tools to our customers. Our consolidated net sales for the fiscal year ended August 31, 2009 totaled $130.1 million and our shares of common stock are traded on the New York Stock Exchange (NYSE) under the ticker symbol "FC."

We operate globally with one common brand and business model designed to enable us to provide clients around the world with the same high level of service. To achieve this level of service we operate four regional sales offices in the United States; wholly owned subsidiaries in Australia, Japan, and the United Kingdom; and contract with licensee partners who deliver our curriculum and provide services in over 150 other countries and territories around the world.

Our business-to-business service utilizes our expertise in training, consulting, and technology that is designed to help our clients define great performance and execute at the highest levels. We also provide clients with training in management skills, relationship skills, and individual effectiveness, and can provide personal-effectiveness literature and electronic educational solutions to our clients as needed.

Our fiscal year ends on August 31 of each year. Unless otherwise noted, references to fiscal years apply to the 12 months ended August 31 of the specified year.

During the fourth quarter of fiscal 2008, we sold substantially all of the assets of our Consumer Solutions Business Unit (CSBU) to a newly formed entity, Franklin Covey Products, LLC (Refer to Note 3 of our consolidated financial statements in Item 8 for further details on this transaction). The CSBU was primarily responsible for the sale of our products such as planners, binders, software, totes, and related accessories. Following the sale of the CSBU, our efforts have been focused on providing superior training, consulting, and other services that will enable our clients to achieve greatness.

## SERVICES OVERVIEW

Our mission is to enable greatness in people and organizations everywhere. To that end, we have developed industry-leading content, tools, and methodologies to help organizations achieve four outcomes:

1. **Sustained Superior Performance**. Great organizations succeed financially and operationally in both the short and long term relative to their market and strategic potential.
2. **Intensely Loyal Customers**. Great organizations earn not only the "satisfaction" of their customers, but their true loyalty.
3. **Highly Engaged and Loyal Employees**. The people who work in great organizations are energized and passionate about what they do.
4. **Distinctive Contribution**. Great organizations do more than "business as usual"—they fulfill a unique mission that sets them apart from the crowd.

Our content, tools, and methodologies are organized into key practice areas or product lines, each offering targeted solutions that drive these four outcomes.

Our primary practice areas and product lines include:

1. Execution
2. Leadership
3. Individual Effectiveness
4. Winning Customer Loyalty
5. Trust
6. Sales Performance
7. Education Solutions
8. E-Learning
9. Custom Solutions
10. Media Publishing

The following is a description of our primary practice areas and curriculum.

## 1. Execution

Execution remains one of the toughest challenges organizations face today. Our internal studies show that only 13 percent of public companies meet yearly financial expectations, 70 percent of strategic initiatives either fail or are abandoned, and only 19 percent of workers say they can effectively translate the company's top goals into the work they do.

We believe our Execution practice addresses these challenges. We work directly with leadership teams to help them clarify the "wildly important goals" that their strategy requires, identify key measures that lead to the achievement of these goals, create clear and compelling scoreboards, and build a culture and cadence of accountability so that the goals are achieved. Our key execution offerings include:

**The 4 Disciplines of Execution®: Manager Certification**

The purpose of Manager Certification includes helping managers not only develop specific skills, but to also create actual work plans. We help managers leave the session with clearly identified goals and measures, a draft scoreboard for their team, and an accountability plan to help everyone move forward on the goals.

**The 4 Disciplines of Execution®: Skills Workshop and Team Work Session**

The purpose of the one- or two-day work session is to help teams understand the methods and develop the skills of consistent execution. We help teams clarify their goals, refine key measures, and generate new and better ways of achieving the goals through peer-to-peer accountability.

**Execution Quotient® (xQ) Assessment**

This offering allows organizations to measure their overall ability to execute their most important goals. The xQ is a culture-wide assessment based on factors that contribute to consistent and successful execution. This assessment helps leaders identify areas where their goals may be at risk.

**What the CEO Wants You to Know: Building Business Acumen™**

This training supports the Execution disciplines by helping individuals and teams better understand the financial engine of their business and how they can positively affect it. The material is based on the popular book *What the CEO Wants You to Know,* by leading CEO and executive coach Ram Charan.

## 2. Leadership

Leadership has a profound impact on performance, and is a key lever that mobilizes teams to produce results.

We help organizations develop leaders who build great teams through these 4 imperatives:

**Inspire Trust**: Build credibility as a leader so that people will contribute their highest efforts.

**Clarify Purpose**: Define a clear and compelling purpose that motivates people to offer their best to achieve the organizational goals.

**Align Systems**: Create systems of success that support the purpose and goals of the organization, enable people to do their best work, operate independently of management, and sustain superior performance over time.

**Unleash Talent**: Develop a winning team, where people's unique talents are leveraged against clear performance expectations in a way that encourages responsibility and growth.

Each of our Leadership offerings addresses these imperatives or provides in-depth training in one of these areas.

**Leadership: Great Leaders, Great Teams, Great Results™**

This comprehensive offering contains the entire core content of FranklinCovey's Leadership practice. During the program, leaders learn the *4 Imperatives of Great Leaders* and take specific actions to carry them out. The workshop features award-winning videos that present the latest on our own research and thinking, along with the best thinking of other leadership experts including:

- Jack Welch, *Winning*
- Fred Reichheld, *The Ultimate Question*
- Clayton Christensen, *The Innovator's Solution*
- Stephen R. Covey, *The 8th Habit*
- Stephen M. R. Covey, *The Speed of Trust*
- Ram Charan, *What the CEO Wants You to Know*

**Leadership Foundations™**

Our *Leadership Foundations* workshop is designed to prepare emerging leaders to take on significant roles and responsibilities in the future. Participants gain skills to improve trust and influence with peers and superiors, link their work to a clear and compelling team purpose, implement a system for executing critical priorities, and leverage the talents of peers and co-workers to achieve unprecedented results.

**Leadership Modular Series™**

Drawn from the content of our leadership-development program, the *Leadership Modular Series* comprises seven stand-alone modules that teach imperatives leaders can apply immediately to create a work environment that addresses the needs of the knowledge worker. For leaders who cannot attend multiple days of training, the *Leadership Modular Series* lets them focus on one specific leadership competency, three to four hours at a time. The series includes the following instructor-led training modules:

1. The 4 Imperatives of Great Leaders™
2. Inspiring Trust
3. Clarifying Your Team's Purpose and Strategy
4. Closing the Execution Gap
5. Building Process Excellence
6. Unleashing Talent
7. Leading Across Generations

**The 7 Habits for Managers®**

FranklinCovey's *The 7 Habits for Managers* solution teaches the fundamentals of leading today's mobile knowledge worker. Both new and experienced managers acquire a set of tools to help them meet today's management challenges, including conflict resolution, prioritization, performance management, accountability and trust, execution, collaboration, and team and employee development. We help participants in our *The 7 Habits for Managers* program to:

- Increase resourcefulness and initiative.
- Define the contribution they want to make in their role as manager.
- Manage performance through a balance of accountability and trust.
- Give constructive feedback.
- Improve team decision-making skills by embracing diverse viewpoints.

**Executive Coaching**

We offer senior executives a coaching experience created in partnership with Columbia University, which includes methodologies approved by the International Coach Federation (ICF). We leverage content, methodology, and tools to guide leaders in discovering and unleashing the potential they already possess. In one-on-one or team sessions, our executive coaches help senior-level executives work through complex issues, helping them establish initiatives that are clear, defined, and actionable, and provide supportive accountability until their goals are reached. We also offer one-on-one executive coaching in leadership development, strategy, goal execution, and personal work/life areas.

## 3. Individual Effectiveness

Effective organizations are characterized by highly effective individuals—individuals who take initiative, set and achieve important goals, manage themselves well and are highly productive, work well with others, solve problems, and create new and valuable ideas.

Individual effectiveness and resilience are particularly valuable in a difficult economic environment. In such an environment, we believe that our approaches to personal

and interpersonal effectiveness are perhaps more critical than ever.

### The 7 Habits of Highly Effective People®—Signature Program

Based on the principles found in Dr. Stephen R. Covey's best-selling business book, *The 7 Habits of Highly Effective People*, this program drives organizational success by helping participants gain the paradigms and behaviors of effective people. Participants gain hands-on experience, applying principles that yield greater productivity, improved communication, strengthened relationships, increased influence, and focus on critical priorities. Participants learn how to take initiative, identify and balance key priorities, improve interpersonal communication, leverage creative collaboration and problem solving, and build their personal resilience and capability.

### The 7 Habits of Highly Effective People®: Introductory Workshop for Associates

This workshop for employees at all levels is designed to tap the best they have to give. We help employees become empowered with new knowledge, skills, and tools to confront issues, work as a team, increase accountability, and raise the bar on what they can achieve. Participants discover how to maximize performance by avoiding dependence on others, gaining appropriate independence, and moving on to where real success lies: being successfully interdependent and collaborative with others.

### FOCUS: Achieving Your Highest Priorities™

Our time-management workshop presents principles that help participants identify and clarify their values, set goals, and plan weekly and daily to accomplish what really counts. We help participants discover how to clearly define goals and break them down into key tasks, eliminate unnecessary activities to reduce stress, balance work and life priorities, and master information management with a proven planning system.

### FOCUS: Achieving Your Highest Priorities—Microsoft® Outlook® Edition

This practical workshop teaches participants to apply the principles from our productivity training while using Microsoft Outlook as their scheduling tool. We teach them how to prioritize tasks, messages, and appointments to achieve what is most important to the organization and themselves. In addition, we teach participants how to gain control of competing demands on their time from email, voice mail, meetings, and interruptions, plus we teach them a goal-setting process to become more motivated and productive.

### FOCUS: Achieving Your Highest Priorities—IBM® Lotus Notes® Edition

The same as the workshop for Microsoft Outlook above, this workshop also teaches participants to apply the principles from our productivity training while using IBM Lotus Notes as their scheduling tool. Participants learn to stay focused and effective by integrating IBM Lotus Notes, paper, and PDA-type productivity tools together; apply a planning process that gets better business results; reduce stress by recognizing and eliminating distractions and low-priority activities; and achieve balance and renewal, while avoiding burnout and frustration.

### Project Management™ (One- and Two-Day Program)

Our Project Management solution teaches a four-step process for managing projects, large or small. This approach helps project managers and their teams craft and deliver high-quality projects on time and within budget. This solution is taught as a one- or two-day, facilitator-led process, and encourages attendees to focus on their own current projects for a hands-on experience.

### Writing Advantage™

The FranklinCovey *Writing Advantage* program teaches participants how to set quality writing standards that help people increase productivity, resolve issues, avoid errors, and heighten credibility. Participants learn a four-step process to improve their writing skills. They learn how to write faster with more clarity, and gain skills for revising and fine-tuning every style of document.

### Technical Writing Advantage™

FranklinCovey's *Technical Writing Advantage* program teaches participants the skills to improve the quality,

clarity, structure, and expected results of their technical communication. This program teaches participants to take complex ideas and make them understandable and memorable in written form.

### Presentation Advantage™

With our *Presentation Advantage* solution, participants learn how to craft presentations around essential objectives, present key concepts and ideas with power and enthusiasm, design and present effective visuals, and employ techniques for polishing and mastering presentation delivery.

### Meeting Advantage™

The FranklinCovey *Meeting Advantage* solution teaches participants to plan effectively by frontloading before a meeting, focusing productively during the meeting, and following through successfully after the meeting.

## 4. Winning Customer Loyalty®

Our Winning Customer Loyalty practice helps leaders of multiunit organizations create a culture where employees are engaged and equipped to deliver great customer experiences. To do this, customer loyalty specialists draw from an array of offerings to craft a solution that works with each company's culture, operating environment, and strategic vision. A typical solution includes these components:

- **Customer scores**. Customer-satisfaction and loyalty scores for every unit, every month.
- **Employee scores**. A targeted employee survey that gauges each unit's "Execution Quotient" (xQ), or the conditions required for an engaged and focused workforce.
- **Loyalty Portal**. A Web-based dashboard that allows every unit to see their scores, reach out to customers, and manage their team's focus on the key activities that drive customer loyalty.
- **"Lead measure" identification**. Our most senior consultants guide the senior team through a "lead measure" identification process where, through a combination of best practices and strategic assessments, key activities are identified that become the drivers of a memorable customer experience.
- **Systems alignment**. We help the senior team to align compensation, training, and other systems around the most critical goals and remove operational barriers to execution.
- **Manager certification**. Unit-level managers are certified to engage their teams around their scores, lead measures, and key activities.
- **Frontline training**. We provide training in key areas such as scoreboarding, focus and execution, leadership, and creating a culture of service. Much of this training, as well as supportive tools, is delivered to each unit through the Loyalty Portal.

## 5. Trust

We believe that trust is the hallmark of effective leaders, teams, and organizations. Trust-related problems like bureaucracy, fraud, and excessive turnover discourage productivity, divert resources, and chip away at a company's brand. On the other hand, leaders who make building trust an explicit goal of their job gain strategic advantages—accelerating growth, enhancing innovation, improving collaboration and execution, and increasing shareholder value. Our Trust practice is built on *The New York Times* best-selling book, *The Speed of Trust* by Stephen M. R. Covey, and includes offerings to help leaders and team members develop the competencies to make trust a strategic advantage.

### Leading at the Speed of Trust™

This program engages leaders at all levels in identifying and closing the trust gaps in their organization. Instead of paying "trust taxes," organizations can begin to realize "trust dividends." We believe that doing business at the "speed of trust" lowers costs, speeds up results, and increases profits and influence. Our *Leading at the Speed of Trust* solution is designed to help leaders:

- Make building trust an explicit goal of their work.
- Learn how others perceive their trustworthiness from their personal tQ™ (Trust Quotient) Report.
- Understand the real, measurable "trust taxes" they may be paying without realizing it.
- Change "trust taxes" to "trust dividends," which are the benefits that come from growing relationships of trust.

• Make action plans to build trust accounts with all key stakeholders.

• Begin using the language of trust as an important cultural lever.

**Working at the Speed of Trust™—For Associates**

This workshop helps individual contributors identify and address "trust gaps" in their personal credibility and in their relationships at work. Using examples from their work and focusing on real-world issues, participants discover how to communicate transparently with peers and managers, improve their track record of keeping commitments, focus on improving internal "customer service" with others who depend on their work, and much more. Our *Working at the Speed of Trust* solution is designed to help associates:

• Increase personal credibility.

• Exhibit behaviors that increase trust.

• Increase trust with key stakeholders.

• Create an environment of high trust that will increase creativity, innovation, and a greater commitment to achieving results.

## 6. Sales Performance

We believe that sales performance is about helping clients succeed. FranklinCovey provides an approach that delivers the "what to do" and "how to do" for mutual seller/buyer benefits. Through consulting, training, and coaching, our *Sales Performance* practice helps sales leaders and salespeople act as genuine trusted business advisors who create value and help clients succeed.

Helping clients succeed is a mind-set, skill-set, and tool-set for becoming client-centered. It is a way of thinking, being, and behaving. We believe that it removes the stigmas that come with sales, and we believe that it removes the adversarial interplay between sellers and buyers. It is also a process for creating candid dialogue, fresh thinking, innovative collaboration, insightful decision making, and robust execution—with clients and within an organization.

The acronym INORDER represents the underlying sales methodology we use in *Helping Clients Succeed*. Each module in the methodology represents a different stage in the sales process, starting from the front end with Initiating New Opportunities (INO) and Qualifying Opportunities (ORD), then closing at the back end with Winning and Growing Opportunities (ER). With our suite of consultative sales-training solutions, we believe clients can transform their salespeople into trusted business advisors who focus on helping their clients succeed, resulting in increased sales, shortened sales cycles, improved margins, and satisfied clients.

## 7. Education Solutions

The FranklinCovey *Education Solutions* practice is dedicated to helping educational organizations build the culture that will produce great results. Our offerings address all grade levels and help faculty and students develop the critical leadership and effectiveness skills they will need to succeed in a knowledge-based, networked world.

**Primary Education Solutions: The Leader in Me®**

*The Leader in Me* process is designed to be integrated into a school's core curriculum and everyday language. The methodology is designed to become part of the culture, gain momentum, and help to produce improved results year after year. We believe the methodology benefits schools and students in the following ways:

• Develops students who have the skills and self-confidence to succeed as leaders in the 21st century.

• Decreases discipline referrals.

• Teaches and develops character and leadership through existing core curriculum.

• Improves academic achievement.

• Raises levels of accountability and engagement among both parents and staff.

*The Leader in Me* process also helps create a common language within a school, built on principle-based leadership skills found in Dr. Stephen R. Covey's best-selling book *The 7 Habits of Highly Effective People*, and is designed to produce a holistic school-wide experience for primary school teachers and their classrooms that proceeds in several phases:

Phase 1: Faculty Development

Through facilitated peer-to-peer discussion, videos, and learning exercises, teachers and administrators will:

• Explore and create a guiding vision for what "greatness" means within the culture of their school.

- Learn and internalize the 7 Habits and understand how to apply the principles in their classrooms.
- Study other schools that have integrated the 7 Habits and other leadership and quality tools.
- Become certified to deliver *The 7 Habits of Highly Effective People*® training as a means of ongoing professional development.

Phase 2: Implementation Training

In this phase, teachers and administrators will learn how to:

- Integrate the 7 Habits and other leadership principles into the school's curriculum and culture.
- Apply *The Leader in Me* process to develop the specific 21st-century competencies students will need to succeed at school, in their future careers, and in life.

Phase 3: Classroom Implementation

- *The Leader in Me* includes several tools to assist educators, students, and parents in implementation during the first year, as well as reinforcing the process in following years.
- *The Leader in Me* Web Community— www.TheLeaderInMe.org—features cross-curricular lesson plans, award-winning videos, assessments, and a forum for educators, as well as fun activities for students.
- Student Activity Guides for Lower/Upper Elementary and Annotated Teacher's Editions.
- *The 7 Habits of Happy Kids*™ poster set.
- *The 7 Habits of Happy Kids* book by Sean Covey.
- *The Leader in Me* book by Stephen R. Covey.

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

The *Introduction to The 7 Habits of Highly Effective Teens*® workshop from FranklinCovey, based on the best-selling book of the same name by Sean Covey and the No. 1 best-selling business book *The 7 Habits of Highly Effective People*, gives young people a set of tools to deal with life' challenges. The training is a means for educators, administrators, and superintendents to help improve student performance; reduce conflicts, disciplinary problems, and truancy; and enhance cooperation and teamwork among parents, teens, and teachers.

*The 7 Habits of Highly Effective Teens* are essentially seven characteristics that many happy and successful teens the world over have in common. The training provides students with a step-by-step framework for boosting self-image, building friendships, resisting peer pressure, achieving goals, improving communication and relationships with parents, and much more. The habits build upon each other and foster behavioral change and improvement from the inside out.

We also offer a workshop built around the book *The 6 Most Important Decisions You'll Ever Make*, also by Sean Covey. This book helps students work through important and life-changing questions. This workshop is designed to be flexible so it can fit a classroom or school-wide schedule.

**Higher Education Solutions: Introduction to the 7 Habits of Highly Effective College Students™**

We believe that undergraduates who start their freshman year with a plan are more likely to complete their education and have successful careers. *The 7 Habits of Highly Effective College Students* helps students succeed by discovering their personal mission, setting goals, prioritizing tasks, and teaming with others.

This workshop contains eight hours of instructional material, which can be taught in a one day or modular format. Facilitators lead programs through instruction, multimedia presentations, and activities that provide students with a forum in which to reflect individually, apply the content, and get to know each other. Clients can become licensed to train their own students onsite, or have our facilitators present a custom program on their campus.

## 8. E-Learning

Our *E-Learning* practice brings the best of FranklinCovey to clients in innovative ways that transcend traditional e-learning solutions. Clients get the quality experience they expect from FranklinCovey in ways that allow them to reach their employees throughout the world.

**FranklinCovey InSights™**

We believe that some of the best development happens when leaders teach their own teams. FranklinCovey InSights represents a new paradigm of "Teach to Learn" leadership. This library of bite-sized, Web-based learning modules is built around our award-winning video presentations that leaders can use to

motivate their teams to improve performance. Designed to address generational learning styles, the modules teach people to see and do things differently, enabling teams to produce better results and make changes over time.

**LiveClicks™**

*LiveClicks* is our webinar delivery platform that allows clients to reach more people at less cost with high-quality live training. *LiveClicks* webinar workshops utilize our award-winning videos, interactive activities, and live instruction. *LiveClick* webinars are offered to the public with our consultants and client facilitators, who can also become certified to teach *LiveClicks* webinars inside their organizations.

The *LiveClicks* platform allows clients to train more people, reach remote workers, and attract a new generation of workers. Finally, *LiveClicks* can help organizations stay green by reducing the carbon impact of travel. Our *LiveClicks* titles include:

- Time Management for Microsoft® Outlook®: Increasing Your Productivity Through the Effective Use of Outlook™
- Time Management for IBM® Lotus Notes®: Increasing Your Productivity Through the Effective Use of IBM Lotus Notes™
- Resolving Generational Conflict: Understanding and Navigating Generational Differences at Work™
- The Diversity Advantage: Leveraging Differences at Work for Great Results™
- The Speed of Trust® Series—Relationship Trust
- The Speed of Trust® Series—Self Trust
- The 7 Habits® for Managers Series
- Be Proactive®: Using Your Resourcefulness and Initiative to Get Things Done
- The 7 Habits® for Managers Series
- Begin With the End in Mind®: Defining Your Contribution and Leading With Purpose
- Project Management Fundamentals: Managing Projects That Succeed™
- Business Writing Skills: Getting Your Point Across With Power and Influence™

**The 7 Habits Interactive® Edition**

The award-winning *7 Habits of Highly Effective People—Interactive Edition* helps employees, regardless of work location, to increase their effectiveness and productivity and feel a stronger sense of cohesion. *The 7 Habits Interactive Edition* heightens learning by helping participants to apply principles that are designed to yield greater productivity, improved communication, strengthened relationships, increased influence, and an improved focus on critical priorities. During the three-hour online instruction, participants engage in interactive exercises that illustrate how to use the 7 Habits in real work situations. Participants can then test their new skills in a virtual simulation that shows the real-world triumphs and challenges associated with the choices they have made. Participants can also join a live one-day application workshop to study the content in more depth, and practice what they have learned.

## 9. Custom Solutions

Whether clients need a program customized, or require a new product developed for their organization, our *Custom Client* solutions has the process to build the solution. Customization builds upon our existing content and clients' unique content by using a specific process to deliver results. Our five-step process, as outlined below, lowers development costs and strives to improve our clients' return on investment:

Diagnose

- Identify key stakeholder needs.
- Identify challenges and logistics.
- Identify audience, culture, budget, timeline, and success measures.

Design

- Clarify learning objectives and priorities.
- Confirm audience and stakeholder needs.
- Brainstorm content alignment with learning objectives.

Develop

- Create content for all deliverables.
- Facilitate client reviews.

- Incorporate changes.
- Prepare final materials.

Deliver

- Training delivered by training professionals.

Learn

- Gather post-project feedback.
- Define areas of improvement and incorporate into the process.

## 10. Media Publishing

Our Media Publishing practice extends our influence into both traditional publishing and new media channels. FranklinCovey Media Publishing offers books, e-books, audio products, downloadable and paper-based tools, and content-rich software applications for smart phones and other handheld devices (like the Apple® iPhone®) to consumer and corporate markets.

## INDUSTRY INFORMATION

According to the *Training* Magazine 2009 Training Industry Survey, the total size of the U.S. training industry is estimated to be $52.2 billion, which is down $4.0 billion compared to the prior year, primarily due to prevailing economic conditions. We are engaged in the performance skills segment of the training industry. One of our competitive advantages in this highly fragmented industry stems from our fully integrated training curricula, measurement methodologies, and implementation tools to help organizations and individuals measurably improve their effectiveness. This advantage allows us to deliver not only training to both corporations and individuals, but also to implement the training through the use of powerful behavior changing tools with the capability to then measure the impact of the delivered training and tools.

Over our history, we have provided products and services to 97 of the Fortune 100 companies and more than 75 percent of the Fortune 500 companies. We also provide products and services to a number of U.S. and foreign governmental agencies, as well as numerous educational institutions. In addition, we provide training curricula, measurement services and implementation tools internationally, either through directly operated offices, or through independent licensed providers.

## SEGMENT INFORMATION

Prior to the sale of CSBU in the fourth quarter of fiscal 2008, our business was organized in two segments: (1) the CSBU, which was designed to sell products to individual consumers and small businesses; and (2) the Organizational Solutions Business Unit (OSBU), which was designed to serve organizational clients. Following the sale of CSBU, the Company's operations are grouped into one operating segment. The following table sets forth, for the fiscal periods indicated, the Company's sales to external customers based on prior segments for comparability purposes (in thousands):

| YEAR ENDED AUGUST 31, | 2009 | Percent change from prior year | 2008 | Percent change from prior year | 2007 |
|---|---|---|---|---|---|
| *Organizational Solutions Business Unit:* | | | | | |
| Domestic | $83,193 | (16) | $99,308 | - | $99,248 |
| International | 43,369 | (14) | 50,179 | (3) | 51,734 |
| | 126,562 | (15) | 149,487 | (1) | 150,982 |
| Consumer Solutions Business Unit: | | | | | |
| Retail | - | (100) | 42,167 | (22) | 54,316 |
| Consumer direct | - | (100) | 38,662 | (19) | 48,018 |
| Wholesale | - | (100) | 16,970 | (6) | 17,991 |
| CSBU International | - | (100) | 7,259 | (1) | 7,342 |
| Other CSBU | - | (100) | 2,177 | (35) | 3,336 |
| | - | (100) | 107,235 | (18) | 131,003 |
| Total operating segments | 126,562 | (51) | 256,722 | (9) | 281,985 |
| Leasing | 3,556 | 44 | 2,471 | 15 | 2,140 |
| Total consolidated sales | $130,118 | (50) | $259,193 | (9) | $284,125 |

Additional financial information related to our operating segments, as well as geographical information can be found in the notes to our consolidated financial statements (Note 20).

## CLIENTS

We have a relatively broad base of organizational and individual clients. In North America, we have more than 4,100 organizational clients consisting of corporations, governmental agencies, educational institutions, and other organizations. We have additional organizational clients throughout the world, and we believe that our products, workshops, and seminars encourage strong client loyalty. Employees in each of our domestic and international distribution channels focus on providing timely and courteous responses to client requests and inquiries. Due to the nature of our business, we do not have a significant backlog of firm orders.

## COMPETITION

We operate in a highly competitive and rapidly changing global marketplace and compete with a variety of organizations that offer services comparable with those that we offer. Competition in the performance skills training and education industry is highly fragmented with few large competitors. Based upon our fiscal 2009 consolidated sales of $130.1 million, we believe that we are a leading competitor in the organizational training and education market. Other significant competitors in the training market are Development Dimensions International, Institute for International Research (IIR), Organizational Dynamics Inc., American Management Association, Wilson Learning, Forum Corporation, EPS Solutions, and the Center for Creative Leadership.

We derive our revenues from a variety of companies with a broad range of sales volumes, governments, educational institutions, and other institutions. We believe that the principal competitive factors in the industry in which we compete include the following:

- Quality of services and solutions
- Skills and capabilities of people
- Innovative training and consulting services combined with effective products
- Ability to add value to client operations
- Reputation and client references
- Price
- Availability of appropriate resources
- Global reach and scale

Given the relative ease of entry in our training market, the number of our competitors could increase, many of whom may imitate existing methods of distribution,

or could offer similar products and seminars at lower prices. Some of these competitors may have greater financial and other resources than us. However, we believe our curriculum based upon best-selling books, which encompasses relevant high-quality video segments, has become a competitive advantage. This advantage is strengthened and enhanced by our ability to easily train individuals within organizations to become client facilitators who in turn can effectively relay our curriculum throughout their organization. Moreover, we believe that we are a market leader in the United States in execution, leadership, and individual effectiveness training, consulting and products. Increased competition from existing and future competitors could, however, have a material adverse effect on our sales and profitability.

## SEASONALITY

Our quarterly results of operations reflect minor seasonal trends primarily because of the timing of corporate training, which is not typically scheduled as heavily during holiday and vacation periods.

Quarterly fluctuations may also be affected by other factors including the introduction of new offerings, the addition of new organizational customers, and the elimination of underperforming offerings.

## MANUFACTURING AND DISTRIBUTION

Following the sale of CSBU in fiscal 2008, we no longer manufacture a significant portion of our products. We purchase our training materials and related products from various vendors and suppliers located both domestically and internationally, and we are not dependent upon any one vendor for the production of our training and related materials as the raw materials for these products are readily available. We currently believe that we have good relationships with our suppliers and contractors.

During fiscal 2001, we entered into a long-term contract with Electronic Data Systems (EDS) to provide warehousing and distribution services for our training products and related accessories. EDS maintains a facility at the Company's headquarters as well as at other locations throughout North America.

## TRADEMARKS, COPYRIGHTS, AND INTELLECTUAL PROPERTY

Our success has resulted in part from our proprietary curriculum, methodologies, and other intellectual property rights. We seek to protect our intellectual property through a combination of trademarks, copyrights, and confidentiality agreements. We claim rights for over 95 trademarks in the United States and have obtained registration in the United States and many foreign countries for many of our trademarks including *FranklinCovey, The 7 Habits of Highly Effective People, Principle–Centered Leadership*, *The 4 Disciplines of Execution*, *PlanPlus*, *The 7 Habits,* and *The 8th Habit*. We consider our trademarks and other proprietary rights to be important and material to our business.

We own sole or joint copyrights on our planning systems, books, manuals, text and other printed information provided in our training seminars and other electronic media products, including audio tapes and video tapes. We license, rather than sell, facilitator workbooks and other seminar and training materials in order to protect our intellectual property rights therein. We place trademark and copyright notices on our instructional, marketing, and advertising materials. In order to maintain the proprietary nature of our product information, we enter into written confidentiality agreements with certain executives, product developers, sales professionals, training consultants, other employees, and licensees. Although we believe the protective measures with respect to our proprietary rights are important, there can be no assurance that such measures will provide significant protection from competitors.

## EMPLOYEES

One of our most important assets is our people. The diverse and global makeup of our workforce allows us to serve a variety of clients on a worldwide basis. We are committed to attracting, developing, and retaining quality personnel and actively strive to reinforce our employees' commitments to our clients, culture, and values through creation of a motivational and rewarding work environment.

At August 31, 2009, we had over 600 full- and part-time associates located in the United States of America, Canada, Japan, the United Kingdom, and Australia. During fiscal 2001, we outsourced a significant part of

our information technology services, customer service, distribution and warehousing operations to EDS. A number of our former employees involved in these operations are now employed by EDS to provide those services to FranklinCovey. None of our associates are represented by a union or other collective bargaining group. Management believes that its relations with its associates are good and we do not currently foresee a shortage in qualified personnel needed to operate our business.

## AVAILABLE INFORMATION

The Company's principal executive offices are located at 2200 West Parkway Boulevard, Salt Lake City, Utah 84119-2331, and our telephone number is (801) 817-1776.

We regularly file reports with the Securities Exchange Commission (SEC). These reports include, but are not limited to, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and security transaction reports on Forms 3, 4, or 5. The public may read and copy any materials that the Company files with the SEC at the SEC's Public Reference Room located at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains electronic versions of the Company's reports, proxy and information statements, and other information that the Company files with the SEC on its website at www.sec.gov.

The Company makes our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, current reports on Form 8-K, and other reports filed or furnished with the SEC available to the public, free of charge, through our website at www.franklincovey.com. These reports are provided through our website as soon as is reasonably practicable after we file or furnish these reports with the SEC.

## Item 1A. Risk Factors

Our business environment, current domestic and international economic conditions, and other specific risks may affect our future business decisions and financial performance. The matters discussed below may cause our future results to differ from past results or those described in forward-looking statements and could have a material adverse effect on our business, financial condition, liquidity, results of operations, and stock price, and should be considered in evaluating our Company.

The following list of potential risks does not contain the only risks currently facing us. Additional business risks and uncertainties that are not presently known to us or that are not currently believed to be material may also harm our business operations and financial results in future periods.

***Our results of operations could be adversely affected by economic and political conditions and the effects of these conditions on our clients' businesses and their levels of business activity.***

Global economic and political conditions affect our clients' businesses and the markets in which they operate. A serious and/or prolonged economic downturn combined with a negative or uncertain political climate could adversely affect our clients' financial condition and the business activity of our clients. These conditions may reduce the demand for our services and solutions or depress the pricing of those services and have a material adverse impact on our results of operations. Changes in global economic conditions may also shift demand to services for which we do not have competitive advantages, and this could negatively affect the amount of business that we are able to obtain. Such economic, political, and client spending conditions are influenced by a wide range of factors that are beyond our control and that we have no comparative advantage in forecasting. If we are unable to successfully anticipate these changing conditions, we may be unable to effectively plan for and respond to those changes, and our business could be adversely affected.

Our business success also depends in part upon continued growth in the use of training and consulting services in business by our current and prospective clients. In challenging economic environments, our clients may reduce or defer their spending on new services and consulting solutions in order to focus on other priorities. At the same time, many companies have already invested substantial resources in their current means of conducting their business and they may be reluctant or slow to adopt new approaches that could disrupt existing personnel and/or processes. If the growth in the general use of training and consulting services in business or our clients' spending on these items declines, or if we cannot convince our clients or potential clients to embrace new services and solutions, our results of operations could be adversely affected.

In addition, our business tends to lag behind economic cycles and, consequently, the benefits of an economic recovery following a period of economic downturn may take longer for us to realize than other segments of the economy.

***We operate in an intensely competitive industry and our competitors may develop courses that adversely affect our ability to sell our offerings.***

The training and consulting services industry is intensely competitive with relatively easy entry. Competitors continually introduce new programs and services that may compete directly with our offerings or that may make our offerings uncompetitive or obsolete. Larger and better capitalized competitors may have superior abilities to compete for clients and skilled professionals, reducing our ability to deliver quality work to our clients. In addition, one or more of our competitors may develop and implement training courses or methodologies that may adversely affect our ability to sell our curricula and products to new clients. Any one of these circumstances could have a material adverse effect on our ability to obtain new business and successfully deliver our services and solutions.

***Our results of operations may be negatively affected if we cannot expand and develop our services and solutions in response to client demand or if newly developed or acquired services have increased costs.***

Our success depends upon our ability to develop and deliver services and consulting solutions that respond to rapid and continuing changes in client needs. We may not be successful in anticipating or responding to these developments on a timely basis, and our offerings may not be successful in the marketplace. The implementation, acquisition, and introduction of new programs and solutions may reduce sales of our other existing programs and services and may entail more risk than supplying existing offerings to our clients. Newly developed or acquired solutions may also require increased royalty payments or carry significant development costs that must be expensed. In addition, the introduction of new or competing offerings by current or future competitors may render one or more of our offerings obsolete. Any one of these circumstances may have an adverse impact upon our business and results of operations.

***Our business could be adversely affected if our clients are not satisfied with our services.***

The success of our business model significantly depends on our ability to attract new work from our base of existing clients, as well as new work from prospective clients. Our business model also depends on the relationships our senior executives and sales personnel develop with our clients so that we can understand our clients' needs and deliver services and solutions that are specifically tailored to those needs. If a client is not satisfied with the quality of work performed by us, or with the type of services or solutions delivered, then we may incur additional costs to remediate the situation, the profitability of that work might be decreased, and the client's dissatisfaction with our services could damage our ability to obtain additional work from that client. In particular, clients that are not satisfied might seek to terminate existing contracts prior to their scheduled expiration date and could direct future business to our competitors. In addition, negative publicity related to our client relationships, regardless of its accuracy, may further damage our business by affecting our ability to compete for new contracts with current and prospective clients.

***Our profitability could suffer if we are unable to control our operating costs.***

Our future success and profitability depend in part on our ability to achieve an appropriate cost structure and to improve our efficiency in the highly competitive services industry in which we compete. In the current economic environment, which has had an adverse impact on our sales performance, our ability to control our operating costs and reduce these costs in light of decreasing sales has increased significance. We regularly monitor our operating costs and develop initiatives and business models that impact our operations and are designed to improve our profitability. Our recent initiatives have included revisions to existing processes and procedures, asset sales, headcount reductions, exiting non-core businesses, redemptions of preferred stock, and other internal initiatives designed to reduce our operating costs. If we are unable to achieve targeted business model cost levels and manage our costs and processes to produce additional efficiencies, our competitiveness and profitability could decrease.

***Our profitability will suffer if we are not able to maintain our pricing and utilization rates.***

Our profit margin on our services and solutions is largely a function of the rates we are able to recover for our services and the utilization, or chargeability, of our trainers, client partners, and consultants. Accordingly, if we are unable to maintain sufficient pricing for our services or an appropriate utilization rate for our training professionals without corresponding cost reductions, our profit margin and overall profitability will suffer. The rates that we are able to

recover for our services are affected by a number of factors, including:

- Our clients' perceptions of our ability to add value through our programs and products
- Competition
- General economic conditions
- Introduction of new programs or services by us or our competitors
- Our ability to accurately estimate, attain, and sustain engagement sales, margins, and cash flows over longer contract periods

Our utilization rates are also affected by a number of factors, including:

- Seasonal trends, primarily as a result of scheduled training
- Our ability to forecast demand for our products and services and thereby maintain an appropriate headcount in our employee base
- Our ability to manage attrition

During recently completed periods we have maintained favorable utilization rates. However, there can be no assurance that we will be able to maintain favorable utilization rates in future periods. Additionally, we may not achieve a utilization rate that is optimal for us. If our utilization rate is too high, it could have an adverse effect on employee engagement and attrition. If our utilization rate is too low, our profit margin and profitability may suffer.

***If our pricing structures do not accurately anticipate the cost and complexity of performing our services, our contracts may become unprofitable.***

We negotiate pricing terms with our clients utilizing a range of pricing structures and conditions. Depending on the particular contract and service to be provided, these terms include time-and-materials pricing, fixed-price pricing, and contracts with features of both of these pricing models. Our pricing is highly dependent on our internal forecasts and predictions about our projects and the marketplace, which might be based on limited data and could turn out to be inaccurate. If we do not accurately estimate the costs and time necessary to deliver our work, our contracts could prove unprofitable for us or yield lower profit margins than anticipated. There is a risk that we may under price our contracts, fail to accurately estimate the costs of performing the work, or fail to accurately assess the risks associated with potential contracts. In particular, any increased or unexpected costs, delays or failures to achieve anticipated cost savings, or unexpected risks we encounter in connection with the performance of our work, including those caused by factors outside our control, could make these contracts less profitable or unprofitable, which could have an adverse effect on our profit margin.

***If we are unable to attract, retain, and motivate high-quality employees, including training consultants and other key training representatives, we will not be able to compete effectively and will not be able to grow our business.***

Our success and ability to grow are dependent, in part, on our ability to hire, retain, and motivate sufficient numbers of talented people with the increasingly diverse skills needed to serve our clients and grow our business. Competition for skilled personnel is intense at all levels of experience and seniority. To address this competition, we may need to further adjust our compensation practices, which could put upward pressure on our costs and adversely affect our profit margins. At the same time, the profitability of our business model is partially dependent on our ability to effectively utilize personnel with the right mix of skills and experience to effectively deliver our programs and content. There is a risk that at certain points in time and in certain geographical regions, we will find it difficult to hire and retain a sufficient number of employees with the skills or backgrounds we require, or that it will prove difficult to retain them in a competitive labor market. If we are unable to hire and retain talented employees with the skills, and in the locations, we require, we might not be able to deliver our content and solutions services. If we need to re-assign personnel from other areas, it could increase our costs and adversely affect our profit margins.

In order to retain key personnel, we continue to offer a variable component of compensation, the payment of which is dependent upon our sales performance and profitability. We adjust our compensation levels and have adopted different methods of compensation in order to attract and retain appropriate numbers of employees with the necessary skills to serve our clients and grow our business. We may also use equity-based performance incentives as a component of our executives' compensation, which may affect amounts of cash compensation. Variations in any of these areas of compensation may adversely impact our operating performance.

***We depend on key personnel, the loss of whom could harm our business.***

Our future success will depend, in part, on the continued service of key executive officers and personnel. The loss of the services of any key individuals could harm our business. Our future success also depends on our ability to identify, attract, and retain additional qualified senior personnel. Competition for such individuals in our industry is intense, and we may not be successful in attracting and retaining such personnel.

***Our global operations pose complex management, foreign currency, legal, tax, and economic risks, which we may not adequately address.***

We have Company-owned offices in Australia, Japan, and the United Kingdom. We also have licensed operations in numerous other foreign countries. As a result of these foreign operations and their growing impact upon our results of operations, we are subject to a number of risks, including:

- Restrictions on the movement of cash
- Burdens of complying with a wide variety of national and local laws
- The absence in some jurisdictions of effective laws to protect our intellectual property rights
- Political instability
- Currency exchange rate fluctuations
- Longer payment cycles
- Price controls or restrictions on exchange of foreign currencies

While we are not currently aware of any of the foregoing conditions materially adversely affecting our operations, these conditions, which are outside of our control, could change at any time.

***We may experience foreign currency gains and losses.***

Our sales outside of the United States totaled $47.7 million, or 37 percent of total sales, for the year ended August 31, 2009. If our international operations continue to grow and become a larger component of our overall financial results, our revenues and operating results may be adversely affected when the dollar strengthens relative to other currencies and may be positively affected when the dollar weakens. In order to manage a portion of our foreign currency risk, we make limited use of foreign currency derivative contracts to hedge certain transactions and translation exposure. There can be no guarantee that our foreign currency risk management strategy will be effective in reducing the risks associated with foreign currency transactions and translation.

***Our global operations expose us to numerous and sometimes conflicting legal and regulatory requirements, and violation of these regulations could harm our business.***

Because we provide services to clients in many countries, we are subject to numerous, and sometimes conflicting, legal regimes on matters as diverse as import/export controls, content requirements, trade restrictions, tariffs, taxation, sanctions, government affairs, internal and disclosure control obligations, data privacy, and labor relations. Violations of these regulations in the conduct of our business could result in fines, criminal sanctions against us or our officers, prohibitions on doing business, and damage to our reputation. Violations of these regulations in connection with the performance of our obligations to our clients also could result in liability for monetary damages, fines and/or criminal prosecution, unfavorable publicity, restrictions on our ability to process information, and allegations by our clients that we have not performed our contractual obligations. Due to the varying degrees of development of the legal systems of the countries in which we operate, local laws might be insufficient to protect our rights.

In many parts of the world, including countries in which we operate, practices in the local business community might not conform to international business standards and could violate anticorruption regulations, including the United States Foreign Corrupt Practices Act, which prohibits giving anything of value intended to influence the awarding of government contracts. Although we have policies and procedures to ensure legal and regulatory compliance, our employees, licensee operators, and agents could take actions that violate these requirements. Violations of these regulations could subject us to criminal or civil enforcement actions, including fines and suspension or disqualification from United States federal procurement contracting, any of which could have a material adverse effect on our business.

***We have only a limited ability to protect our intellectual property rights, which are important to our success.***

Our financial success depends, in part, upon our ability to protect our proprietary methodologies and other intellectual property. The existing laws of some countries in which we provide services might offer only

limited protection of our intellectual property rights. To protect our intellectual property, we rely upon a combination of trade secrets, confidentiality policies, nondisclosure and other contractual arrangements, as well as patent, copyright, and trademark laws to protect our intellectual property rights. The steps we take in this regard might not be adequate to prevent or deter infringement or other misappropriation of our intellectual property, and we might not be able to detect unauthorized use of, or take appropriate and timely steps to enforce, our intellectual property rights, especially in foreign jurisdictions.

The loss of proprietary methodologies or the unauthorized use of our intellectual property may create greater competition, loss of revenue, adverse publicity, and may limit our ability to reuse that intellectual property for other clients. Any limitation on our ability to provide a service or solution could cause us to lose revenue-generating opportunities and require us to incur additional expenses to develop new or modified solutions for future engagements.

***Our work with governmental clients exposes us to additional risks that are inherent in the government contracting process.***

Our clients include national, provincial, state, and local governmental entities, and our work with these governmental entities has various risks inherent in the governmental contracting process. These risks include, but are not limited to, the following:

- Governmental entities typically fund projects through appropriated monies. While these projects are often planned and executed as multi-year projects, the governmental entities usually reserve the right to change the scope of or terminate these projects for lack of approved funding and at their convenience. Changes in governmental priorities or other political developments could result in changes in scope or in termination of our projects.
- Governmental entities often reserve the right to audit our contract costs, including allocated indirect costs, and conduct inquiries and investigations of our business practices with respect to our government contracts. If the governmental entity finds that the costs are not reimbursable, then we will not be allowed to bill for those costs or the cost must be refunded to the client if it has already been paid to us. Findings from an audit also may result in our being required to prospectively adjust previously agreed upon rates for our work, which may affect our future margins.
- If a governmental client discovers improper activities in the course of audits or investigations, we may become subject to various civil and criminal penalties and administrative sanctions, which may include termination of contracts, forfeiture of profits, suspension of payments, fines and suspensions or debarment from doing business with other agencies of that government. The inherent limitations of internal controls may not prevent or detect all improper or illegal activities, regardless of their adequacy.
- Political and economic factors such as pending elections, revisions to governmental tax policies and reduced tax revenues can affect the number and terms of new governmental contracts signed.

The occurrences or conditions described above could affect not only our business with the particular governmental agency involved, but also our business with other agencies of the same or other governmental entities. Additionally, because of their visibility and political nature, governmental projects may present a heightened risk to our reputation. Any of these factors could have a material adverse effect on our business or our results of operations.

***Our strategy to focus on training and consulting services may not be successful and may not lead to the desired financial results.***

During the fourth quarter of fiscal 2008, we sold substantially all of the assets of our Consumer Solutions Business Unit (CSBU) to a newly formed entity, Franklin Covey Products. Although we believe the sale of the CSBU assets will allow us to focus our resources and abilities on our services and solutions offerings, many of the aspects of this plan, including future economic conditions and the business strength of our clients, are not within our control, and we may not achieve our expected financial results within our anticipated timeframe.

***Our results of operations and cash flows may be adversely affected if Franklin Covey Products is unable to pay the working capital settlement, reimbursable acquisition costs, or reimbursable operating expenses.***

According to the terms of the agreements associated with the sale of the CSBU assets that closed in the fourth quarter of fiscal 2008, we are entitled to receive a $1.2 million payment for working capital delivered on the closing date of the sale and to receive $2.3 million as reimbursement for specified costs necessary to complete the transaction. Payment for these costs was originally due in January 2009, but we extended the

due date of the payment at Franklin Covey Products' request and obtained a promissory note from Franklin Covey Products for the amount owed, plus accrued interest.

At the time we received the promissory note from Franklin Covey Products, we believed that we could obtain payment for the amounts owed, based on prior year performance and forecasted financial performance in 2009. However, the financial position of Franklin Covey Products deteriorated significantly late in fiscal 2009 and the deterioration accelerated subsequent to August 31, 2009. As a result of its deteriorating financial position, we reassessed the collectibility of the promissory note. Based on revised expected cash flows and other operational issues, we determined that the promissory note should be impaired at August 31, 2009. Accordingly, we recorded a $3.6 million impaired asset charge and reversed $0.1 million of interest income that was recorded during fiscal 2009 from the working capital settlement and reimbursable transaction cost receivables.

We receive reimbursement for certain operating costs, such as warehousing and distribution costs, which are billed to the Company by third party providers. At August 31, 2009 and 2008 we had $2.0 million and $4.1 million receivable from Franklin Covey Products, which have been classified in other current assets. If Franklin Covey Products fails to reimburse us for these costs, and we fail to obtain payment on the promissory note, our future cash flows will be adversely affected.

***If we are unable to collect our accounts receivable on a timely basis, our results of operations and cash flows could be adversely affected.***

Our business depends on our ability to successfully obtain payment from our clients of the amounts they owe us for services performed. We evaluate the financial condition of our clients and usually bill and collect on relatively short cycles. We maintain allowances against our receivables and unbilled services that we believe are adequate to reserve for potentially uncollectible amounts. However, actual losses on client balances could differ from those that we currently anticipate and, as a result, we might need to adjust our allowances. In addition, there is no guarantee that we will accurately assess the creditworthiness of our clients. Macroeconomic conditions could also result in financial difficulties for our clients, and as a result could cause clients to delay payments to us, request modifications to their payment arrangements that could increase our receivables balance, or not pay their obligations to us.

Timely collection of client balances also depends on our ability to complete our contractual commitments and bill and collect our invoiced revenues. If we are unable to meet our contractual requirements, we might experience delays in collection of and/or be unable to collect our client balances, and if this occurs, our results of operations and cash flows could be adversely affected. In addition, if we experience an increase in the time to bill and collect for our services, our cash flows could be adversely affected.

***Our strategy of outsourcing certain functions and operations may fail to reduce our costs for these services and may increase our risks.***

We have an outsourcing contract with Electronic Data Systems (EDS) to provide warehousing, distribution, and information system operations. Under the terms of the outsourcing contract and its addendums, EDS provides warehousing and distribution services and supports our various information systems. Due to the nature of our outsourced operations, we are unable to exercise the same level of control over outsourced functions and the actions of EDS employees in outsourced roles as our own employees. As a result, the inherent risks associated with these outsourced areas of operation may be increased.

Our outsourcing contracts with EDS also contain early termination provisions that we may exercise under certain conditions. However, in order to exercise the early termination provisions, we would have to pay specified penalties to EDS depending upon the circumstances of the contract termination.

***We have significant intangible asset, goodwill, and long-term asset balances that may be impaired if cash flows from related activities decline.***

At August 31, 2009 we had $69.0 million of intangible assets, which were primarily generated from the fiscal 1997 merger with the Covey Leadership Center. These intangible assets are evaluated for impairment based upon cash flows (definite-lived intangible assets) and estimated royalties from revenue streams (indefinite-lived intangible assets). We also have goodwill and other long-term assets that may become impaired if the corresponding cash flows associated with these assets declines in future periods. Although our current sales and cash flows are sufficient to support the carrying basis of these long-lived assets, if our sales and corresponding cash flows decline, we may be faced with significant asset impairment charges that would have an adverse impact upon our operating margin and overall results of operations.

In addition, our stock price is considered to be an indicator of the reliability or risks associated with future cash flows and we may incur impairment charges on these intangible assets in future periods based upon our market capitalization.

***Our business could be negatively affected if we incur legal liability in connection with providing our solutions and services.***

If we fail to meet our contractual obligations, fail to disclose our financial or other arrangements with our business partners, or otherwise breach obligations to clients, we could be subject to legal liability. We may enter into non-standard agreements because we perceive an important economic opportunity or because our personnel did not adequately adhere to our guidelines. We may also find ourselves committed to providing services that we are unable to deliver or whose delivery will cause us financial loss. If we cannot, or do not, perform our obligations, we could face legal liability, and our contracts might not always protect us adequately through limitations on the scope of our potential liability. If we cannot meet our contractual obligations to provide services and solutions, and if our exposure is not adequately limited through the terms of our agreements, then we might face significant legal liability, and our business could be adversely affected.

***Failure to comply with the terms and conditions of our credit facility may have an adverse effect upon our business and operations.***

Our line of credit facility requires us to be in compliance with customary non-financial terms and conditions as well as specified financial ratios. Failure to comply with these terms and conditions or maintain adequate financial performance to comply with specific financial ratios entitles the lender to certain remedies, including the right to immediately call due any amounts outstanding on the line of credit. Such events would have an adverse effect upon our business and operations as there can be no assurance that we may be able to obtain other forms of financing or raise additional capital on terms that would be acceptable to us.

***We may need additional capital in the future, and this capital may not be available to us on favorable terms or at all.***

We may need to raise additional funds through public or private debt offerings or equity financings in order to:

- Develop new services, programs, or offerings
- Take advantage of opportunities, including expansion of the business
- Respond to competitive pressures

We are currently in negotiations to renew the line of credit to ensure the future availability of liquidity through this facility. We believe that we will be successful in obtaining a new or extended line of credit from our lender. Additional potential sources of liquidity include factoring receivables, issuance of additional equity, or issuance of debt from public or private sources. However, no assurance can be provided that we will obtain a new or extended line of credit or obtain additional financing from other sources on terms that would be acceptable to us. If necessary, we will evaluate all of these options and select one or more of them depending on overall capital needs and the associated cost of capital. If we are unsuccessful in obtaining a renewal or extension of our line of credit, or additional financing, we believe that cash flows from operations combined with a number of initiatives we would implement in the months preceding the due date will create sufficient liquidity to pay down the required outstanding balance on the line of credit. These initiatives include deferral of capital purchases for externally developed curriculum and uncommitted capital expenditures; deferral of executive team compensation; deferral of certain related party contractual royalties and earnout payments; substantial reduction of associate salaries; reduction of operating expenses, including non-critical travel; and deferral of payments to other vendors in order to generate sufficient cash.

Any additional capital raised through the sale of equity could dilute current shareholders' ownership percentage in us. Furthermore, we may be unable to obtain the necessary capital on terms or conditions that are favorable to us, or at all.

***We are the creditor for a management common stock loan program that may not be fully collectible.***

We are the creditor for a loan program that provided the capital to allow certain management personnel the opportunity to purchase shares of our common stock. For further information regarding our management common stock loan program, refer to the notes to our consolidated financial statements as found in Item 8 of this Annual Report on Form 10-K. Our inability to collect all, or a portion, of these receivables could have an adverse impact upon our financial position and cash flows compared to full collection of the loans.

***We may have exposure to additional tax liabilities.***

As a multinational company, we are subject to income taxes as well as non-income based taxes in both the United States and various foreign tax jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes and other tax liabilities. In the normal course of a global business, there are many intercompany transactions and calculations where the ultimate tax determination is uncertain. As a result, we are routinely subject to audits by various taxing authorities. Although we believe that our tax estimates are reasonable, we cannot guarantee that the final determination of these tax audits will not be different from what is reflected in our historical income tax provisions and accruals.

We are also subject to non-income taxes such as payroll, sales, use, value-added, and property taxes in both the United States and various foreign jurisdictions. We are routinely audited by tax authorities with respect to these non-income taxes and may have exposure from additional non-income tax liabilities.

***We could have liability or our reputation could be damaged if we do not protect client data or if our information systems are breached.***

We are dependent on information technology networks and systems to process, transmit, and store electronic information and to communicate among our locations around the world and with our clients. Security breaches of this infrastructure could lead to shutdowns or disruptions of our systems and potential unauthorized disclosure of confidential information. We are also required at times to manage, utilize, and store sensitive or confidential client or employee data. As a result, we are subject to numerous U.S. and foreign jurisdiction laws and regulations designed to protect this information, such as the various U.S. federal and state laws governing the protection of health or other individually identifiable information. If any person, including any of our associates, negligently disregards or intentionally breaches our established controls with respect to such data or otherwise mismanages or misappropriates that data, we could be subject to monetary damages, fines, and/or criminal prosecution. Unauthorized disclosure of sensitive or confidential client or employee data, whether through systems failure, employee negligence, fraud, or misappropriation could damage our reputation and cause us to lose clients.

***International hostilities, terrorist activities, and natural disasters may prevent us from effectively serving our clients and thus adversely affect our operating results.***

Acts of terrorist violence, armed regional and international hostilities, and international responses to these hostilities, natural disasters, global health risks or pandemics, or the threat of or perceived potential for these events, could have a negative impact on our directly owned or licensee operations. These events could adversely affect our clients' levels of business activity and precipitate sudden significant changes in regional and global economic conditions and cycles. These events also pose significant risks to our people and to physical facilities and operations around the world, whether the facilities are ours or those of our alliance partners or clients. By disrupting communications and travel and increasing the difficulty of obtaining and retaining highly skilled and qualified personnel, these events could make it difficult or impossible for us or our licensee partners to deliver services to clients. Extended disruptions of electricity, other public utilities, or network services at our facilities, as well as system failures at, or security breaches in, our facilities or systems, could also adversely affect our ability to serve our clients. While we plan and prepare to defend against each of these occurrences, we might be unable to protect our people, facilities, and systems against all such occurrences. We generally do not have insurance for losses and interruptions caused by terrorist attacks, conflicts, and wars. If these disruptions prevent us from effectively serving our clients, our operating results could be adversely affected.

***A natural or man-made disaster in Salt Lake City, Utah could have an adverse effect on our business.***

Our training materials and other related products are manufactured and shipped from numerous sites located around the world. However, a significant portion of our training materials are manufactured and shipped from facilities located in Salt Lake City, Utah. In the event that these facilities were severely damaged or destroyed as a result of a natural or man-made disaster, we could suffer significant disruptions to our ability to obtain and distribute training materials to our clients. Such events may have a material adverse effect on our business prospects, results of operations, and financial condition.

***Our future quarterly operating results are subject to factors that can cause fluctuations in our stock price.***

Historically, our stock price has experienced significant volatility. We expect that our stock price may continue to experience volatility in the future due to a variety of potential factors that may include the following:

- Fluctuations in our quarterly results of operations and cash flows
- Increased overall market volatility
- Variations between our actual financial results and market expectations
- Changes in our key balances, such as cash and cash equivalents
- Currency exchange rate fluctuations
- Unexpected asset impairment charges
- Lack of, or increased, analyst coverage

In addition, the stock market has recently experienced substantial price and volume fluctuations that have impacted our stock and other equity issues in the market. These factors, as well as general investor concerns regarding the credibility of corporate financial statements, may have a material adverse effect upon our stock price in the future.

***Ineffective internal controls could impact our business and operating results.***

Our internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we fail to maintain the adequacy of our internal controls, including any failure to implement required new or improved controls, or if the Company experiences difficulties in their implementation, our business and operating results may be harmed and we could fail to meet our financial reporting obligations.

***The Company's use of accounting estimates involves judgment and could impact our financial results.***

Our most critical accounting estimates are described in Management's Discussion and Analysis found in Item 7 of this report under the section entitled "Use of Estimates and Critical Accounting Policies." In addition, as discussed in various footnotes to our financial statements as found in Item 8, we make certain estimates under the provisions of SFAS No. 5, *Accounting for Contingencies* (FASC 450-20), including decisions related to legal proceedings and reserves. Because, by definition, these estimates and assumptions involve the use of judgment, our actual financial results may differ from these estimates.

## Item 1B. Unresolved Staff Comments

None.

## Item 2. Properties

Franklin Covey's executive offices are located in Salt Lake City, Utah. The following is a summary of our properties and facilities utilized in the operation of our business. Subsequent to the sale of our Canadian facility in the fourth quarter of fiscal 2009, all of our facilities are leased. Our corporate headquarters lease is accounted for as a financing arrangement and all other facility lease agreements are accounted for as operating leases that expire at various dates through the year 2025.

**Corporate Facilities**
Corporate Headquarters and Administrative Offices:
Salt Lake City, Utah (7 buildings)

**Domestic Sales Offices**
Regional Sales Offices:
United States (4 locations)

**International Facilities**
International Administrative/Sales Offices:
Australia (3 locations)
England (1 location)
Japan (1 location)

International Distribution Facilities:
Australia (1 location)
England (1 location)
Japan (1 location)
New Zealand (1 location)

We consider our existing facilities to be in good condition and suitable for our current and anticipated level of operations in the upcoming fiscal year.

A significant portion of our corporate headquarters campus located in Salt Lake City, Utah is subleased to several unrelated entities.

The following significant developments occurred during fiscal 2009 that affected our properties:

- During the fourth quarter of fiscal 2009, we completed the sale of our Canadian administrative office and distribution facility. Following the sale of the Consumer Solutions Business Unit in fiscal 2008, these functions were consolidated with existing operations in the United States.

## Item 3. Legal Proceedings

We are the subject of certain legal actions, which we consider routine to our business activities. At August 31, 2009, we believe that, after consultation with legal counsel, any potential liability under such actions will not materially affect our financial position, liquidity, or results of operations.

## Item 4. Submission Of Matters To A Vote Of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of our fiscal year ended August 31, 2009.

# PART II

## Item 5. Market For The Registrant's Common Equity, Related Shareholder Matters, And Issuer Purchases Of Equity Securities

FranklinCovey common stock is listed and traded on the New York Stock Exchange (NYSE) under the symbol "FC." The following table sets forth the high and low sale prices per share for our common stock, as reported on the NYSE, for the fiscal years ended August 31, 2009 and 2008.

| | High | Low |
|---|---|---|
| **Fiscal Year Ended August 31, 2009:** | | |
| Fourth Quarter | $7.24 | $5.30 |
| Third Quarter | 5.69 | 3.20 |
| Second Quarter | 6.05 | 3.61 |
| First Quarter | 9.45 | 4.02 |
| **Fiscal Year Ended August 31, 2008:** | | |
| Fourth Quarter | $9.32 | $7.35 |
| Third Quarter | 8.76 | 6.72 |
| Second Quarter | 8.00 | 6.86 |
| First Quarter | 7.75 | 5.91 |

We did not pay or declare dividends on our common stock during the fiscal years ended August 31, 2009 or 2008. We currently anticipate that we will retain all available funds to repay our line of credit obligation, finance future growth and business opportunities, and to purchase shares of our common stock. We do not intend to pay cash dividends on our common stock in the foreseeable future.

During August 2008, we completed a modified "Dutch Auction" tender offer in which we were able to purchase 3,027,027 shares of our common stock for $9.25 per share plus costs necessary to conduct the tender offer. We did not acquire a significant amount of our common stock during the fiscal year ended August 31, 2009.

As of November 2, 2009, the Company had 16,960,319 shares of common stock outstanding, which were held by 385 shareholders of record.

***Purchases of Common Stock***

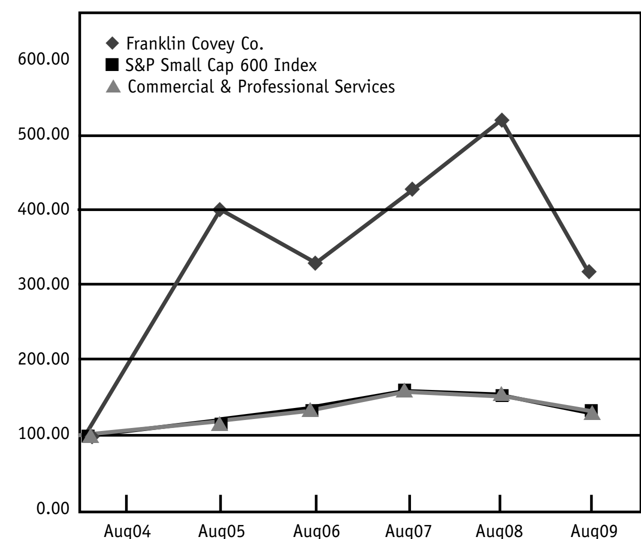
The following table summarizes Company purchases of common stock during the fiscal quarter ended August 31, 2009:

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (in thousands) |
|---|---|---|---|---|
| May 31, 2009 to July 4, 2009 | - | $ - | none | $ 2,413 |
| July 5, 2009 to August 1, 2009 | - | - | none | 2,413 |
| August 2, 2009 to August 31, 2009 | - | - | none | 2,413(1) |
| Total Common Shares | - | $ - | none | |

(1) In January 2006, our Board of Directors approved the purchase of up to $10.0 million of our outstanding common stock. All previous authorized common stock purchase plans were canceled. Following the approval of this common stock purchase plan, we have purchased a total of 1,009,300 shares of our common stock for $7.6 million through August 31, 2009 under the terms of this plan.

***Performance Graph***

The following graph shows a comparison of cumulative total shareholder return indexed to August 31, 2004, calculated on a dividend reinvested basis, for the five fiscal years ended August 31, 2009 for Franklin Covey Co. common stock, the S&P SmallCap 600 Index, and the S&P Commercial & Professional Services Index. We were previously included in the S&P 600 SmallCap Index and was assigned to the S&P Diversified Commercial and Professional Services Index within the S&P 600 SmallCap Index. However, during fiscal 2009, the Diversified Commercial Services Index was discontinued, and we have determined that the S&P 600 Commercial & Professional Services Index is appropriate for comparative purposes. The Company believes that if it were included in an index it would be included in the indices where it was previously listed, which would include the Commercial & Professional Services Index. We are no longer a part of the S&P 600 SmallCap Index, but we believe that the S&P 600 SmallCap Index and the Commercial and Professional Services Index continue to provide appropriate benchmarks with which to compare our stock performance.



## Item 6. Selected Financial Data

The selected consolidated financial data presented on page 2 of the Company's 2009 Annual Report to shareholders should be read in conjunction with the consolidated financial statements of FranklinCovey and the related footnotes as found in Item 8 of this report on Form 10-K.

While closing the first quarter of fiscal 2009, we identified errors due to improper accounting for certain product sales in the fourth quarter of fiscal 2008, and the improper calculation of inventory reserves from late fiscal 2006 through the fourth quarter of fiscal 2008 in the financial statements of our directly owned subsidiary in Japan. We assessed these errors and determined that they were immaterial to previously reported amounts contained in our periodic reports and have corrected the errors through subsequent periodic filings as prescribed by Staff Accounting Bulletin No. 108. The information found in the table has been adjusted to reflect the correction of these errors at our Japan subsidiary. For further information regarding these errors, refer to Note 2 to the consolidated financial statements.

During fiscal 2008, we sold substantially all of the assets of our Consumer Solutions Business Unit (CSBU), which was primarily responsible for the sale of our products to consumers. Based upon applicable accounting guidance, the operations of CSBU did not qualify for discontinued operations presentation, and therefore, no prior periods were adjusted to reflect the sale of the CSBU assets.

## Item 7. Management's Discussion And Analysis Of Financial Condition And Results Of Operations

### INTRODUCTION

The following management's discussion and analysis is intended to provide a summary of the principal factors affecting the results of operations, liquidity and capital resources, contractual obligations, and the critical accounting policies of Franklin Covey Co. (also referred to as the Company, we, us, our, and FranklinCovey, unless otherwise indicated) and subsidiaries. This discussion and analysis should be read together with our consolidated financial statements and related notes, which contain additional information regarding the accounting policies and estimates underlying the Company's financial statements. Our consolidated financial statements and related notes are presented in Item 8 of this report on Form 10-K.

FranklinCovey is a leading global provider of execution, leadership, and personal-effectiveness training with over 600 employees worldwide that delivered principle-based curriculum and effectiveness tools to our customers. We operate globally with one common brand and business model designed to enable us to provide clients around the world with the same high level of service. To achieve this level of service, we operate four regional sales offices in the United States; wholly owned subsidiaries in Australia, Japan, and the United Kingdom; and contract with licensee partners who deliver our curriculum and provide services in over 150 other countries and territories around the world. Our business-to-business service utilizes our expertise in training, consulting, and technology that is designed to help our clients define great performance and execute at the highest levels. We also provide clients with training in management skills, relationship skills, and individual effectiveness, and can provide personal-effectiveness literature and electronic educational solutions to our clients as needed.

Historically, our solutions included products and services that encompassed training and consulting, assessment, and various application tools that were generally available in electronic or paper-based formats. Our products and services were available through professional consulting services, public workshops, retail stores, catalogs, and the Internet at www.franklincovey.com, and our best-known offerings in the marketplace have included the FranklinCovey Planner™ and a suite of individual-effectiveness and leadership-development training products based on the best-selling book *The 7 Habits of Highly Effective People*.

Over the past several years, the strategic focus of our Consumer Solutions Business Unit (CSBU), which was focused primarily on sales of our products, and our Organizational Solutions Business Unit (OSBU), which was focused on the development and delivery of training, consulting, and related services, changed significantly. As a consequence of these changes in strategic direction, we determined that the extent of overlap between our training and consulting offerings and our products had diminished. After significant analysis and deliberation, it became apparent that these business units would be able to operate more effectively as separate companies, each with clear and distinct strategic objectives, market definitions, and

competitive products and services. This conclusion persuaded us to sell substantially all of the operations of the CSBU. During the fourth quarter of our fiscal year ended August 31, 2008, we completed the sale of the CSBU to a newly formed entity, Franklin Covey Products, LLC and reported a gain of $9.1 million from the transaction. Franklin Covey Products, LLC was formed with the objective of expanding the worldwide sales of Franklin Covey products through proprietary channels and through third-party retailers as governed by a comprehensive license agreement with the Company.

Following the sale of the CSBU, we have been able to focus our full resources on the continued expansion of our training, consulting, content-rich media, and thought leadership businesses. Our business now primarily consists of training, consulting, assessment services, and products to help organizations and individuals achieve superior results by focusing on and executing on top priorities, building the capability of knowledge workers, and aligning business processes.

The sale of CSBU had a significant impact on our financial statements since the CSBU and corresponding product sales represented a substantial portion of our total sales, and the business dynamics of a training company are considerably different than a consumer products company. Based on relevant accounting literature, we were unable to present the operational results of the CSBU in a discontinued operations format, which makes comparisons of fiscal 2009 financial results to fiscal 2008 results difficult.

The key factors that influence our operating results include the number of organizations that are active customers; the number of people trained within those organizations; the availability of budgeted training spending at our clients and prospective clients, which is significantly influenced by general economic conditions; and our ability to manage operating costs necessary to develop and provide meaningful training and related products to our clients.

Our fiscal year ends on August 31, and unless otherwise indicated, fiscal 2009, fiscal 2008, and fiscal 2007 refer to the twelve-month periods ended August 31, 2009, 2008, and 2007.

## RESULTS OF OPERATIONS

### Overview of the Fiscal Year ended August 31, 2009

Our results of operations in fiscal 2009 were primarily affected by the sale of CSBU and by the prevailing economic conditions in the United States and the rest of the world. During fiscal 2009, the economies of many countries suffered through their worst performance in recent decades as the poor health of many financial institutions, especially in the United States, curtailed lending and overall economic growth throughout the year. These economic conditions forced many of our clients and potential clients to reduce budgeted spending for training or to temporarily defer the delivery of training services. However, during our fourth quarter of fiscal 2009, we began to see improvement in corporate spending and the delivery of programs and training materials improved over previous quarters in fiscal 2009. We anticipate that this improvement will continue during fiscal 2010, but we do not anticipate returning to pre-recession sales levels until sometime in fiscal 2011 or later.

Following the sale of CSBU assets, we spent much of fiscal 2009 defining the business model for the new structure of the Company, and we initiated numerous cost savings and organizational change efforts, including movement of certain functions to field operations to improve efficiency, headcount reductions, reduction of information technology spending, and other initiatives designed to bring our cost structure in line with our projected business model. However, as a result of these initiatives, we recorded additional costs in fiscal 2009 related to severance, asset impairments, and other areas that we believe will provide ongoing benefits in future periods.

For the year ended August 31, 2009, our consolidated sales decreased to $130.1 million compared to $259.2 million in fiscal 2008. The decrease in sales was primarily due to the sale of the CSBU combined with effects of a weakened economy on training sales. For the year ended August 31, 2009, we reported a loss from operations of $11.4 million compared to income from operations of $16.0 million, including the gain from the sale of CSBU, in fiscal 2008. Our loss before taxes was $14.5 million compared to income before taxes of $13.0 million in the prior year. We recorded a $3.6 million income tax benefit in fiscal 2009 compared to a $7.5 million income tax provision in fiscal 2008, primarily due to reduced pre-tax income.

The following information is intended to provide an overview of the primary factors that influenced our financial results for the fiscal year ended August 31, 2009:

- **Sales Performance** – Our consolidated sales decreased $129.1 million compared to the prior year. The vast majority of the decline was attributable to the sale of our CSBU operations and the corresponding reduction in product sales. Of the $129.1 million decline, $107.2 million, or 83 percent, was attributable to product sales from the CSBU. Sales delivered through the Organizational Solutions Business Unit (OSBU), which are comparable to the prior year and consist primarily of training and consulting service sales in our domestic and international divisions, decreased $22.9 million due to sales declines in both domestic and international operations. Our leasing revenues increased $1.1 million, which was primarily attributable to new sublease contracts for space at our corporate headquarters campus.
- **Gross Profit** – Consolidated gross profit decreased to $80.4 million in fiscal 2009 compared to $161.0 million in fiscal 2008 primarily due to decreased sales as described above. However, our gross margin, which is gross profit stated as a percentage of sales, remained relatively consistent with the prior year at 61.8 percent compared to 62.1 percent in the prior year.
- **Operating Costs** – Our operating costs, excluding the gain on the sale of the CSBU, decreased by $62.3 million compared to fiscal 2008, which was primarily due to the sale of the CSBU. Decreased operating expenses consisted primarily of a $63.4 million decrease in selling, general, and administrative expenses, a $2.1 million increase in impaired asset charges, a $1.2 million decrease in depreciation expense, and a $0.2 million increase in amortization expense.

Further details regarding these items can be found in the comparative analysis of fiscal 2009 compared to fiscal 2008 as discussed in this management's discussion and analysis.

The following table sets forth, for the fiscal years indicated, the percentage of total sales represented by the line items through income before income taxes in our consolidated statements of operations:

| YEAR ENDED AUGUST 31, | 2009 | 2008 | 2007 |
|---|---|---|---|
| Training and consulting services | 88.3% | 53.3% | 48.5% |
| Products | 9.0 | 45.8 | 50.8 |
| Leasing | 2.7 | 0.9 | 0.7 |
| Total sales | 100.0 | 100.0 | 100.0 |
| Training and consulting services | 31.4 | 17.3 | 15.2 |
| Products | 5.4 | 20.1 | 22.8 |
| Leasing | 1.4 | 0.5 | 0.5 |
| Total cost of sales | 38.2 | 37.9 | 38.5 |
| Gross profit | 61.8 | 62.1 | 61.5 |
| Selling, general, and administrative | 59.9 | 54.5 | 52.5 |
| Gain on sale of CSBU assets | - | (3.5) | - |
| Gain on sale of manufacturing facility | - | - | (0.4) |
| Restructuring costs | 1.6 | 0.8 | - |
| Impairment of assets | 2.7 | 0.6 | - |
| Depreciation | 3.5 | 2.2 | 1.9 |
| Amortization | 2.9 | 1.4 | 1.3 |
| Total operating expenses | 70.6 | 56.0 | 55.3 |
| Income (loss) from operations | (8.8) | 6.1 | 6.2 |
| Interest income | - | 0.1 | 0.3 |
| Interest expense | (2.3) | (1.2) | (1.1) |
| Income (loss) before income taxes | (11.1)% | 5.0% | 5.4% |

### Segment Review

Prior to the fiscal 2008 sale of our Consumer Solutions Business Unit (CSBU), the Company had two operating segments: the Organizational Solutions Business Unit (OSBU) and the CSBU. Following the sale, our operations constitute one reportable segment. However, to improve comparability, the sales information presented in the table below reflect fiscal 2009 and fiscal 2008 operating results based upon the previously defined segments. The following is a description of these segments, their primary operating components, and their significant business activities:

***Organizational Solutions Business Unit*** – The OSBU is primarily responsible for the development, marketing, sale, and delivery of strategic execution, productivity,

leadership, sales force performance, and communication training and consulting solutions directly to organizational clients, including other companies, the government, and educational institutions. The OSBU includes the financial results of our domestic sales force, public programs, and certain international operations. The domestic sales force is responsible for the sale and delivery of our training and consulting services in the United States and Canada. Our international sales group includes the financial results of our directly owned foreign offices and royalty revenues from licensees.

***Consumer Solutions Business Unit*** – This business unit was primarily focused on sales to individual customers and small business organizations and included the results of our domestic retail stores, consumer direct operations (primarily Internet sales and call center), wholesale operations, international product channels in certain countries, and other related distribution channels, including government product sales and domestic printing and publishing sales. The CSBU results of operations also included the financial results of our paper planner manufacturing operations. Although CSBU sales primarily consisted of products such as planners, binders, software, totes, and related accessories, virtually any component of our leadership, productivity, and strategy execution solutions may have been purchased through the CSBU channels.

The following table sets forth sales data by category and for our operating segments for the periods indicated. For further information regarding our reporting segments and geographic information, refer to Note 20 to our consolidated financial statements as found in Item 8 of this report on Form 10-K (in thousands).

| YEAR ENDED AUGUST 31, | 2009 | Percent change from prior year | 2008 | Percent change from prior year | 2007 |
|---|---|---|---|---|---|
| *Sales by Category:* | | | | | |
| Training and consulting services | $ 114,910 | (17) | $ 138,112 | - | $ 137,708 |
| Products | 11,652 | (90) | 118,610 | (18) | 144,277 |
| Leasing | 3,556 | 44 | 2,471 | 15 | 2,140 |
| | $ 130,118 | (50) | $ 259,193 | (9) | $ 284,125 |
| *Organizational Solutions Business Unit:* | | | | | |
| Domestic | $ 83,193 | (16) | $ 99,308 | - | $ 99,248 |
| International | 43,369 | (14) | 50,179 | (3) | 51,734 |
| | 126,562 | (15) | 149,487 | (1) | 150,982 |
| *Consumer Solutions Business Unit:* | | | | | |
| Retail stores | - | (100) | 42,167 | (22) | 54,316 |
| Consumer direct | - | (100) | 38,662 | (19) | 48,018 |
| Wholesale | - | (100) | 16,970 | (6) | 17,991 |
| CSBU International | - | (100) | 7,259 | (1) | 7,342 |
| Other CSBU | - | (100) | 2,177 | (35) | 3,336 |
| | - | (100) | 107,235 | (18) | 131,003 |
| Total operating segments | 126,562 | (51) | 256,722 | (9) | 281,985 |
| Leasing | 3,556 | 44 | 2,471 | 15 | 2,140 |
| Total net sales | $ 130,118 | (50) | $ 259,193 | (9) | $ 284,125 |

## FISCAL 2009 COMPARED TO FISCAL 2008

### Sales

***Training and Consulting Services*** – We offer a variety of training courses, training related products, and consulting services focused on leadership, productivity, strategy execution, sales force performance, trust, and effective communications that are provided both domestically and internationally through our sales force or through international licensee operations. Our consolidated training and consulting service sales decreased by $23.2 million compared to the prior year, which was attributable to unfavorable performance in both the domestic and international divisions. We believe that the decrease in sales was primarily due to unfavorable economic conditions, which eroded business confidence and led to decreased training budgets and the deferral of scheduled programs. The effects of the economic downturn were widespread and led to economic contraction and reduced sales in many countries where we operate through direct offices or through our licensees. These conditions led to the following results in our domestic and international divisions:

- **Domestic** – Our domestic training and consulting sales decreased by $16.1 million compared to the prior year. The decrease in domestic sales was primarily due to: 1) reduced public seminar sales resulting from the decision to reduce the number of events scheduled during the year and from the decision to license the delivery rights of certain public programs to a third party, which resulted in the Company recording a licensee fee from these programs rather than the gross sale amount previously recorded; 2) a decrease in the number of on-site events given during the year, with a significant portion of the decrease occurring in our sales performance group; 3) a decrease in our specialized seminar events; and 4) lower books and audio sales as prior year sales were favorably impacted by the release of *The Leader in Me* book by Dr. Stephen R. Covey. Our training manual sales to our independent facilitator partners (training conducted by clients using their certified trainers) only decreased slightly from the prior year. These decreases were partially offset by increased sales of our Customer Loyalty offerings and Speed of Trust programs during the year. During the quarter ended February 28, 2009, we acquired CoveyLink Worldwide LLC (CoveyLink), which has developed training courses and materials based upon the book entitled *The Speed of Trust* by Stephen M.R. Covey.

  We believe that continued economic deterioration in the United States during the fiscal year ended August 31, 2009 was a significant contributing factor to decreased training and consulting sales during the year. However, during our fourth quarter of fiscal 2009, we began to see improvement in corporate spending and the delivery of programs and training materials improved over previous quarters in fiscal 2009. We anticipate that this improvement will continue during fiscal 2010.

- **International** – International sales decreased $6.8 million compared to the fiscal year ending August 31, 2008. The decrease in international sales was primarily due to: 1) decreased sales at our directly owned offices in Japan and the United Kingdom; 2) lower royalty revenue recognized from our licensees; 3) decreased international product sales in Japan; and 4) the unfavorable impact of translation of foreign sales to the United States dollar. Decreased sales in Japan and the United Kingdom were primarily due to the continued weak economic conditions in those countries. The translation of foreign sales to United States dollars had a net $0.4 million unfavorable impact on our consolidated sales during the fiscal year ended August 31, 2009.

***Product Sales*** – Consolidated product sales, which were primarily sold through our CSBU channels, declined $107.0 million compared to the prior year primarily due to the sale of our CSBU during the fourth quarter of fiscal 2008. Remaining product sales primarily consist of products and related accessories sold in Japan by our directly owned office in that country.

***Leasing Sales*** – Leasing sales increased $1.1 million primarily due to the addition of new leasing contracts that are generated from various arrangements to lease office space at our Salt Lake City, Utah headquarters campus.

### Gross Profit

Gross profit consists of net sales less the cost of goods sold or the cost of services provided. Our cost of sales includes materials used in the production of planners and related products, assembly and manufacturing labor costs, direct costs of conducting seminars, freight, and certain other overhead costs. Gross profit may be affected by, among other things, prices of materials, labor rates, product sales mix, changes in product discount levels, production efficiency, and freight costs.

Prior to the sale of CSBU assets in fiscal 2008, we recorded the costs associated with operating our retail

stores, call center, and Internet site as part of our consolidated selling, general, and administrative expenses. Therefore, our consolidated gross profit may not be comparable with the gross profit of other companies that include similar costs in their cost of sales.

Our consolidated gross profit decreased to $80.4 million in fiscal 2009 compared to $161.0 million in fiscal 2008. The decrease in gross profit was primarily attributable to decreased product sales resulting from the sale of the CSBU. Our consolidated gross margin, which is gross profit stated in terms of a percentage of sales, was 61.8 percent of sales in fiscal 2009 compared to 62.1 percent in the prior year.

Our training and consulting services gross margin was 64.5 percent compared to 67.6 percent in fiscal 2008. The decrease was primarily attributable to decreased licensee royalty revenues, which have virtually no corresponding cost of sales, increased royalty costs on certain programs sold, and increased amortization of capitalized curriculum development costs.

Gross margin on product sales decreased to 39.3 percent compared to 56.1 percent in the prior year. The decrease was primarily due to the sale of the CSBU, which eliminated virtually all of our domestic product sales. Remaining product sales consist primarily of product sales made in Japan, on which the gross margin decreased compared to the same period of the prior year primarily due to adjustments to our inventory reserves in Japan.

**Operating Expenses**

***Selling, General and Administrative*** – Our SG&A expenses decreased $63.4 million compared to the prior year. The decrease in SG&A expenses was primarily due to: 1) the sale of the CSBU, which reduced consolidated SG&A by approximately $51.7 million compared to the prior year; 2) a $7.5 million decrease in compensation costs resulting from lower sales and corresponding reductions to commissions and other variable compensation elements; 3) a $2.9 million decrease in advertising costs, primarily related to a decrease in the number of public programs held; 4) $0.7 million of reduced travel and conference costs, primarily due to the cancellation of our annual sales and delivery conference and focused cost cutting measures; and 5) the favorable impacts of our restructuring plan on various areas of our operations. These decreases were partially offset by $1.4 million of increased warehousing costs that were previously charged to CSBU cost centers, and $0.7 million of increased share-based compensation costs due to reversals of share-based compensation expense in the prior year that did not repeat in fiscal 2009. Following the sale of our CSBU in the fourth quarter of fiscal 2008, we initiated a restructuring plan that reduced the number of our domestic regional sales offices, decentralized certain sales support functions, and significantly changed the operations of our Canadian subsidiary. We continued these restructuring efforts in fiscal 2009 and believe that they will have long-term benefits to our operating results. Due to prevailing economic conditions, we have also initiated numerous other cost savings efforts designed to reduce our overall operating costs and improve profitability. While we expect these efforts to have a significant impact on our cost structure, the outcome of these efforts may not reduce our costs as quickly or as effectively as planned.

***Restructuring Costs*** – Following the sale of our CSBU, we initiated a restructuring plan that reduces the number of our domestic regional sales offices, decentralizes certain sales support functions, and significantly changes the operations of our Canadian subsidiary. The restructuring plan is intended to strengthen the remaining domestic sales offices and reduce our overall operating costs, and this effort continued into fiscal 2009. During fiscal 2009 we expensed $2.0 million for anticipated severance costs necessary to complete the restructuring plan. The remainder of the restructuring plan is expected to be completed during fiscal 2010.

***Impairment of Assets*** – Based on the terms of the sale of CSBU assets, we were entitled to receive a $1.2 million adjustment for working capital delivered on the closing date of the sale and to receive $2.3 million as reimbursement for specified costs necessary to complete the transaction. Payment for these costs was originally due in January 2009, but we extended the due date of the payment at Franklin Covey Products' request and obtained a promissory note from Franklin Covey Products for the amount owed, plus accrued interest. At the time we received the promissory note from Franklin Covey Products, we believed that we could obtain payment for the amounts owed, based on prior year performance and forecasted financial performance in 2009. However, the financial position of Franklin Covey Products deteriorated significantly late in fiscal 2009 and the deterioration accelerated subsequent to August 31, 2009. As a result of this deterioration, the Company reassessed the collectibility of the promissory note. Based on revised expected cash flows and other operational issues, we determined that the promissory note should be impaired at August 31, 2009.

Accordingly, we recorded a $3.6 million impaired asset charge and reversed $0.1 million of interest income that was recorded during fiscal 2009 from the working capital settlement and reimbursable transaction cost receivables.

***Depreciation*** – Depreciation expense decreased by $1.2 million compared to the prior year. The decrease was primarily due to the sale of the CSBU. During the fourth quarter of fiscal 2009, we impaired certain software costs due to the decision to replace our primary general ledger accounting system in fiscal 2010 and recorded an additional $0.5 million depreciation charge. We also recorded impairment charges totaling $0.6 million for two software applications that did not function as anticipated and were written off during fiscal 2008.

***Amortization*** – Consolidated amortization expense increased by $0.2 million compared to the prior year due to the acquisition of CoveyLink, which closed in fiscal 2009. We anticipate that amortization expense will total $3.8 million in fiscal 2010.

**Income Taxes**

Our income tax benefit for fiscal 2009 was $3.6 million compared to a $7.5 million provision in fiscal 2008. The income tax benefit was primarily due to a pre-tax loss recognized in fiscal 2009 compared to pre-tax income for the same period of the prior year. Our effective tax benefit rate of approximately 25 percent was lower than statutory combined rates primarily due to foreign withholding taxes for which we cannot utilize a foreign tax credit, the accrual of taxable interest income on the management stock loan program, and actual and deemed dividends from foreign subsidiaries for which we also cannot utilize foreign tax credits.

**Interest Income and Expense**

***Interest Income*** – Our interest income decreased compared to the prior year primarily due to reduced cash balances compared to the prior year and a reduction of interest rates on our depository accounts.

***Interest Expense*** – Interest expense remained consistent with the prior year and was reflective of borrowings on our line of credit facility and payments made on our building lease (financing obligation) during fiscal 2009.

## FISCAL 2008 COMPARED TO FISCAL 2007

**Sales**

***Training and Consulting Services*** – Our consolidated training and consulting service sales increased by $0.4 million compared to the prior year. Training and consulting service sales performance in fiscal 2008 was primarily influenced by the following factors in our domestic and international OSBU operations:

- **Domestic** – Our domestic training sales in fiscal 2008 were flat compared to fiscal 2007, primarily due to lower sales from our sales performance group, public programs, and our book and audio divisions. Decreased sales from these groups were partially offset by increased sales from our combined geographical and vertical market sales offices and by increased sales from specialized seminar events. During fiscal 2008, sales through our direct sales offices improved over the prior year as acceptance of our core product offerings, which includes *The Seven Habits of Highly Effective People, Leadership: Great Leaders, Great Teams, Great Results,* and *The 4 Disciplines of Execution*, continued to strengthen. In fiscal 2009, we closed our Canadian office and assigned the Canadian sales personnel to domestic regions. The sales data presented above reflect the transfer of Canadian sales from the international division to the domestic division for all periods presented.

  Four of our seven domestic offices generated increased year-over-year sales in fiscal 2008, and sales of our training materials to our client facilitators improved compared to the prior year. Revenue from the number of training and consulting days delivered increased two percent over the prior year as our average revenue per day received increased. The number of training days delivered, however, declined three percent compared to fiscal 2007.

- **International** – International sales decreased $1.6 million in fiscal 2008 compared to the prior year. Sales from our three remaining directly owned foreign offices as well as from licensee royalty revenues increased compared to the prior year as each of these units achieved double-digit growth. However, these increases were offset by the elimination of sales from our wholly owned subsidiary in Brazil and our training operations located in Mexico. We sold these operations to external licensees during fiscal 2007 and we now only receive royalty revenue from their operations based upon gross sales. The conversion of these operations to licensees had a $5.4 million unfavorable impact on our international sales but improved our income from these operations compared to the prior year. The translation of foreign sales to United States dollars had a $3.7 million favorable impact on our consolidated sales as foreign currencies

strengthened against the United States dollar during fiscal 2008.

***Product Sales*** **–** Consolidated product sales, which primarily consist of planners, binders, totes, software, and related accessories that are primarily sold through our CSBU channels, declined $25.7 million in fiscal 2008 compared to the prior year. The decline in overall product sales during fiscal 2008 was primarily due to the sale of our CSBU operations in fiscal 2008 combined with the following performance in CSBU delivery channels prior to the effective date of the sale.

- **Retail Stores** – Prior to the sale of the CSBU operations, our retail sales decreased compared to the prior year primarily due to reduced traffic in our retail locations, which was partially due to a significant increase in the number of wholesale outlets that sold our products and competed directly against our retail stores, reduced demand for technology and related products, and fewer store locations, which had a $2.5 million impact on retail sales. Our retail store traffic, or the number of consumers entering our retail locations, declined by approximately 18 percent on a comparable basis (for stores which were open during the comparable periods) and resulted in decreased sales of "core" products (e.g. planners, binders, totes, and accessories). Due to declining demand for electronic handheld planning products, during late fiscal 2007 we decided to exit the low-margin handheld device and related electronics accessories business, which reduced retail sales by $0.9 million compared to the prior year. These factors combined to produce a 7 percent decline in year-over-year comparable store sales versus the prior year.
- **Consumer Direct** – Sales through our consumer direct channels (primarily the Internet and call center) decreased primarily due to a decline in the number of customers visiting our website and a decline in the number of orders that are being processed through the call center. Visits to our website decreased from the prior year by approximately 12 percent. Declining consumer orders through the call center continues a long-term trend and decreased by approximately 14 percent compared to the prior year, which we believe was partially the result of a transition of customers to our other product channels.
- **Wholesale** – Sales through our wholesale channel, which included sales to office superstores and other retail chains, decreased primarily due to the transition of a portion of our wholesale business to a new distributor and the timing of sales as the new distributor built inventories.
- **CSBU International** – This channel includes the product sales of our directly owned international offices in Canada, the United Kingdom, Mexico, and Australia. Product sales were flat through these channels compared to the prior year before the sale of CSBU.
- **Other CSBU** – Other CSBU sales consist primarily of domestic printing and publishing sales and building sublease revenues. The decline in other CSBU sales was primarily due to decreased external printing sales, which was partially offset by a $0.3 million increase in sublease revenue.

## Gross Profit

For fiscal 2008, our consolidated gross profit decreased to $161.0 million compared to $174.7 million in fiscal 2007. The decrease was primarily attributable to the sale of the CSBU and declining product sales during fiscal 2008 prior to the sale of CSBU. Our consolidated gross margin, which is gross profit stated in terms of a percentage of sales, improved to 62.1 percent of sales compared to 61.5 percent in fiscal 2007. The slight increase in gross margin percentage was primarily attributable to the continuing shift toward increased training and consulting sales, as a percent of total sales, since training and consulting sales generally have higher margins than our product sales. Training and consulting service sales increased to 53 percent of total sales during fiscal 2008 compared to 49 percent in the prior year.

During fiscal 2008, our training and consulting services gross margin decreased to 67.6 percent compared to 68.7 percent in the prior year. The slight decrease was primarily attributable to increased amortization of capitalized curriculum costs during the fiscal year, which was partially offset by increased licensee royalty revenues, which have virtually no corresponding cost of sales.

For the fiscal year ended August 31, 2008, our gross margin on product sales was 56.1 percent of sales compared to 55.0 percent in the prior year.

## Operating Expenses

***Selling, General and Administrative*** **–** Consolidated SG&A expenses decreased $7.9 million, or 5 percent, compared to the prior year (excluding the gain on the sale of CSBU assets in fiscal 2008 and a gain on the sale of a manufacturing facility in fiscal 2007). The decrease in SG&A expenses was primarily due to 1) the fiscal 2008 sale of the CSBU, which reduced CSBU SG&A expenses by $9.7 million in the fourth quarter of fiscal 2008 compared

to the prior year; 2) a $1.7 million decrease in share-based compensation primarily due to the determination that no shares will be awarded under our fiscal 2006 or fiscal 2007 long-term incentive plans and the corresponding reversal of share-based compensation expense from those plans; 3) a $1.1 million decrease in bonuses and commissions based on sales performance in the OSBU during the year; and 4) smaller decreases in SG&A spending in various other areas of our operations. These decreases were partially offset by 1) a $2.7 million increase in associate compensation primarily resulting from the payment of awards and bonuses subsequent to the sale of the CSBU; 2) a $1.4 million increase in promotional costs in our OSBU, which were primarily comprised of increased spending for "Greatness Summit" programs for our clients and increased spending on public programs promotional materials; 3) a $0.9 million increase in legal fees primarily related to the EpicRealm litigation; and 4) a $0.6 million increase in retail store closure costs that were primarily incurred in connection with the buyout of two leases.

***Gain on Sale of CSBU Assets*** – During the fourth quarter of fiscal 2008, we sold substantially all of the assets of our CSBU to Franklin Covey Products for $32.0 million in cash, subject to adjustments for working capital on the closing date of the sale, which was effective July 6, 2008. On the date of the sale closing, the Company invested approximately $1.8 million to purchase a 19.5 percent voting interest in Franklin Covey Products, made a $1.0 million priority capital contribution with a 10 percent return, and will have the opportunity to earn contingent license fees if Franklin Covey Products achieves specified performance objectives. We recognized a gain of $9.1 million on the sale of the CSBU assets and according to specific accounting guidance, we deferred a portion of the gain equal to our investment in Franklin Covey Products. We will recognize the deferred gain over the life of the long-term assets acquired by Franklin Covey Products or when cash is received for payment of the priority contribution.

***Restructuring Costs*** – Following the sale of our CSBU, we initiated a restructuring plan that reduces the number of our domestic regional sales offices, decentralizes certain sales support functions, and significantly changes the operations of our Canadian subsidiary. The restructuring plan is intended to strengthen the remaining domestic sales offices and reduce our overall operating costs. During fiscal 2008 we expensed $2.1 million for anticipated severance costs necessary to complete the restructuring plan.

***Impairment of Assets*** – In the fourth quarter of fiscal 2008, we analyzed the expected future revenues and corresponding cash flows expected to be generated from our *The 7 Habits of Highly Effective People* interactive program and concluded that the expected future revenues, less direct costs, were insufficient to cover the carrying value of the capitalized development costs. Accordingly, in the fourth quarter of fiscal 2008 we recorded a $1.5 million impairment charge to write this program down to its net realizable value.

***Depreciation and Amortization*** – Consolidated depreciation expense increased to $5.7 million compared to $5.4 million in fiscal 2007. The increase in our depreciation expense in fiscal 2008 was primarily due to the acceleration of $0.3 million of depreciation on a payroll software module that had a revision to its estimated useful life as we decided to outsource our payroll services and an impairment charge totaling $0.3 million for software that did not function as anticipated and was written off. Depreciation expense in the prior year also included an impairment charge totaling $0.3 million that we recorded to reduce the carrying value of one of our printing presses to be sold to its anticipated sale price. During the fourth quarter of fiscal 2008 we determined that it was appropriate to reclassify depreciation expense on our subleased corporate campus from cost of sales to depreciation expense. The depreciation expense reclassified from product cost of sales totaled $0.7 million for the fiscal year ended August 31, 2007.

Amortization expense from definite-lived intangible assets totaled $3.6 million for the fiscal years ended August 31, 2008 and 2007.

**Interest Income and Expense**

***Interest Income*** – Our interest income decreased compared to the prior year primarily due to reduced cash balances compared to the prior year and a reduction of interest rates on our depository accounts.

***Interest Expense*** – Interest expense remained consistent with the prior year and was reflective of borrowings on our line of credit facility and payments made on our building lease (financing obligation) during fiscal 2008.

**Income Taxes**

Our income tax provision for the fiscal year ended August 31, 2008 totaled $7.5 million compared to $7.8 million in fiscal 2007. Our effective tax rate for fiscal 2008 of approximately 58 percent was higher than statutory combined rates primarily due to the accrual of taxable interest income on the management stock loan program and withholding taxes on royalty income from foreign licensees. Since the Company is currently utilizing net operating loss carryforwards, we were unable to reduce our domestic tax liability through the

use of foreign tax credits, which normally result from the payment of foreign withholding taxes.

**Preferred Stock Dividends**

Our preferred stock dividends in fiscal 2008 declined $2.2 million compared to fiscal 2007. The decrease in preferred stock dividends was due to the redemption of all remaining outstanding shares of preferred stock during the third quarter of fiscal 2007.

## QUARTERLY RESULTS

The following tables set forth selected unaudited quarterly consolidated financial data for the years ended August 31, 2009 and 2008. The quarterly consolidated financial data reflects, in the opinion of management, all adjustments necessary to fairly present the results of operations for such periods. Results of any one or more quarters are not necessarily indicative of continuing trends.

While closing the first quarter of fiscal 2009, we identified errors due to improper accounting for certain product sales in the fourth quarter of fiscal 2008, and the improper calculation of inventory reserves from late fiscal 2006 through the fourth quarter of fiscal 2008 in the financial statements of our directly owned subsidiary in Japan. We assessed the materiality of these errors in accordance with Staff Accounting Bulletin (SAB) No. 108 and determined that the errors were immaterial to previously reported amounts contained in our periodic reports and we have corrected these errors in subsequent periodic filings. The quarterly information presented below for fiscal 2008 has been adjusted to reflect the correction of these errors.

YEAR ENDED AUGUST 31, 2009

| | November 29 | February 28 | May 30 | August 31 |
|---|---|---|---|---|
| *In thousands, except per share amounts* | | | | |
| Net sales | $ 35,081 | $ 29,903 | $ 30,645 | $ 34,489 |
| Gross profit | 21,697 | 18,683 | 18,935 | 21,098 |
| Selling, general, and administrative expense | 20,610 | 20,253 | 17,336 | 19,744 |
| Restructuring costs | - | - | 843 | 1,204 |
| Impairment of assets | - | - | - | 3,569 |
| Depreciation | 903 | 906 | 994 | 1,729 |
| Amortization | 902 | 903 | 995 | 961 |
| Loss from operations | (718) | (3,379) | (1,233) | (6,109) |
| Loss before income taxes | (1,493) | (3,899) | (2,178) | (6,891) |
| Net loss | (569) | (633) | (5,053) | (4,577) |
| Loss per share attributable to common shareholders: | | | | |
| Basic | $ (.04) | $ (.05) | $ (.38) | $ (.34) |
| Diluted | $ (.04) | $ (.05) | $ (.38) | $ (.34) |

YEAR ENDED AUGUST 31, 2008

| | December 1 | March 1 | May 31 | August 31 |
|---|---|---|---|---|
| *In thousands, except per share amounts* | | | | |
| Net sales | $ 73,574 | $ 75,127 | $ 59,061 | $ 51,431 |
| Gross profit | 45,991 | 46,802 | 35,968 | 32,267 |
| Selling, general, and administrative expense | 38,771 | 37,652 | 34,210 | 30,685 |
| Gain on sale of CSBU | - | - | - | (9,131) |
| Restructuring costs | - | - | - | 2,064 |
| Impairment of assets | - | - | - | 1,483 |
| Depreciation | 1,380 | 1,532 | 1,679 | 1,101 |
| Amortization | 899 | 901 | 902 | 901 |
| Income (loss) from operations | 4,941 | 6,717 | (823) | 5,164 |
| Income (loss) before income taxes | 4,040 | 5,971 | (1,493) | 4,555 |
| Net income (loss) | 1,992 | 3,047 | (1,482) | 1,970 |
| Earnings (loss) per share available to common shareholders: | | | | |
| Basic | $ .10 | $ .16 | $ (.09) | $ .10 |
| Diluted | $ .10 | $ .15 | $ (.09) | $ .10 |

Our quarterly results of operations in fiscal 2008 reflected seasonal trends that were primarily the result of customers who renew their FranklinCovey Planners on a calendar year basis. Domestic training sales are moderately seasonal because of the timing of corporate training, which is not typically scheduled as heavily during holiday and vacation periods.

The fourth quarter of fiscal 2008 reflects the sale of CSBU assets, which reduced sales and corresponding costs associated with the operations of the CSBU. We recognized a $9.1 million gain on the sale of the CSBU assets, which had a favorable impact on that period's operating results. In future periods we expect that our quarterly sales will be less seasonal since they will not include product sales that are sold primarily during November, December, and January.

Quarterly fluctuations may also be affected by other factors including the introduction of new offerings, the addition of new organizational customers, and the elimination of underperforming offerings.

## LIQUIDITY AND CAPITAL RESOURCES

### Summary

At August 31, 2009 we had $1.7 million of cash and cash equivalents compared to $15.9 million at August 31, 2008 and our net working capital (current assets less current liabilities) decreased to a deficit of $3.2 million at August 31, 2009 compared to $5.3 million of working capital at August 31, 2008. The change in working capital was primarily due to the utilization of substantially all of the net cash proceeds from the sale of CSBU to purchase approximately 3.0 million shares of our common stock in a modified "Dutch Auction" tender offer. The tender offer closed, fully subscribed, prior to August 31, 2008 and we recorded a $28.2 million liability for the shares on our consolidated balance sheet with a corresponding increase to treasury stock in shareholders' equity. We paid the tender offer obligation during the quarter ended November 29, 2008, which reduced our available cash.

Our primary sources of liquidity are cash flows from the sale of services in the normal course of business and proceeds from our revolving line of credit. Our primary uses of liquidity include payments for operating activities, capital expenditures, working capital, and debt repayment. In connection with the sale of the CSBU assets during the fourth quarter of fiscal 2008, our line of credit agreements with our previous lenders were modified (the Modified Credit Agreement). The Modified Credit Agreement removed one lender from the credit facility, but continued to provide a total of $25.0 million of borrowing capacity until June 30, 2009, when the borrowing capacity was scheduled to be reduced to $15.0 million. In addition, the interest rate on the credit facility increased from LIBOR plus 1.10 percent to LIBOR plus 1.50 percent. During fiscal 2009, we entered into a second modification agreement with the lender on the line of credit facility (the Second Modification Agreement). Under the terms of the Second Modification Agreement, our borrowing capacity on the line of credit will be reduced as follows (in thousands):

| Effective Date | | Borrowing Capacity |
|---|---|---|
| June 30, 2009 | $ | 20,000 |
| August 31, 2009 | | 18,000 |
| November 30, 2009 | | 13,500 |

In addition, any payments made to us by Franklin Covey Products from the working capital settlement and reimbursable costs associated with the sale transaction note are required to be paid on the line of credit and will reduce the available borrowing capacity by the amount of the payments. Although we impaired the working capital and reimbursable cost note receivable from Franklin Covey Products in the fourth quarter of fiscal 2009, our available borrowing capacity on the line of credit was not reduced. The Second Modification Agreement also increased the effective interest rate from LIBOR plus 1.50 percent to LIBOR plus 2.0 percent, effective on the date of the agreement.

The Modified Credit Agreement and Second Modification Agreement expire on March 14, 2010 (no change) and we may draw on the credit facilities, repay, and draw again, on a revolving basis, up to the maximum loan amount available so long as no event of default has occurred and is continuing. We may use the line of credit facility for general corporate purposes as well as for other transactions, unless prohibited by the terms of the Modified Credit Agreement or Second Modification Agreement. The working capital line of credit also contains customary representations and guarantees as well as provisions for repayment and liens.

In addition to customary non-financial terms and conditions, our line of credit requires us to be in compliance with specified financial covenants, including: (i) a funded debt-to-earnings ratio; (ii) a fixed

charge coverage ratio; (iii) a limitation on annual capital expenditures; and (iv) a defined amount of minimum net worth. In the event of noncompliance with these financial covenants and other defined events of default, the lenders are entitled to certain remedies, including acceleration of the repayment of amounts outstanding on the line of credit. The Second Modification Agreement also modified the funded debt-to-earnings ratio and fixed charge coverage ratio over the quarterly periods ended August 2009 and November 2009. During the quarter ended August 31, 2009, we believe that we were in compliance with the terms and financial covenants of our credit facility. At August 31, 2009, we had $12.9 million outstanding on the line of credit.

Based on our forecasts for fiscal 2010, we identified the risk of non-compliance with certain of the financial covenants required by our line of credit facility for the quarterly measurement periods ending November 28, 2009 and February 27, 2010. In order to address the risk of non-compliance, we obtained a modification to the line of credit agreement (the Third Modification Agreement) in November 2009. The Third Modification Agreement relaxed the funded debt-to-earnings ratio and fixed charge coverage ratio, and increased the effective interest rate from LIBOR plus 2.0 percent to LIBOR plus 3.5 percent. We believe that we will be in compliance with the financial covenants in future quarterly reporting periods as defined in the Third Modification Agreement.

The following table summarizes our cash flows from operating, investing, and financing activities for the past three years (in thousands):

| YEAR ENDED AUGUST 31, | 2009 | 2008 | 2007 |
|---|---|---|---|
| Total cash provided by (used for): | | | |
| Operating activities | $ 5,282 | $ 7,868 | $ 13,370 |
| Investing activities | (3,203) | 18,520 | (11,480) |
| Financing activities | (16,248) | (16,159) | (26,376) |
| Effect of exchange rates on cash | (47) | (451) | 25 |
| Increase (decrease) in cash and cash equivalents | $ (14,216) | $ 9,778 | $ (24,461) |

The following discussion is a description of the primary factors affecting our cash flows and their effects upon our liquidity and capital resources during the fiscal year ended August 31, 2009.

**Cash Flows from Operating Activities**

Our cash provided by operating activities totaled $5.3 million in fiscal 2009 compared to $7.9 million during fiscal 2008. The decrease was primarily due to reduced net income for the fiscal year and the sale of the CSBU, which had a corresponding decrease in product sales. Our primary source of cash from operating activities was the sale of goods and services to our customers in the normal course of business. The primary uses of cash for operating activities were payments to suppliers for materials used in products sold, payments for direct costs necessary to conduct training programs, and payments for selling, general, and administrative expenses. Cash provided by or used for changes in working capital during fiscal 2009 was primarily related to:

- Decreased accounts receivable resulting from improved collections of outstanding receivable balances;
- Payments made to reduce accounts payable and accrued liabilities from seasonally high balances at each August 31, and to pay accrued severance costs; and
- Reduced inventory balances resulting from improved forecasting and purchasing processes.

We believe that our continued efforts to optimize working capital balances, combined with existing and planned sales growth programs and cost-reduction initiatives, will improve our cash flows from operating activities in future periods. However, the success of these efforts, and their eventual contribution to our cash flows, is dependent upon numerous factors, many of which are not within our control.

**Cash Flows from Investing Activities and Capital Expenditures**

During the fiscal year ended August 31, 2009 we used $3.2 million of net cash for investing activities. Our primary uses of cash for investing activities were the purchase of property and equipment, additional spending on curriculum development, and the purchase of CoveyLink. Our purchases of property and equipment, which totaled $2.3 million, consisted primarily of computer software, computer hardware, and leasehold improvements. During fiscal 2009, we spent $1.8 million for further investment in the development of various programs and curriculum. During the second quarter of fiscal 2009, we acquired the assets of CoveyLink, which conducts seminars and provides consulting based upon the book, *The Speed of Trust* by Stephen M.R. Covey. Net cash

used to acquire CoveyLink, including legal and other professional fees, totaled $1.2 million. Partially offsetting these uses of cash was the receipt of $1.8 million from the sale of our Canadian office facility.

During fiscal 2010, we expect to spend $2.0 million on purchases of property and equipment and $2.1 million on curriculum development activities. Purchases of property and equipment are expected to consist primarily of new computer software, computer hardware, and in other areas as deemed necessary. However, actual capital spending is based upon a variety of factors and may differ from these estimates.

**Cash Flows from Financing Activities**

Net cash used for financing activities during the fiscal year ended August 31, 2009 totaled $16.2 million, which consisted primarily of the payment of our $28.3 million tender offer obligation (as described above) and $1.2 million of debt principal payments that were partially offset by $12.9 million of net proceeds from our line of credit facility. We also received $0.3 million of net proceeds from the sale of common shares held in treasury to participants in our employee stock purchase plan.

**Sources of Liquidity**

Going forward, we will continue to incur costs necessary for the operation and potential growth of the business. We anticipate using cash on hand, cash provided by the sale of goods and services to our clients on the condition that we can continue to generate positive cash flows from operating activities, proceeds from our line of credit, and other financing alternatives, if necessary, for these expenditures. We are currently in negotiations to renew the line of credit to ensure the future availability of liquidity through this facility. We believe that we will be successful in obtaining a new or extended line of credit from our lender. Additional potential sources of liquidity include factoring receivables, issuance of additional equity, or issuance of debt from public or private sources. However, no assurance can be provided that we will obtain a new or extended line of credit or obtain additional financing from other sources on terms that would be acceptable to us. If necessary, we will evaluate all of these options and select one or more of them depending on overall capital needs and the associated cost of capital. If we are unsuccessful in obtaining a renewal or extension of our line of credit, or additional financing, we believe that cash flows from operations combined with a number of initiatives we would implement in the months preceding the due date will create sufficient liquidity to pay down the required outstanding balance on the line of credit. These initiatives include deferral of capital purchases for externally developed curriculum and uncommitted capital expenditures; deferral of executive team compensation; deferral of certain related party contractual royalties and earnout payments; substantial reduction of associate salaries; reduction of operating expenses, including non-critical travel; and deferral of payments to other vendors in order to generate sufficient cash.

Considering the foregoing, we anticipate that our existing capital resources should be adequate to enable us to maintain our operations for at least the upcoming twelve months. However, our ability to maintain adequate capital for our operations in the future is dependent upon a number of factors, including sales trends, our ability to contain costs, levels of capital expenditures, collection of accounts receivable, and other factors. Some of the factors that influence our operations are not within our control, such as economic conditions and the introduction of new technology and products by our competitors. We will continue to monitor our liquidity position and may pursue additional financing alternatives, as described above, to maintain sufficient resources for future growth and capital requirements. However, there can be no assurance such financing alternatives will be available to us on acceptable terms, or at all.

**Contractual Obligations**

The Company has not structured any special purpose or variable interest entities, or participated in any commodity trading activities, which would expose us to potential undisclosed liabilities or create adverse consequences to our liquidity. Required contractual payments primarily consist of lease payments resulting from the sale of our corporate campus (financing obligation); payments to EDS for outsourcing services related to information systems, warehousing, and distribution services; minimum rent payments for office and warehouse space; the repayment of our line of credit obligation, which matures in fiscal 2010; and short-term purchase obligations for inventory items and other products and services used in the ordinary course of business. Our expected payments on these obligations over the next five fiscal years and thereafter are as follows (in thousands):

| Contractual Obligations | Fiscal 2010 | Fiscal 2011 | Fiscal 2012 | Fiscal 2013 | Fiscal 2014 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Required lease payments on corporate campus | $ 3,055 | $ 3,116 | $ 3,178 | $ 3,242 | $ 3,307 | $ 40,230 | $ 56,128 |
| Minimum required payments to EDS for outsourcing services(1) | 4,138 | 4,138 | 4,138 | 4,138 | 4,138 | 7,107 | 27,797 |
| Minimum operating lease payments(2) | 1,673 | 1,606 | 1,498 | 1,148 | 1,108 | 2,218 | 9,251 |
| Line of credit | 12,949 | - | - | - | - | - | 12,949 |
| Purchase obligations | 2,801 | - | - | - | - | - | 2,801 |
| Total expected contractual obligation payments | $ 24,616 | $ 8,860 | $ 8,814 | $ 8,528 | $ 8,553 | $ 49,555 | $108,926 |

(1) Our obligation for outsourcing services contains an annual escalation based upon changes in the Employment Cost Index, the impact of which was not estimated in the above table. We are also contractually allowed to collect amounts from Franklin Covey Products that reduce the amounts shown in the table above.

(2) The operating agreement with Franklin Covey Products provides for reimbursement of a portion of the warehouse leasing costs, the impact of which is not included in the lease obligations in the table above.

Our contractual obligations presented above exclude unrecognized tax benefits under FIN 48 of $4.2 million for which we cannot make a reasonably reliable estimate of the amount and period of payment. For further information regarding the adoption of FIN 48, refer to the Notes to the consolidated financial statements as presented in Item 8 of this report on Form 10-K.

**Other Items**

The Company is the creditor for a loan program that provided the capital to allow certain management personnel the opportunity to purchase shares of our common stock. For further information regarding our management common stock loan program, refer to the notes to our consolidated financial statements as found in Item 8 of this report on Form 10-K. The inability of the Company to collect all, or a portion, of these receivables could have an adverse impact upon our financial position and future cash flows compared to full collection of the loans.

## USE OF ESTIMATES AND CRITICAL ACCOUNTING POLICIES

Our consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America. The significant accounting polices that we used to prepare our consolidated financial statements are outlined in Note 1 to the consolidated financial statements, which are presented in Part II, Item 8 of this Annual Report on Form 10-K. Some of those accounting policies require us to make assumptions and use judgments that may affect the amounts reported in our consolidated financial statements. Management regularly evaluates its estimates and assumptions and bases those estimates and assumptions on historical experience, factors that are believed to be reasonable under the circumstances, and requirements under accounting principles generally accepted in the United States of America. Actual results may differ from these estimates under different assumptions or conditions, including changes in economic and political conditions and other circumstances that are not in our control, but which may have an impact on these estimates and our actual financial results.

The following items require the most significant judgment and often involve complex estimates:

**Revenue Recognition**

We derive revenues primarily from the following sources:

- **Training and Consulting Services** – We provide training and consulting services to both organizations and individuals in leadership, productivity, strategic execution, goal alignment, sales force performance, and communication effectiveness skills.
- **Products** – We sold planners, binders, planner accessories, handheld electronic devices, and other related products that were primarily delivered through our CSBU channels prior to the fourth quarter of fiscal 2008. We continue to sell these products in certain international locations.

We recognize revenue in accordance with SAB No. 101, *Revenue Recognition in Financial Statements*, as amended by SAB No. 104, *Revenue Recognition.* Accordingly, we recognize revenue when: 1) persuasive evidence of an agreement exists, 2) delivery of product has occurred or services have been rendered, 3) the price to the customer is fixed or determinable, and 4) collectibility is reasonably assured. For training and service sales, these conditions are generally met upon presentation of the training seminar or delivery of the consulting services. For product sales, these conditions are generally met upon shipment of the product to the customer or by completion of the sales transaction in a retail store.

Some of our training and consulting contracts contain multiple deliverable elements that include training along with other products and services. For transactions that contain more than one element, we recognize revenue in accordance with EITF Issue No. 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables* (FASC 605-25). When fair value exists for all contracted elements, the overall contract consideration is allocated among the separate units of accounting based upon their relative fair values. Revenue for these units is recognized in accordance with our general revenue policies once it has been determined that the delivered items have standalone value to the customer. If fair value does not exist for all contracted elements, revenue for the delivered items is recognized using the residual method, which generally means that revenue recognition is postponed until the point is reached when the delivered items have standalone value and fair value exists for the undelivered items. Under the residual method, the amount of revenue considered for recognition under our general revenue policies is the total contract amount, less the aggregate fair value of the undelivered items. Fair value of the undelivered items is based upon the normal pricing practices for our existing training programs, consulting services, and other products, which are generally the prices of the items when sold separately.

Our international strategy includes the use of licensees in countries where we do not have a wholly-owned operation. Licensee companies are unrelated entities that have been granted a license to translate our content and curriculum, adapt the content and curriculum to the local culture, and sell our training seminars and products in a specific country or region. Each licensee is required to pay us royalties based upon a percentage of the licensee's sales. We recognize royalty income each period based upon the sales information reported to the Company from the licensee. Royalty revenue is reported as a component of training and consulting service sales in our consolidated statements of operations.

Revenue is recognized on software sales in accordance with SOP 97-2, *Software Revenue Recognition* (FASC 985-605-25) as amended by SOP 98-09. Statement 97-2, as amended, generally requires revenue earned on software arrangements involving multiple elements such as software products and support to be allocated to each element based on the relative fair value of the elements based on vendor specific objective evidence (VSOE). The majority of our software sales have multiple elements, including a license and post contract customer support (PCS). Currently we do not have VSOE for either the license or support elements of our software sales. Accordingly, revenue is deferred until the only undelivered element is PCS and the total arrangement fee is recognized over the support period.

Revenue is recognized as the net amount to be received after deducting estimated amounts for discounts and product returns.

**Share-Based Compensation**

We have a performance based long-term incentive plan (the LTIP) that provides for annual grants of share-based performance awards to certain managerial personnel and executive management as directed by the Compensation Committee of the Board of Directors (the Compensation Committee). The LTIP performance awards cliff vest at the completion of a three-year performance period that begins on September 1 in the fiscal year of the grant. The number of common shares that are finally awarded to LTIP participants is variable and is based entirely upon the achievement of specified financial performance objectives during the three-year performance period. Due to the variable number of common shares that may be issued under the LTIP, we reevaluate our LTIP grants on a quarterly basis and adjust the number of shares expected to be awarded based upon actual and estimated financial results of the Company compared to the performance goals set for the award. Adjustments to the number of shares awarded, and to the corresponding compensation expense, are made on a cumulative basis at the adjustment date based upon the estimated probable number of common shares to be awarded.

The analysis of our LTIP plans contains uncertainties because we are required to make assumptions and judgments about the eventual number of shares that

will vest in each LTIP grant. The assumptions and judgments that are essential to the analysis include forecasted sales and operating income levels during the LTIP service periods. The evaluation of LTIP performance awards and the corresponding use of estimated amounts produced additional volatility in our consolidated financial statements as we recorded cumulative adjustments to the estimated number of common shares to be awarded under the LTIP grants as described above.

During the quarter ended November 29, 2008, the Compensation Committee approved LTIP awards for 205,700 shares of common stock (the target award) to be awarded if we achieve the specified financial results of grant, which are primarily based on cumulative operating income growth over the performance period ending August 31, 2011. However, due to ongoing organizational changes following the sale of the CSBU, the Company's structure evolved to the extent that the fiscal 2009 LTIP award criteria were no longer consistent with our organization and performance goals and in some cases the approved measurement criteria were no longer measurable. As a result of these changes, combined with financial performance during the first two quarters of the measurement period, the Company determined that no shares would be awarded to participants under the terms of the fiscal 2009 LTIP award. Accordingly, no compensation expense was recognized for the fiscal 2009 LTIP award during fiscal 2009. All other LTIP awards expired as of August 31, 2009 with no shares vesting to participants under those awards.

We estimate the value of our stock option awards on the date of grant using the Black-Scholes option pricing model. However, we did not grant any stock options during the fiscal years ended August 31, 2009 or 2008, and we did not have any remaining unrecognized compensation expense attributable to unvested stock options at August 31, 2009.

**Accounts Receivable Valuation**

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts represents our best estimate of the amount of probable credit losses in the existing accounts receivable balance. We determine the allowance for doubtful accounts based upon historical write-off experience and current economic conditions and we review the adequacy of our allowance for doubtful accounts on a regular basis. Receivable balances over 90 days past due, which exceed a specified dollar amount, are reviewed individually for collectibility. Account balances are charged off against the allowance after all means of collection have been exhausted and the probability for recovery is considered remote. We do not have any off-balance sheet credit exposure related to our customers.

Our allowance for doubtful accounts calculations contain uncertainties because the calculations require us to make assumptions and judgments regarding the collectibility of customer accounts, which may be influenced by a number of factors that are not within our control, such as the financial health of each customer. We regularly review the collectibility assumptions of our allowance for doubtful accounts calculation and compare them against historical collections. Adjustments to the assumptions may either increase or decrease our total allowance for doubtful accounts. For example, a 10 percent increase to our allowance for doubtful accounts at August 31, 2009 would increase our reported loss from operations by approximately $0.1 million.

**Inventory Valuation**

Following the sale of CSBU, our inventories are comprised primarily of training materials and training related accessories. Inventories are stated at the lower of cost or market with cost determined using the first-in, first-out method. Inventories are reduced to their fair market value through the use of inventory loss reserves, which are recorded during the normal course of business.

Our inventory loss reserve calculations contain uncertainties because the calculations require us to make assumptions and judgments regarding a number of factors, including future inventory demand requirements and pricing strategies. During the evaluation process we consider historical sales patterns and current sales trends, but these may not be indicative of future inventory losses. While we have not made material changes to our inventory reserves methodology during the past three years, our inventory requirements may change based on projected customer demand, technological and product life cycle changes, longer or shorter than expected usage periods, and other factors that could affect the valuation of our inventories. If our estimates regarding consumer demand and other factors are inaccurate, we may be exposed to losses that may have a materially adverse impact upon our financial position and results of operations. For example, a 10 percent increase to our inventory reserves at August 31, 2009 would increase our reported loss from operations by $0.1 million.

### Indefinite-Lived Intangible Assets and Goodwill

Intangible assets that are deemed to have an indefinite life and goodwill balances are not amortized, but rather are tested for impairment on an annual basis, or more often if events or circumstances indicate that a potential impairment exists. Our goodwill at August 31, 2009 was generated by the acquisition of CoveyLink during the second quarter of fiscal 2009. The Covey trade name intangible asset was generated by the merger with the Covey Leadership Center and has been deemed to have an indefinite life. This intangible asset is tested for impairment using the present value of estimated royalties on trade name related revenues, which consist primarily of training seminars and international licensee royalties. If the carrying value of the Covey trade name exceeds the fair value of its discounted estimated royalties on trade name related revenues, an impairment loss is recognized for the difference.

Our impairment evaluation calculations for goodwill and the Covey trade name contain uncertainties because they require us to make assumptions and apply judgment in order to estimate future cash flows, to estimate an appropriate royalty rate, and to select a discount rate that reflects the inherent risk of future cash flows. Our valuation methodology for the Covey trade name has remained unchanged during the past three years. However, if forecasts and assumptions used to support the carrying value of our indefinite-lived intangible asset change in future periods, significant impairment charges could result that would have an adverse effect upon our results of operations and financial condition. The valuation methodology is also dependent upon on our share price and corresponding market capitalization, which may differ from estimated royalties used in our annual impairment testing. Based upon the fiscal 2009 evaluation of the Covey trade name and goodwill, our trade-name related revenues, licensee royalties, and overall sales levels would have to suffer significant reductions before we would be required to impair them. However, future declines in our share price may trigger additional impairment testing and may result in impairment charges.

### Impairment of Long-Lived Assets

Long-lived tangible assets and definite-lived intangible assets are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. We use an estimate of undiscounted future net cash flows of the assets over their remaining useful lives in determining whether the carrying value of the assets is recoverable. If the carrying values of the assets exceed the anticipated future cash flows of the assets, we calculate an impairment loss. The impairment loss calculation compares the carrying value of the asset to the asset's estimated fair value, which may be based upon discounted cash flows over the estimated remaining useful life of the asset. If we recognize an impairment loss, the adjusted carrying amount of the asset becomes its new cost basis, which is then depreciated or amortized over the remaining useful life of the asset. Impairment of long-lived assets is assessed at the lowest levels for which there are identifiable cash flows that are independent from other groups of assets.

Our impairment evaluation calculations contain uncertainties because they require us to make assumptions and apply judgment in order to estimate future cash flows, forecast the useful lives of the assets, and select a discount rate that reflects the risk inherent in future cash flows. Based on these criteria, we have projected positive cash flows over the remaining useful lives of our principal assets, which is 17 years. Although we have not made any material changes to our long-lived assets impairment assessment methodology during the past three years, if forecasts and assumptions used to support the carrying value of our long-lived tangible and definite-lived intangible assets change in the future, significant impairment charges could result that would adversely affect our results of operations and financial condition.

### Income Taxes

We regularly evaluate our United States federal and various state and foreign jurisdiction income tax exposures. We account for certain aspects of our income tax provision using the provisions of FIN 48 (FASC 740-10-05), which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. We may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained upon examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon final settlement. The provisions of FIN 48 also provide guidance on de-recognition, classification, interest, and penalties on income taxes, accounting for income taxes in interim periods, and require increased disclosure of various income tax items. Taxes and penalties are components of our overall income tax provision.

We record previously unrecognized tax benefits in the financial statements when it becomes more likely than not (greater than a 50 percent likelihood) that the tax position will be sustained. To assess the probability of sustaining a tax position, we consider all available evidence. In many instances, sufficient positive evidence may not be available until the expiration of the statute of limitations for audits by taxing jurisdictions, at which time the entire benefit will be recognized as a discrete item in the applicable period.

Our unrecognized tax benefits result from uncertain tax positions about which we are required to make assumptions and apply judgment to estimate the exposures associated with our various tax filing positions. The calculation of our income tax provision or benefit, as applicable, requires estimates of future taxable income or losses. During the course of the fiscal year, these estimates are compared to actual financial results and adjustments may be made to our tax provision or benefit to reflect these revised estimates. Our effective income tax rate is also affected by changes in tax law and the results of tax audits by various jurisdictions. Although we believe that our judgments and estimates discussed herein are reasonable, actual results could differ, and we could be exposed to losses or gains that could be material.

## ACCOUNTING PRONOUNCEMENTS ISSUED NOT YET ADOPTED

***Business Combinations*** – In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (FASC 805) and SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (FASC 810-10). These standards aim to improve and converge internationally the accounting for business combinations and the reporting of noncontrolling interests in consolidated financial statements. These statements are effective for our fiscal year beginning September 1, 2009. We do not currently anticipate that these statements will have a material impact upon our financial condition or results of operations.

***Revenue Recognition*** – In October 2009, the FASB issued EITF 08-1, *Revenue Recognition – Multiple Element Arrangements* (FASC 650-25). This consensus amends existing guidance on multiple element revenue arrangements to improve the ability of entities to recognize revenue from the sale of delivered items that are part of a multiple-element arrangement when other items have not yet been delivered. One of the current requirements is that there must be objective and reliable evidence of the standalone selling price of the undelivered items, which must be supported by vendor-specific objective evidence (VSOE) or third-party evidence (TPE). This amendment eliminates the requirements that all undelivered elements have VSOE or TPE before an entity can recognize the portion of an overall arrangement that is attributable to items that have already been delivered. The "residual method" of allocating revenue is thereby eliminated, and entities are required to allocate the arrangement consideration at the inception of the arrangement to all deliverables using the relative selling price method. The consensus is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning after June 15, 2010 and early adoption is permitted. We have not yet completed a formal analysis of the provisions of EITF 08-1.

## REGULATORY COMPLIANCE

The Company is registered in states in which we do business that have a sales tax and collects and remits sales or use tax on retail sales made through its stores and catalog sales. Compliance with environmental laws and regulations has not had a material effect on our operations.

## INFLATION AND CHANGING PRICES

Inflation has not had a material effect on our operations. However, future inflation may have an impact on the price of materials used in the production of training products and related accessories, including paper and related raw materials. We may not be able to pass on such increased costs to our customers.

## SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Certain written and oral statements made by the Company in this report are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934 as amended (the Exchange Act). Forward-looking statements include, without limitation, any statement that may predict,

forecast, indicate, or imply future results, performance, or achievements, and may contain words such as "believe," "anticipate," "expect," "estimate," "project," or words or phrases of similar meaning. In our reports and filings we may make forward looking statements regarding our expectations about future sales levels, future training and consulting sales activity, anticipated expenses, the adequacy of existing capital resources, the ability of the Company to obtain a renewal or extension of its line of credit agreement, projected cost reduction and strategic initiatives, our expectations about the effect of the sale of the CSBU on our business, our expectations about our restructuring plan, expected levels of depreciation and amortization expense, expectations regarding tangible and intangible asset valuation expenses, the seasonality of future sales, the seasonal fluctuations in cash used for and provided by operating activities, expected improvements in cash flows from operating activities, future compliance with the terms and conditions of our line of credit, the ability to borrow on our line of credit, expected repayment of our line of credit in future periods, estimated capital expenditures, and cash flow estimates used to determine the fair value of long-lived assets. These, and other forward-looking statements, are subject to certain risks and uncertainties that may cause actual results to differ materially from the forward-looking statements. These risks and uncertainties are disclosed from time to time in reports filed by us with the SEC, including reports on Forms 8-K, 10-Q, and 10-K. Such risks and uncertainties include, but are not limited to, the matters discussed in Item 1A of this report on Form 10-K for the fiscal year ended August 31, 2009, entitled "Risk Factors." In addition, such risks and uncertainties may include unanticipated developments in any one or more of the following areas: unanticipated costs or capital expenditures; difficulties encountered by EDS in operating and maintaining our information systems and controls, including without limitation, the systems related to demand and supply planning, inventory control, and order fulfillment; delays or unanticipated outcomes relating to our strategic plans; dependence on existing products or services; the rate and consumer acceptance of new product introductions; competition; the number and nature of customers and their product orders, including changes in the timing or mix of product or training orders; pricing of our products and services and those of competitors; adverse publicity; and other factors which may adversely affect our business.

The risks included here are not exhaustive. Other sections of this report may include additional factors that could adversely affect our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors may emerge and it is not possible for our management to predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any single factor, or combination of factors, may cause actual results to differ materially from those contained in forward-looking statements. Given these risks and uncertainties, investors should not rely on forward-looking statements as a prediction of actual results.

The market price of our common stock has been and may remain volatile. In addition, the stock markets in general have experienced increased volatility. Factors such as quarter-to-quarter variations in revenues and earnings or losses and our failure to meet expectations could have a significant impact on the market price of our common stock. In addition, the price of our common stock can change for reasons unrelated to our performance. Due to our low market capitalization, the price of our common stock may also be affected by conditions such as a lack of analyst coverage and fewer potential investors.

Forward-looking statements are based on management's expectations as of the date made, and the Company does not undertake any responsibility to update any of these statements in the future except as required by law. Actual future performance and results will differ and may differ materially from that contained in or suggested by forward-looking statements as a result of the factors set forth in this Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in our filings with the SEC.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### Market Risk Of Financial Instruments

We are exposed to financial instrument market risk primarily through fluctuations in foreign currency exchange rates and interest rates. To manage risks associated with foreign currency exchange and interest rates, we make limited use of derivative financial instruments. Derivatives are financial instruments that derive their value from one or more underlying financial instruments. As a matter of policy, our derivative instruments are entered into for periods consistent with

the related underlying exposures and do not constitute positions that are independent of those exposures. In addition, we do not enter into derivative contracts for trading or speculative purposes, nor are we party to any leveraged derivative instrument. The notional amounts of derivatives do not represent actual amounts exchanged by the parties to the instrument, and, thus, are not a measure of exposure to us through our use of derivatives. Additionally, we enter into derivative agreements only with highly rated counterparties and we do not expect to incur any losses resulting from non-performance by other parties.

**Foreign Exchange Sensitivity**

Due to the global nature of our operations, we are subject to risks associated with transactions that are denominated in currencies other than the United States dollar, as well as the effects of translating amounts denominated in foreign currencies to United States dollars as a normal part of the reporting process. The objective of our foreign currency risk management activities is to reduce foreign currency risk in the consolidated financial statements. In order to manage foreign currency risks, we make limited use of foreign currency forward contracts and other foreign currency related derivative instruments. Although we cannot eliminate all aspects of our foreign currency risk, we believe that our strategy, which includes the use of derivative instruments, can reduce the impacts of foreign currency related issues on our consolidated financial statements. The following is a description of our use of foreign currency derivative instruments.

**Foreign Currency Forward Contracts** – During the fiscal years ended August 31, 2009, 2008, and 2007, we utilized foreign currency forward contracts to manage the volatility of certain intercompany financing transactions and other transactions that are denominated in foreign currencies. Because these contracts did not meet specific hedge accounting requirements, gains and losses on these contracts, which expired on a quarterly basis, were recognized in current operations and were used to offset a portion of the gains or losses of the related accounts. The gains and losses on these contracts were recorded as a component of SG&A expense in our consolidated statements of operations and had the following net impact on the periods indicated (in thousands):

| YEAR ENDED AUGUST 31, | 2009 | 2008 | 2007 |
|---|---|---|---|
| Losses on foreign exchange contracts | $ (321) | $ (487) | $ (249) |
| Gains on foreign exchange contracts | 105 | 36 | 119 |
| Net gain (loss) on foreign exchange contracts | $ (216) | $ (451) | $ (130) |

At August 31, 2009, all of our foreign currency forward contracts were settled.

**Interest Rate Sensitivity**

The Company is exposed to fluctuations in interest rates primarily due to our line of credit borrowings. At August 31, 2009, our debt obligations consisted primarily of a long-term lease agreement (financing obligation) associated with the sale of our corporate headquarters facility and a variable-rate line of credit arrangement. Our overall interest rate sensitivity is primarily influenced by amounts borrowed on the line of credit and the prevailing interest rates, which may create additional expense if interest rates increase in future periods. The financing obligation has a payment structure equivalent to a long-term leasing arrangement with a fixed interest rate of 7.7 percent and the line of credit obligation had a weighted average interest rate of 2.3 percent at August 31, 2009. At August 31, 2009 borrowing levels, a one percent increase in the interest rate on our variable rate line of credit obligation would increase our interest expense over the next year by approximately $0.1 million.

During the fiscal years ended August 31, 2009, 2008, and 2007, we were not party to any interest rate swap agreements or similar derivative instruments.

# Item 8. Financial Statements and Supplementary Data

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Franklin Covey Co.:

We have audited Franklin Covey Co.'s internal control over financial reporting as of August 31, 2009, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Franklin Covey Co.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Franklin Covey Co. maintained, in all material respects, effective internal control over financial reporting as of August 31, 2009, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Franklin Covey Co. and subsidiaries as of August 31, 2009 and 2008, and the related consolidated statements of operations and comprehensive income (loss), shareholders' equity, and cash flows for each of the years in the three-year period ended August 31, 2009, and our report dated November 16, 2009 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Salt Lake City, Utah
November 16, 2009

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Franklin Covey Co.:

We have audited the accompanying consolidated balance sheets of Franklin Covey Co. and subsidiaries as of August 31, 2009 and 2008, and the related consolidated statements of operations and comprehensive income (loss), shareholders' equity, and cash flows for each of the years in the three-year period ended August 31, 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Franklin Covey Co. and subsidiaries as of August 31, 2009 and 2008, and the results of their operations and their cash flows for each of the years in the three-year period ended August 31, 2009, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Franklin Covey Co.'s internal control over financial reporting as of August 31, 2009, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated November 16, 2009 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

KPMG LLP

Salt Lake City, Utah
November 16, 2009

# Consolidated Balance Sheets

| AUGUST 31, | | 2009 | | 2008 |
|---|---|---|---|---|
| *In thousands, except per share data* | | | | |
| **Assets** | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ | 1,688 | $ | 15,904 |
| Accounts receivable, less allowance for doubtful accounts of $879 and $1,066 | | 22,877 | | 27,114 |
| Inventories | | 6,770 | | 8,397 |
| Deferred income taxes | | 2,551 | | 2,472 |
| Note receivable from equity method investee | | - | | 3,569 |
| Income taxes receivable | | 508 | | - |
| Prepaid expenses and other assets | | 5,748 | | 9,205 |
| Total current assets | | 40,142 | | 66,661 |
| Property and equipment, net | | 22,629 | | 26,928 |
| Intangible assets, net | | 68,994 | | 72,320 |
| Goodwill | | 505 | | - |
| Other long-term assets | | 11,608 | | 11,768 |
| | **$** | **143,878** | **$** | **177,677** |
| **Liabilities And Shareholders' Equity** | | | | |
| Current liabilities: | | | | |
| Current portion of long-term debt and financing obligation | $ | 621 | $ | 670 |
| Line of credit | | 12,949 | | - |
| Accounts payable | | 8,758 | | 8,713 |
| Income taxes payable | | - | | 384 |
| Tender offer obligation | | - | | 28,222 |
| Accrued liabilities | | 20,976 | | 23,419 |
| Total current liabilities | | 43,304 | | 61,408 |
| Long-term debt and financing obligation, less current portion | | 31,098 | | 32,291 |
| Other liabilities | | 472 | | 1,229 |
| Deferred income tax liabilities | | - | | 4,572 |
| Total liabilities | | 74,874 | | 99,500 |
| Commitments and contingencies (Notes 1, 9, and 10) | | | | |
| Shareholders' equity: | | | | |
| Common stock, $.05 par value; 40,000 shares authorized, 27,056 shares issued | | 1,353 | | 1,353 |
| Additional paid-in capital | | 183,436 | | 184,313 |
| Common stock warrants | | 7,597 | | 7,597 |
| Retained earnings | | 13,980 | | 24,812 |
| Accumulated other comprehensive income | | 1,961 | | 1,006 |
| Treasury stock at cost, 10,080 shares and 10,203 shares | | (139,323) | | (140,904) |
| Total shareholders' equity | | 69,004 | | 78,177 |
| | **$** | **143,878** | **$** | **177,677** |

*See accompanying notes to consolidated financial statements.*

# Consolidated Statements Of Operations And Comprehensive Income

| YEAR ENDED AUGUST 31, | 2009 | 2008 | 2007 |
|---|---|---|---|
| *In thousands, except per share amounts* | | | |
| Net sales: | | | |
| Training and consulting services | $ 114,910 | $ 138,112 | $ 137,708 |
| Products | 11,652 | 118,610 | 144,277 |
| Leasing | 3,556 | 2,471 | 2,140 |
| | 130,118 | 259,193 | 284,125 |
| Cost of sales: | | | |
| Training and consulting services | 40,798 | 44,738 | 43,132 |
| Products | 7,073 | 52,037 | 64,881 |
| Leasing | 1,834 | 1,390 | 1,407 |
| | 49,705 | 98,165 | 109,420 |
| Gross profit | 80,413 | 161,028 | 174,705 |
| Selling, general, and administrative | 77,943 | 141,318 | 149,220 |
| Gain on sale of consumer solutions business unit | - | (9,131) | - |
| Gain on sale of manufacturing facility | - | - | (1,227) |
| Restructuring costs | 2,047 | 2,064 | - |
| Impairment of assets | 3,569 | 1,483 | - |
| Depreciation | 4,532 | 5,692 | 5,394 |
| Amortization | 3,761 | 3,603 | 3,607 |
| **Income (loss) from operations** | **(11,439)** | **15,999** | **17,711** |
| Interest income | 27 | 157 | 717 |
| Interest expense | (3,049) | (3,083) | (3,136) |
| **Income (loss) before income taxes** | **(14,461)** | **13,073** | **15,292** |
| Income tax benefit (provision) | 3,629 | (7,546) | (7,827) |
| **Net income (loss)** | **(10,832)** | **5,527** | **7,465** |
| Preferred stock dividends | - | - | (2,215) |
| **Net income (loss) available to common shareholders** | **$ (10,832)** | **$ 5,527** | **$ 5,250** |
| Net income (loss) available to common shareholders per share: | | | |
| Basic | $ (.81) | $ .28 | $ .27 |
| Diluted | $ (.81) | $ .28 | $ .26 |
| Weighted average number of common shares: | | | |
| Basic | 13,406 | 19,577 | 19,593 |
| Diluted | 13,406 | 19,922 | 19,888 |

## Comprehensive Income (Loss):

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Net income (loss) | $ (10,832) | $ 5,527 | $ 7,465 |
| Foreign currency translation adjustments | 955 | 46 | 448 |
| Comprehensive income (loss) | $ (9,877) | $ 5,573 | $ 7,913 |

*See accompanying notes to consolidated financial statements.*

# Consolidated Statements Of Cash Flows

| YEAR ENDED AUGUST 31, | 2009 | 2008 | 2007 |
|---|---|---|---|
| *In thousands* | | | |
| **Cash Flows From Operating Activities** | | | |
| Net income (loss) | $ (10,832) | $ 5,527 | $ 7,465 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | |
| Depreciation and amortization | 8,038 | 9,533 | 10,030 |
| Amortization of capitalized curriculum costs | 2,263 | 2,124 | 1,303 |
| Gain on sale of consumer solutions business unit assets | - | (9,131) | - |
| Deferred income taxes | (5,476) | 4,152 | 5,274 |
| Share-based compensation cost (benefit) | 468 | (259) | 1,394 |
| Loss (gain) on disposals of assets | 319 | 460 | (1,247) |
| Restructuring charges | 2,047 | 2,064 | - |
| Impairment of assets | 3,569 | 1,483 | - |
| Changes in assets and liabilities: | | | |
| Decrease (increase) in accounts receivable, net | 5,196 | (6,299) | (3,574) |
| Decrease (increase) in inventories | 2,170 | 2,748 | (2,041) |
| Decrease (increase) in receivable from equity method investee | - | (7,672) | - |
| Decrease (increase) in prepaid expenses and other assets | 4,136 | 4,985 | (789) |
| Decrease in accounts payable and accrued liabilities | (5,368) | (1,512) | (4,388) |
| Increase (decrease) in income taxes payable/receivable | (983) | (184) | 94 |
| Decrease in other long-term liabilities | (265) | (151) | (151) |
| **Net cash provided by operating activities** | **5,282** | **7,868** | **13,370** |
| **Cash Flows From Investing Activities** | | | |
| Proceeds from the sale of consumer solutions business unit assets, net | - | 28,241 | - |
| Purchases of property and equipment | (2,275) | (4,164) | (9,138) |
| Capitalized curriculum development costs | (1,762) | (4,042) | (5,088) |
| Acquisition of business, net of cash acquired | (1,157) | - | - |
| Investment in equity method investee | - | (2,755) | - |
| Proceeds from disposal of consolidated subsidiaries | 201 | 1,180 | 150 |
| Proceeds from sales of property and equipment, net | 1,790 | 60 | 2,596 |
| **Net cash provided by (used for) investing activities** | **(3,203)** | **18,520** | **(11,480)** |
| **Cash Flows From Financing Activities** | | | |
| Proceeds from line of credit borrowing | 77,044 | 69,708 | 50,951 |
| Payments on line of credit borrowings | (64,095) | (85,707) | (34,952) |
| Redemptions of Series A preferred stock | - | - | (37,345) |
| Principal payments on long-term debt and financing obligation | (1,211) | (622) | (605) |
| Purchases of common stock for treasury | (28,270) | - | (2,625) |
| Proceeds from sales of common stock held in treasury | 284 | 462 | 388 |
| Proceeds from management stock loan payments | - | - | 27 |
| Payment of preferred stock dividends | - | - | (2,215) |
| **Net cash used for financing activities** | **(16,248)** | **(16,159)** | **(26,376)** |
| Effect of foreign currency exchange rates on cash and cash equivalents | (47) | (451) | 25 |
| Net increase (decrease) in cash and cash equivalents | (14,216) | 9,778 | (24,461) |
| Cash and cash equivalents at beginning of the year | 15,904 | 6,126 | 30,587 |
| **Cash and cash equivalents at end of the year** | **$ 1,688** | **$ 15,904** | **$ 6,126** |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid for income taxes | $ 2,788 | $ 3,549 | $ 2,370 |
| Cash paid for interest | 3,026 | 3,146 | 2,973 |
| Non-cash investing and financing activities: | | | |
| Acquisition of treasury stock from tender offer through liabilities | $ - | $ 28,222 | $ - |
| Promissory notes received from sales of consolidated subsidiaries | - | - | 1,513 |
| Purchases of property and equipment financed by accounts payable | 77 | 314 | 895 |

*See accompanying notes to consolidated financial statements.*

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

| | Series A Preferred Stock | | Common Stock | | Additional Paid-In Capital | Common Stock Warrants | Retained Earnings | Accumulated Other Comprehensive Income | Treasury Stock | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | | | | | Shares | Amount |
| *In thousands* | | | | | | | | | | |
| Balance at August 31, 2006 | 1,494 | $37,345 | 27,056 | $1,353 | $185,691 | $7,611 | $14,035 | $653 | (7,083) | $(113,379) |
| Preferred stock dividends | | | | | | | (2,215) | | | |
| Preferred stock redemptions | (1,494) | (37,345) | | | | | | | | |
| Issuance of common stock from treasury | | | | | (708) | | | | 100 | 1,096 |
| Purchase of treasury shares | | | | | | | | | (345) | (2,603) |
| Unvested share award | | | | | (501) | | | | 32 | 501 |
| Share-based compensation | | | | | 1,394 | | | | | |
| Payments on management common stock loans | | | | | 27 | | | | | |
| Cumulative translation adjustments | | | | | | | | 448 | | |
| Common stock warrant activity | | | | | (13) | (9) | | | | |
| Sale of Brazil subsidiary | | | | | | | | (141) | | |
| Net income | | | | | | | 7,465 | | | |
| Balance at August 31, 2007 | - | $ - | 27,056 | $1,353 | $185,890 | $7,602 | $19,285 | $960 | (7,296) | $(114,385) |
| Issuance of common stock from treasury | | | | | (746) | | | | 96 | 1,234 |
| Purchase of treasury shares | | | | | | | | | (12) | (103) |
| Treasury shares acquired through tender offer | | | | | | | | | (3,027) | (28,222) |
| Unvested share award | | | | | (572) | | | | 36 | 572 |
| Share-based compensation | | | | | (259) | | | | | |
| Cumulative translation adjustments | | | | | | | | 46 | | |
| Common stock warrant activity | | | | | | (5) | | | | |
| Net income | | | | | | | 5,527 | | | |
| Balance at August 31, 2008 | - | $ - | 27,056 | $1,353 | $184,313 | $7,597 | $24,812 | $1,006 | (10,203) | $(140,904) |
| Issuance of common stock from treasury | | | | | (424) | | | | 57 | 708 |
| Unvested share award | | | | | (921) | | | | 66 | 921 |
| Additional tender offer costs | | | | | | | | | | (48) |
| Share-based compensation | | | | | 468 | | | | | |
| Cumulative translation adjustments | | | | | | | | 955 | | |
| Net loss | | | | | | | (10,832) | | | |
| **Balance at August 31, 2009** | **-** | **$ -** | **27,056** | **$1,353** | **$183,436** | **$7,597** | **$13,980** | **$1,961** | **(10,080)** | **$(139,323)** |

*See accompanying notes to consolidated financial statements.*

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. Nature Of Operations And Summary Of Significant Accounting Policies

Franklin Covey Co. (hereafter referred to as us, we, our, or the Company) is a leading global provider of execution, leadership, and personal-effectiveness training. We operate globally with one common brand and business model designed to enable us to provide clients around the world with the same high level of service. To achieve this level of service, we operate four regional sales offices in the United States; wholly owned subsidiaries in Australia, Japan, and the United Kingdom; and contract with licensee partners who deliver our curriculum and provide services in over 150 other countries and territories around the world. Our business-to-business service builds on our expertise in training, consulting, and technology that is designed to help our clients define great performance and execute at the highest levels. We also help clients accelerate great performance through education in management skills, relationship skills, and individual effectiveness, and can provide personal-effectiveness literature and electronic educational solutions to our clients as needed. Our services and products have historically been available through professional consulting services, public workshops, retail stores, catalogs, and the Internet at www.franklincovey.com, and our best-known offerings in the marketplace have included the FranklinCovey Planner™ and a suite of individual-effectiveness and leadership-development training products based on the best-selling book, *The 7 Habits of Highly Effective People*.

During the fourth quarter of fiscal 2008, we completed the sale of substantially all of the assets of our Consumer Solutions Business Unit (CSBU) to a newly formed entity, Franklin Covey Products, LLC (Note 3). The CSBU was primarily responsible for the sale of our products, including the FranklinCovey Planner™, to consumers through retail stores, catalogs, and our Internet site. Following the sale of the CSBU, our business primarily consists of training, consulting, assessment services, and products to help organizations achieve superior results by focusing on and executing on top priorities, building the capability of knowledge workers, and aligning business processes. Through our organizational research and curriculum development efforts, we seek to consistently create, develop, and introduce new services and products that will help our clients achieve greatness.

**Fiscal Year**

The Company utilizes a modified 52/53-week fiscal year that ends on August 31 of each year. Corresponding quarterly periods generally consist of 13-week periods that ended on November 29, 2008, February 28, 2009, and May 30, 2009 during fiscal 2009. Unless otherwise noted, references to fiscal years apply to the 12 months ended August 31 of the specified year.

**Basis of Presentation**

The accompanying consolidated financial statements include the accounts of the Company and our wholly-owned subsidiaries, which consisted of Franklin Development Corp., and our operations in Japan, the United Kingdom, and Australia. Intercompany balances and transactions are eliminated in consolidation.

**Pervasiveness of Estimates**

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

**Reclassifications**

Certain reclassifications have been made to prior period financial statements to conform to the current period presentation. These reclassifications included a change in the classification of building depreciation costs related to subleased office space from product cost of sales to depreciation expense. The depreciation expense reclassified from product cost of sales totaled $0.7 million for the fiscal year ended August 31, 2007.

**Correction of Immaterial Errors**

While closing the first quarter of fiscal 2009, we identified errors due to improper accounting for certain product sales in the fourth quarter of fiscal 2008, and the improper calculation of inventory reserves from late fiscal 2006 through the fourth quarter of fiscal 2008 in the financial statements of our directly owned subsidiary in Japan. We assessed the materiality of these errors in accordance with Staff Accounting Bulletin (SAB) No. 108 and determined that the errors were immaterial to previously reported amounts contained in our periodic reports, and we have

corrected these errors in subsequent periodic filings. For further information regarding the correction of these errors, refer to Note 2.

**Codification of Accounting Standards**

During the fiscal year ended August 31, 2009, the Financial Accounting Standards Board (FASB) launched its Financial Accounting Standards Codification (FASC). The FASC is intended to be the sole source of authoritative generally accepted accounting principles (GAAP) in the United States. For interim and annual periods ending after September 15, 2009, authoritative references to accounting literature are required to cite the applicable FASC sections. To assist the users of our financial statements during the transitional period, we have included the corresponding FASC reference following the reference to legacy authoritative literature. Specific Securities and Exchange Commission (SEC) references are unaffected by the FASC.

**Cash and Cash Equivalents**

We consider highly liquid investments with insignificant interest rate risk and original maturities to the Company of three months or less to be cash equivalents. We did not hold a significant amount of investments that would be considered cash equivalent instruments at August 31, 2009 or 2008.

As of August 31, 2009, we had demand deposits at various banks in excess of the $250,000 limit for insurance by the Federal Deposit Insurance Corporation (FDIC); however, the majority of our cash receipts are used to repay amounts borrowed on our line of credit facility.

**Trade Accounts Receivable**

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts represents our best estimate of the amount of probable credit losses in the existing accounts receivable balance. We determine the allowance for doubtful accounts based upon historical write-off experience and current economic conditions, and we review the adequacy of the allowance for doubtful accounts on a regular basis. Receivable balances past due over 90 days, which exceed a specified dollar amount, are reviewed individually for collectibility. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. We do not have any off-balance sheet credit exposure related to our customers.

**Inventories**

Inventories are stated at the lower of cost or market, cost being determined using the first-in, first-out method. Elements of cost in inventories generally include raw materials, direct labor, and overhead. Cash flows from the sales of inventory are included in cash flows provided by operating activities in our consolidated cash flows statements. Following the sale of our Consumer Solutions Business Unit in the fourth quarter of fiscal 2008, our inventories are comprised primarily of training materials, books, and related accessories and consisted of the following (in thousands):

| AUGUST 31, | 2009 | 2008 |
|---|---|---|
| Finished goods | $ 6,542 | $ 7,984 |
| Raw materials | 228 | 413 |
| | $ 6,770 | $ 8,397 |

Provision is made to reduce excess and obsolete inventories to their estimated net realizable value. At August 31, 2009 and 2008, our reserves for excess and obsolete inventories totaled $0.9 million and $1.8 million. In assessing the realization of inventories, we make judgments regarding future demand requirements and compare these estimates with current and committed inventory levels. Inventory requirements may change based on projected customer demand, training curriculum life-cycle changes, longer- or shorter-than-expected usage periods, and other factors that could affect the valuation of our inventories.

**Property and Equipment**

Property and equipment are recorded at cost. Depreciation expense, which includes depreciation on our corporate campus that is accounted for as a financing obligation (Note 4) and the amortization of assets recorded under capital lease obligations, is calculated using the straight-line method over the lesser of the expected useful life of the asset or the contracted lease period. The Company generally uses the following depreciable lives for our major classifications of property and equipment:

| Description | Useful Lives |
|---|---|
| Buildings | 15-39 years |
| Machinery and equipment | 3-7 years |
| Computer hardware and software | 3 years |
| Furniture, fixtures, and leasehold improvements | 5-8 years |

Leasehold improvements are amortized over the lesser of the useful economic life of the asset or the contracted lease period. We expense costs for repairs and maintenance as incurred. Gains and losses resulting from the sale of property and equipment are recorded in current operations.

**Impairment of Long-Lived Assets**

Long-lived tangible assets and definite-lived intangible assets are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. We use an estimate of undiscounted future net cash flows of the assets over the remaining useful lives in determining whether the carrying value of the assets is recoverable. If the carrying values of the assets exceed the anticipated future cash flows of the assets, we recognize an impairment loss equal to the difference between the carrying values of the assets and their estimated fair values. Impairment of long-lived assets is assessed at the lowest levels for which there are identifiable cash flows that are independent from other groups of assets. The evaluation of long-lived assets requires us to use estimates of future cash flows. We have projected positive cash flows over the remaining useful lives of our principal assets, which is 17 years. If forecasts and assumptions used to support the realizability of our long-lived tangible and definite-lived intangible assets change in the future, significant impairment charges could result that would adversely affect our results of operations and financial condition.

**Indefinite-Lived Intangible Assets and Goodwill**

Intangible assets that are deemed to have an indefinite life and acquired goodwill are not amortized, but rather are tested for impairment on an annual basis or more often if events or circumstances indicate that a potential impairment exists. The Covey trade name intangible asset (Note 5) has been deemed to have an indefinite life. This intangible asset is tested for impairment using the present value of estimated royalties on trade name related revenues, which consist primarily of training seminars and work sessions, international licensee sales, and related products. Our reported goodwill resulted from the fiscal 2009 acquisition of CoveyLink, LLC (Note 15). No impairment charges to the Covey trade name or CoveyLink, LLC acquisition goodwill were recorded during the fiscal years ended August 31, 2009, 2008, or 2007.

**Capitalized Curriculum Development Costs and Impairment of Assets**

During the normal course of business, we develop training courses and related materials that we sell to our customers. Capitalized curriculum development costs include certain expenditures to develop course materials such as video segments, course manuals, and other related materials. Generally, curriculum costs are capitalized when there is a major revision to an existing course that requires a significant re-write of the course materials or curriculum. Costs incurred to maintain existing offerings are expensed when incurred. In addition, development costs incurred in the research and development of new curriculum and software products to be sold, leased, or otherwise marketed are expensed as incurred until technological feasibility has been established in accordance with Statement of Financial Accounting Standards (SFAS) No. 86, *Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed* (FASC 985-20-25), and Emerging Issues Task Force (EITF) Issue 96-6, *Accounting for the Film and Software Costs Associated with Developing Entertainment and Educational Software Products* (FASC 985-705-S99).

During fiscal 2009, we capitalized costs incurred for the development of new leadership offerings, as well as for various other courses. Capitalized development costs are generally amortized over a five-year life, which is based on numerous factors, including expected cycles of major changes to curriculum. Capitalized curriculum development costs are reported as a component of other long-term assets in our consolidated balance sheets and totaled $6.3 million and $6.8 million at August 31, 2009 and 2008. Amortization of capitalized curriculum development costs is reported as a component of cost of sales.

In fiscal 2008, we analyzed the expected future revenues and corresponding cash flows expected to be generated from our *The 7 Habits* interactive program and concluded that the expected future revenues, less direct selling and maintenance costs, were insufficient to cover the carrying value of the corresponding capitalized development costs. Accordingly, we recorded a $1.5 million impairment charge in the fourth quarter of fiscal 2008 to write the carrying value of this program down to its net realizable value. No impairment charges were recorded in fiscal 2009.

**Restricted Investments**

The Company's restricted investments consisted of insurance contracts and investments in mutual funds that were held in a "rabbi trust" and were restricted

for payment to the participants of our deferred compensation plan (Note 17). However, during the fourth quarter of fiscal 2009, our Board of Directors decided to partially terminate our non-qualified deferred compensation (NQDC) plan. Due to the partial termination of the NQDC plan, all of the restricted investments held as trust assets were liquidated prior to August 31, 2009 and were reported as a component of cash at August 31, 2009. At August 31, 2008, our restricted investments were classified as trading securities and consisted of insurance contracts and mutual funds held by the trust. The fair value of these restricted investments totaled $0.5 million at August 31, 2008, and the balance was recorded as a component of other long-term assets in the accompanying consolidated balance sheet for that period.

Our unrealized losses on these restricted investments, which were immaterial during fiscal years 2009, 2008, and 2007, were recognized in the accompanying consolidated statements of operations as components of selling, general, and administrative expense.

**Accrued Liabilities**

Significant components of our accrued liabilities were as follows (in thousands):

| AUGUST 31, | 2009 | 2008 |
|---|---|---|
| Accrued compensation | $ 4,078 | $ 4,152 |
| Unearned revenue | 3,692 | 4,564 |
| Outsourcing contract costs payable | 2,531 | 4,446 |
| Customer credits | 2,384 | 2,191 |
| Restructuring costs | 1,299 | 2,055 |
| Other accrued liabilities | 6,992 | 6,011 |
| | $ 20,976 | $ 23,419 |

**Restructuring Costs**

Following the sale of our CSBU in the fourth quarter of fiscal 2008, we initiated a restructuring plan that reduced the number of our domestic regional sales offices, decentralizes certain sales support functions, and significantly changes the operations of our Canadian subsidiary. The restructuring plan is intended to strengthen the remaining domestic sales offices and reduce our overall operating costs. During fiscal 2009 and fiscal 2008, we expensed $2.0 million and $2.1 million, respectively, for anticipated severance costs necessary to complete the restructuring plan, of which $1.3 and $2.1 million were recorded as components of accrued liabilities at August 31, 2009 and 2008.

The composition and utilization of the accrued restructuring charge was as follows at August 31, 2009 (in thousands):

| Description | Accrued Restructuring Costs |
|---|---|
| Balance at August 31, 2007 | $ - |
| Restructuring charges | 2,064 |
| Amounts paid – employee severance | (9) |
| Balance at August 31, 2008 | $ 2,055 |
| Restructuring charges | 2,047 |
| Amount paid – employee severance | (2,803) |
| Balance at August 31, 2009 | $ 1,299 |

We intend to pay the majority of the restructuring plan liability during the year ending August 31, 2010.

**Foreign Currency Translation and Transactions**

The functional currencies of the Company's foreign operations are the reported local currencies. Translation adjustments result from translating our foreign subsidiaries' financial statements into United States dollars. The balance sheet accounts of our foreign subsidiaries are translated into United States dollars using the exchange rate in effect at the balance sheet date. Revenues and expenses are translated using average exchange rates for each month during the fiscal year. The resulting translation gains or losses were recorded as a component of accumulated other comprehensive income in shareholders' equity. Foreign currency transaction losses totaled $0.2 million, $0.1 million, and $0.1 million during the fiscal years ended August 31, 2009, 2008, and 2007, and were reported as a component of our selling, general, and administrative expenses.

**Derivative Instruments**

During the normal course of business, we are exposed to risks associated with foreign currency exchange rate and interest rate fluctuations. Foreign currency exchange rate exposures result from the Company's operating results, assets, and liabilities that are denominated in currencies other than the United States dollar. In order to limit our exposure to these elements, we have made limited use of derivative instruments. Each derivative instrument that is designated as a hedge instrument is recorded on the balance sheet at its fair value. Changes in the fair value of derivative instruments that qualify for hedge accounting are recorded in accumulated other comprehensive income, which is a component of shareholders' equity. Changes in the fair value of

derivative instruments that are not designated as hedge instruments are immediately recognized as a component of selling, general, and administrative expense in our consolidated statements of operations. At August 31, 2009 we were not party to any derivative financial instruments.

**Sales Taxes**

We collect sales tax on qualifying transactions with customers based upon applicable sales tax rates in various jurisdictions. The Company accounts for its sales taxes collected using the net method as defined by EITF Issue No. 06-03, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)* (FASC 605-45-50-3, 4); accordingly, we do not include sales taxes in net sales reported in our consolidated financial statements.

**Revenue Recognition**

We recognize revenue in accordance with SEC Staff Accounting Bulletin (SAB) No. 101, *Revenue Recognition in Financial Statements*, as amended by SAB No. 104, *Revenue Recognition.* Accordingly, we recognize revenue when: 1) persuasive evidence of an agreement exists, 2) delivery of product has occurred or services have been rendered, 3) the price to the customer is fixed or determinable, and 4) collectibility is reasonably assured. For training and service sales, these conditions are generally met upon presentation of the training seminar or delivery of the consulting services. For product sales, these conditions are generally met upon shipment of the product to the customer or by completion of the sales transaction in a retail store.

Some of our training and consulting contracts contain multiple deliverable elements that include training along with other products and services. For transactions that contain more than one element, we recognize revenue in accordance with EITF Issue No. 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables* (FASC 605-25). When fair value exists for all contracted elements, the overall contract consideration is allocated among the separate units of accounting based upon their relative fair values. Revenue for these units is recognized in accordance with our general revenue policies once it has been determined that the delivered items have standalone value to the customer. If fair value does not exist for all contracted elements, revenue for the delivered items is recognized using the residual method, which generally means that revenue recognition is postponed until the point is reached when the delivered items have standalone value and fair value exists for the undelivered items. Under the residual method, the amount of revenue considered for recognition under our general revenue policies is the total contract amount, less the aggregate fair value of the undelivered items. Fair value of the undelivered items is based upon the normal pricing practices for our existing training programs, consulting services, and other products, which are generally the prices of the items when sold separately.

Our international strategy includes the use of licensees in countries where we do not have a wholly-owned operation. Licensee companies are unrelated entities that have been granted a license to translate our content and curriculum, adapt the content and curriculum to the local culture, and sell our training seminars and products in a specific country or region. Licensees are required to pay us royalties based upon a percentage of their sales to clients. We recognize royalty income each period based upon the sales information reported to us from our licensees. Licensee royalty revenues are included as a component of training sales and totaled $8.6 million, $10.1 million, and $7.6 million for the fiscal years ended August 31, 2009, 2008, and 2007.

Revenue is recognized on software sales in accordance with Statement of Position (SOP) 97-2, *Software Revenue Recognition* (FASC 985-605-25) as amended by SOP 98-09. Statement 97-2, as amended, generally requires revenue earned on software arrangements involving multiple elements such as software products and support to be allocated to each element based on the relative fair value of the elements based on vendor specific objective evidence (VSOE). Nearly all of the Company's software sales consist of ready to use "off-the-shelf" software products that have multiple elements, including a license and post contract customer support (PCS). Currently, we do not have VSOE for either the license or support elements of our software sales. Accordingly, revenue is deferred until the only undelivered element is PCS and the total arrangement fee is recognized over the support period. Following the sale of the CSBU in the fourth quarter of fiscal 2008, our software sales have been insignificant. However, during fiscal 2008 and fiscal 2007, we had software sales totaling $2.5 million and $3.2 million, which are included as a component of product sales in our consolidated statements of operations for those periods.

Revenue is recognized as the net amount to be received after deducting estimated amounts for discounts and product returns.

**Share-Based Compensation**

We record the compensation expense for all share based-payments to employees and non-employees, including grants of stock options and the compensatory elements of our employee stock purchase plan, in our consolidated statements of operations based upon their fair values. For more information on our share-based compensation plans, refer to Note 14.

**Shipping and Handling Fees and Costs**

All shipping and handling fees billed to customers are recorded as a component of net sales. All costs incurred related to the shipping and handling of products are recorded in cost of sales.

**Advertising Costs**

Costs for newspaper, television, radio, and other advertising are expensed as incurred or recognized over the period of expected benefit for direct response and catalog advertising. Direct response advertising costs, which consist primarily of printing and mailing costs for seminar mailers, are charged to expense over the period of projected benefit, which ranges from three to 12 months. Advertising costs included in selling, general, and administrative expenses totaled $5.5 million, $15.5 million, and $15.9 million for the fiscal years ended August 31, 2009, 2008, and 2007. Our direct response advertising costs reported in other current assets totaled $0.1 million and $0.5 million at August 31, 2009 and 2008.

**Income Taxes**

Our income tax provision has been determined using the asset and liability approach of accounting for income taxes. Under this approach, deferred income taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. The income tax provision represents income taxes paid or payable for the current year plus the change in deferred taxes during the year. Deferred income taxes result from differences between the financial and tax bases of our assets and liabilities and are adjusted for tax rates and tax laws when changes are enacted. A valuation allowance is provided against deferred income tax assets when it is more likely than not that all or some portion of the deferred income tax assets will not be realized. Interest and penalties related to uncertain tax positions are recognized as components of income tax expense in our consolidated statements of operations.

The Company provides for income taxes, net of applicable foreign tax credits, on temporary differences in our investment in foreign subsidiaries, which consist primarily of unrepatriated earnings.

**Comprehensive Income**

Comprehensive income includes changes to equity accounts that were not the result of transactions with shareholders. Comprehensive income is comprised of net income or loss and other comprehensive income and loss items. Our comprehensive income and losses generally consist of changes in the cumulative foreign currency translation adjustment.

**Liquidity**

At August 31, 2009 our line of credit has a remaining maturity of less than one year and is therefore classified as a current obligation on our consolidated balance sheet. We are currently in negotiations to renew the line of credit to ensure the future availability of liquidity through this facility. We believe that we will be successful in obtaining a new or extended line of credit from our lender. Additional potential sources of liquidity include factoring receivables, issuance of additional equity, or issuance of debt from public or private sources. However, no assurance can be provided that we will obtain a new or extended line of credit or obtain additional financing from other sources on terms that would be acceptable to us. If necessary, we will evaluate all of these options and select one or more of them depending on overall capital needs and the associated cost of capital. If we are unsuccessful in obtaining a renewal or extension of our line of credit, or additional financing, we believe that cash flows from operations combined with a number of initiatives we would implement in the months preceding the due date will create sufficient liquidity to pay down the required outstanding balance on the line of credit. These initiatives include deferral of capital purchases for externally developed curriculum and uncommitted capital expenditures; deferral of executive team compensation; deferral of certain related party contractual royalties and earnout payments; substantial reduction of associate salaries; reduction of operating expenses, including non-critical travel; and deferral of payments to other vendors in order to generate sufficient cash.

**Subsequent Events**

Subsequent events have been evaluated through November 16, 2009, the date of the issuance of our consolidated financial statements.

### Accounting Pronouncements Issued Not Yet Adopted

***Business Combinations*** – In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (FASC 805) and SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (FASC 810-10). These standards aim to improve and converge internationally the accounting for business combinations and the reporting of noncontrolling interests in consolidated financial statements. The provisions of these statements are effective for our fiscal year beginning September 1, 2009. We do not currently anticipate that these statements will have a material impact upon our financial condition or results of operations.

***Revenue Recognition*** – In October 2009, the FASB issued EITF 08-1, *Revenue Recognition – Multiple Element Arrangements* (FASC 650-25). This consensus amends existing guidance on multiple element revenue arrangements to improve the ability of entities to recognize revenue from the sale of delivered items that are part of a multiple-element arrangement when other items have not yet been delivered. One of the current requirements is that there must be objective and reliable evidence of the standalone selling price of the undelivered items, which must be supported by vendor-specific objective evidence (VSOE) or third-party evidence (TPE). This amendment eliminates the requirements that all undelivered elements have VSOE or TPE before an entity can recognize the portion of an overall arrangement that is attributable to items that have already been delivered. The “residual method” of allocating revenue is thereby eliminated and entities are required to allocate the arrangement consideration at the inception of the arrangement to all deliverables using the relative selling price method. The consensus is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning after June 15, 2010, and early adoption is permitted. We have not yet completed a formal analysis of the provisions of EITF 08-1.

## 2. Correction Of Immaterial Errors

While closing the first quarter of fiscal 2009, we identified errors due to improper accounting for certain product sales in the fourth quarter of fiscal 2008, and the improper calculation of inventory reserves from late fiscal 2006 through the fourth quarter of fiscal 2008 in the financial statements of our directly owned subsidiary in Japan.

During the fourth quarter of fiscal 2008, certain product sales were recorded where delivery had not occurred resulting in an overstatement of revenues. In addition, we determined that our Japanese subsidiary’s inventory reserve calculation did not appropriately capture all considerations of old and outdated material resulting in an overstatement in the value of our inventory.

The revenue recognition error resulted in a $0.9 million overstatement of sales, which had a $0.6 million impact on gross profit, in the fourth quarter of fiscal 2008. The inventory reserve calculation errors from the fourth quarter of fiscal 2006 through August 31, 2008 cumulatively totaled $0.7 million.

We assessed the materiality of these errors in accordance with SAB No. 108 and determined that the errors were immaterial to previously reported amounts contained in our periodic reports and we have corrected these errors in subsequent periodic filings. The effects of recording these immaterial corrections in our financial statements for the fiscal years presented are as follows (in thousands):

For the Fiscal Year Ended August 31, 2008

| | As Reported | As Revised |
|---|---|---|
| Sales | $ 260,092 | $ 259,193 |
| Gross profit | 161,789 | 161,028 |
| Operating income | 16,760 | 15,999 |
| Net income | 5,848 | 5,527 |
| | | |
| Accounts receivable | 28,019 | 27,114 |
| Inventories | 8,742 | 8,397 |
| | | |
| Retained earnings | 25,337 | 24,812 |
| Total shareholders’ equity | 78,754 | 78,177 |

For the Fiscal Year Ended August 31, 2007

| | As Reported | As Revised |
|---|---|---|
| Gross profit | $ 175,078 | $ 174,705 |
| Operating income | 18,084 | 17,711 |
| Net income | 5,414 | 5,250 |
| | | |
| Inventories | 24,033 | 23,583 |
| | | |
| Retained earnings | 19,489 | 19,285 |
| Total shareholders’ equity | 100,919 | 100,705 |

## 3. Sale Of The Consumer Solutions Business Unit

### General

During the fourth quarter of fiscal 2008, we joined with Peterson Partners to create a new company, Franklin Covey Products, LLC (Franklin Covey Products). This new company purchased substantially all of the assets of our Consumer Solutions Business Unit with the objective of expanding the worldwide sales of Franklin Covey Products as governed by a comprehensive license agreement between us and Franklin Covey Products. Franklin Covey Products, which is controlled by Peterson Partners, purchased the CSBU assets for $32.0 million in cash plus a $1.2 million adjustment for working capital delivered on the closing date of the sale, which was effective July 6, 2008. We also incurred $3.7 million of direct costs related to the sale of the CSBU assets, a portion of which is reimbursable from Franklin Covey Products.

On the date of the sale closing, the Company invested approximately $1.8 million to purchase a 19.5 percent voting interest in Franklin Covey Products, made a $1.0 million priority capital contribution with a 10 percent return, and will have the opportunity to earn contingent license fees if Franklin Covey Products achieves specified performance objectives. We recognized a gain of $9.1 million on the sale of the CSBU assets, and according to guidance found in EITF Issue No. 01-2, *Interpretations of APB Opinion No. 29* (FASC 845-10-15), we deferred a portion of the gain equal to our investment in Franklin Covey Products. We will recognize the deferred gain over the life of the long-term assets acquired by Franklin Covey Products or when cash is received for payment of the priority contribution.

The carrying amounts of the assets and liabilities of the CSBU that were sold to Franklin Covey Products were as follows (in thousands):

| Description | | |
|---|---|---|
| Cash and cash equivalents | $ | 38 |
| Accounts receivable, net | | 6,675 |
| Inventories | | 12,665 |
| Other current assets | | 2,291 |
| Property and equipment, net | | 8,435 |
| Other assets | | 158 |
| Total assets sold | $ | 30,262 |
| | | |
| Accounts payable | $ | 3,589 |
| Accrued liabilities | | 6,748 |
| Total liabilities sold | $ | 10,337 |

### Accounting for the Investment in Franklin Covey Products

Based upon the guidance found in SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (FASC 205-20-45), EITF Issue No. 03-13, *Applying the Conditions in Paragraph 42 of FASB Statement No. 144 in Determining Whether to Report Discontinued Operations* (FASC 205-20-50, 55), and SAB 103, Topic 5Z4, *Disposal of Operation with Significant Interest Retained*, we determined that the operations of CSBU should not be reported as discontinued operations because we will continue to have significant influence over the operations of Franklin Covey Products and may participate in their future cash flows. As a result of this determination, we have not presented the financial results of the CSBU as discontinued operations in the accompanying consolidated financial statements, and we do not anticipate discontinued operations presentation in future interim and annual reporting periods.

As a result of Franklin Covey Products' structure as a limited liability company with separate owner capital accounts and the guidance found in EITF Issue No. 03-16, *Accounting for Investments in Limited Liability Companies* (FASC 323-30) and SOP 78-9, *Accounting for Investments in Real Estate Ventures* (FASC 970-323-25), we determined that the Company's investment in Franklin Covey Products is more than minor and that we are required to account for our investment in Franklin Covey Products using the equity method of accounting. We record our share of Franklin Covey Products' profit and loss based upon specified allocations as defined in the associated operating agreement. In addition, our ownership interest may be diluted in future periods if ownership shares of Franklin

Covey Products granted to certain members of its management vest.

During fiscal 2009, Franklin Covey Products recognized a net loss. However, we do not have any obligation to fund the losses of Franklin Covey Products and therefore, our portion of their net losses during fiscal 2009 and fiscal 2008 were not recorded in our consolidated statements of operations. The net book value of the investment in Franklin Covey Products was zero as of August 31, 2009 and 2008.

We receive reimbursement for certain operating costs, such as warehousing and distribution costs, which are billed to the Company by third party providers. At August 31, 2009 and 2008 we had $2.0 million and $4.1 million receivable from Franklin Covey Products, which have been classified in other current assets.

**Impairment of Working Capital and Reimbursable Transaction Costs Note**

Based on the terms of the sale transaction, the Company was entitled to receive a $1.2 million adjustment for working capital delivered on the closing date of the sale and to receive $2.3 million as reimbursement for specified costs necessary to complete the transaction. Payment for these costs was originally due in January 2009, but we extended the due date of the payment at Franklin Covey Products' request and obtained a promissory note from Franklin Covey Products for the amount owed, plus accrued interest. The promissory note includes accrued interest through the date of the note, matures on September 30, 2013, and bears interest at 10 percent per year.

At the time we received the promissory note from Franklin Covey Products, we believed that we could obtain payment for the amount owed, based on prior year performance and forecasted financial performance in 2009. However, the financial position of Franklin Covey Products deteriorated significantly late in fiscal 2009, and the deterioration accelerated subsequent to August 31, 2009. As a result of this deterioration, the Company reassessed the collectibility of the promissory note as of August 31, 2009. Based on revised expected cash flows and other operational issues, we determined that the promissory note should be impaired at August 31, 2009. Accordingly, we recorded a $3.6 million impaired asset charge and reversed $0.1 million of interest income that was recorded during fiscal 2009 from the working capital settlement and reimbursable transaction cost receivables.

## 4. Property And Equipment

Our property and equipment were comprised of the following (in thousands):

| AUGUST 31, | 2009 | 2008 |
|---|---|---|
| Land and improvements | $ 1,312 | $ 1,626 |
| Buildings | 32,385 | 34,573 |
| Machinery and equipment | 2,333 | 2,969 |
| Computer hardware and software | 19,221 | 20,010 |
| Furniture, fixtures, and leasehold improvements | 9,803 | 9,640 |
| | 65,054 | 68,818 |
| Less accumulated depreciation | (42,425) | (41,890) |
| | $ 22,629 | $ 26,928 |

In the fourth quarter of fiscal 2009, we completed the sale of our administrative office and distribution facility located in Ontario, Canada to an unrelated entity. The sale price was $2.0 million and the carrying value of the building at the date of the sale was $1.9 million. After deducting customary closing costs and other costs necessary to complete the sale of the building, we recorded a $0.1 million loss, which was recorded as a component of depreciation expense in our consolidated statement of operations for the year ended August 31, 2009. Based on guidance found in SFAS No. 66, *Accounting for Sales of Real Estate* (FASC 360-20-15), the transaction was accounted for as a sale, and we will have no further obligations or responsibilities related to the property that was sold. A portion of the proceeds from the sale of the building was used to repay the mortgage obligation associated with the property (Note 8).

During fiscal 2007, we completed a project to reconfigure our printing operations to improve our printing services' efficiency, reduce operating costs, and improve our printing services' flexibility in order to increase external printing service sales. Our reconfiguration plan included moving our printing operations a short distance from its existing location to our corporate headquarters campus and the sale of the manufacturing facility and certain printing presses. We completed the sale of the manufacturing facility during the second quarter of fiscal 2007. The sale price was $2.5 million and, after deducting customary closing costs, the net proceeds to the Company from the sale totaled $2.3 million in cash. The carrying value of the manufacturing facility at the date of sale was $1.1 million and accordingly, we recognized a $1.2 million gain on the sale of the manufacturing facility.

The manufacturing facility assets sold were primarily reported as a component of corporate assets for segment reporting purposes. Due to a lower-than-expected sale price on one of the printing presses to be sold, we recorded an impairment charge totaling $0.3 million to reduce the carrying value of the printing press to its anticipated sale price. The impairment charge was included as a component of depreciation expense in our consolidated statement of operations for the fiscal year ended August 31, 2007.

## 5. Intangible Assets And Goodwill

Our intangible assets and goodwill were comprised of the following (in thousands):

| AUGUST 31, 2009 | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
|---|---|---|---|
| *Definite-lived intangible assets:* | | | |
| License rights | $ 27,000 | $ (10,229) | $ 16,771 |
| Curriculum | 58,257 | (31,441) | 26,816 |
| Customer lists | 15,111 | (12,704) | 2,407 |
| Trade names | 377 | (377) | - |
| | 100,745 | (54,751) | 45,994 |
| *Indefinite-lived intangible asset:* | | | |
| Covey trade name | 23,000 | - | 23,000 |
| | $ 123,745 | $(54,751) | $ 68,994 |
| Goodwill | $ 505 | - | $ 505 |

| AUGUST 31, 2008 | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
|---|---|---|---|
| *Definite-lived intangible assets:* | | | |
| License rights | $ 27,000 | $ (9,292) | $ 17,708 |
| Curriculum | 58,237 | (29,896) | 28,341 |
| Customer lists | 14,684 | (11,413) | 3,271 |
| Trade names | 377 | (377) | - |
| | 100,298 | (50,978) | 49,320 |
| *Indefinite-lived intangible asset:* | | | |
| Covey trade name | 23,000 | - | 23,000 |
| | $ 123,298 | $ (50,978) | $ 72,320 |

Our intangible assets are amortized over the estimated useful life of the asset. The range of remaining estimated useful lives and weighted-average amortization period over which we are amortizing the major categories of definite-lived intangible assets at August 31, 2009 were as follows:

| Category of Intangible Asset | Range of Remaining Estimated Useful Lives | Weighted Average Amortization Period |
|---|---|---|
| License rights | 17 years | 30 years |
| Curriculum | 10 to 17 years | 26 years |
| Customer lists | 2 to 3 years | 14 years |

During fiscal 2009 we acquired the assets of CoveyLink Worldwide, LLC (Note 15). Based upon the purchase price allocation and an evaluation of the assets acquired and liabilities assumed, we recorded a $0.4 million increase in our intangible assets, for the fair value of customer relationships and the practice leader agreement, and $0.5 million of goodwill. The intangible assets were aggregated with our customer list intangibles and will be amortized on an accelerated basis that is based on their expected cash flows over the estimated useful lives of the assets, which is approximately three years. In addition, the previous owners of CoveyLink Worldwide, LLC, which includes a son of the Vice-Chairman of our Board of Directors, are also entitled to earn annual contingent payments based upon earnings growth over the next five years. We anticipate that these contingent payments will increase the amount of goodwill recorded as they are earned.

Our aggregate amortization expense from definite-lived intangible assets totaled $3.8 million, $3.6 million, and $3.6 million, for fiscal years 2009, 2008, and 2007. Amortization expense for our intangible assets over the next five years is expected to be as follows (in thousands):

| YEAR ENDING AUGUST 31, | |
|---|---|
| 2010 | $ 3,755 |
| 2011 | 3,542 |
| 2012 | 2,493 |
| 2013 | 2,459 |
| 2014 | 2,453 |

## 6. Line Of Credit

During fiscal 2007 we entered into secured revolving line-of-credit agreements with two lenders that provided a combined total of $25.0 million of borrowing capacity to the Company. In connection

with the sale of the CSBU assets (Note 3) during the fourth quarter of fiscal 2008, the credit agreements with these lenders were modified (the Modified Credit Agreement). The Modified Credit Agreement removed one lender, but continued to provide a total of $25.0 million of borrowing capacity until June 30, 2009, when the borrowing capacity was scheduled to be reduced to $15.0 million. However, during the fourth quarter of fiscal 2009, we entered into a second modification agreement with the lender on our line of credit facility (the Second Modification Agreement). Under terms of the Second Modification Agreement, our borrowing capacity will be reduced as follows (in thousands):

| Effective Date | | Borrowing Capacity |
|---|---|---|
| June 30, 2009 | $ | 20,000 |
| August 31, 2009 | | 18,000 |
| November 30, 2009 | | 13,500 |

In addition, any payments made to us by Franklin Covey Products from the working capital settlement and reimbursable costs associated with the sale transaction note receivable are required to be paid on the line of credit and will reduce the available borrowing capacity by the amount of the payments. Although we impaired the working capital and reimbursable cost note receivable from Franklin Covey Products in the fourth quarter of fiscal 2009, our available borrowing capacity on the line of credit was not reduced. The Second Modification Agreement increased the effective interest rate on our line of credit from LIBOR plus 1.50 percent to LIBOR plus 2.0 percent (2.3 percent and 4.0 percent at August 31, 2009 and 2008, respectively), which was effective on the date of the agreement.

The Second Modification Agreement, consistent with previous arrangements, expires on March 14, 2010, and we may draw on the credit facilities, repay, and draw again, on a revolving basis, up to the maximum available loan amount so long as no event of default has occurred and is continuing. The Company may use the proceeds from the line of credit for general corporate purposes as well as for other transactions, unless prohibited by the terms of the Second Modification Agreement or Modified Credit Agreement.

We accounted for the Second Modification Agreement and Modified Credit Agreement using the guidance found in EITF 96-19, *Debtor's Accounting for a Modification or Exchange of Debt Instruments* (FASC 470-50) and EITF 98-14, *Debtor's Accounting for Changes in Line-of-Credit or Revolving Debt Arrangements* (FASC 470-50-40). The additional expense was recorded as a component of interest expense and was immaterial to our consolidated financial statements.

In addition to customary non-financial terms and conditions, the Modified Credit Agreement requires us to be in compliance with specified financial covenants, which did not change from the original credit agreements, including: (i) a funded debt-to-earnings ratio; (ii) a fixed charge coverage ratio; (iii) a limitation on annual capital expenditures; and (iv) a defined amount of minimum net worth. In the event of noncompliance with these financial covenants and other defined events of default, the lender is entitled to certain remedies, including acceleration of the repayment of amounts outstanding on the line of credit. The Second Modification Agreement also modified the funded debt to earnings ratio and fixed charge coverage ratio for the quarterly periods ended August 2009 and November 2009 and contains customary representations and guarantees as well as provisions for repayment and liens. We believe that we were in compliance with the terms and covenants of the Second Modification Agreement at August 31, 2009.

Based on our forecasts for fiscal 2010, we identified the risk of non-compliance with certain of the financial covenants required by our line of credit facility for the quarterly measurement periods ending November 28, 2009 and February 27, 2010. In order to address the risk of non-compliance, we obtained a modification to the line of credit agreement (the Third Modification Agreement) in November 2009. The Third Modification Agreement relaxed the funded debt to earnings ratio and fixed charge coverage ratio, and increased the effective interest rate from LIBOR plus 2.0 percent to LIBOR plus 3.5 percent. The Company believes that it will be in compliance with the financial covenants in future quarterly reporting periods as defined in the Third Modification Agreement.

In connection with the original credit agreements, the Company entered into a promissory note, a security agreement, repayment guaranty agreements, and a pledge and security agreement. These agreements remain in place with the remaining lender and pledge substantially all of the Company's assets located in the United States to the lender in the Modified Credit Agreement.

## 7. Tender Offer Obligation

During the fourth quarter of fiscal 2008, we conducted a modified "Dutch Auction" tender offer to purchase up to $28.0 million of shares of our common stock at a specified range of prices, not including transaction costs (Note 11). The tender offer closed on August 27, 2008 as intended, and we announced the preliminary results of the tender offer on August 28, 2008. The final results of the tender offer were announced on September 5, 2008, and we completed the payment process for the shares of common stock shortly thereafter. Based upon guidance found in SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity* (FASC 480-10-25), we believe that an obligation to purchase the tender offer shares was created prior to August 31, 2008. As a result of this determination, at August 31, 2008 we recorded a $28.2 million liability in current liabilities for the tender offer obligation, which includes $0.2 million of customary transaction costs for broker fees, legal services, and printing services, etc. We recorded a corresponding increase to treasury stock for the shares acquired in the shareholders' equity section of our consolidated balance sheet. This obligation was paid during fiscal 2009.

## 8. Long-Term Debt And Financing Obligation

Our long-term debt and financing obligation were comprised of the following (in thousands):

| AUGUST 31, | 2009 | 2008 |
|---|---|---|
| Financing obligation on corporate campus, payable in monthly installments of $254, including principal and interest, for the first five years with two percent annual increases thereafter (imputed interest at 7.7%), through June 2025 | $31,719 | $32,283 |
| Mortgage payable in monthly installments of $9 CDN, plus interest at the CDN prime rate (4.8% at August 31, 2008), secured by real estate and paid in full during fiscal 2009 | - | 678 |
| | 31,719 | 32,961 |
| Less current portion | (621) | (670) |
| Total long-term debt and financing obligation, less current portion | $31,098 | $32,291 |

During the fourth quarter of fiscal 2009, we used a portion of the proceeds from the sale of our Canadian administrative office and distribution facility (Note 4) to repay the mortgage on the building in full. The carrying value of the mortgage payable approximated the amount paid to extinguish the obligation and therefore no significant gain or loss was required to be recognized upon repayment.

Future principal maturities of our financing obligation were as follows at August 31, 2009 (in thousands):

| YEAR ENDING AUGUST 31, | |
|---|---|
| 2010 | $ 621 |
| 2011 | 734 |
| 2012 | 857 |
| 2013 | 992 |
| 2014 | 1,139 |
| Thereafter | 27,376 |
| | $ 31,719 |

In connection with the sale and leaseback of our corporate headquarters facility located in Salt Lake City, Utah, we entered into a 20-year master lease agreement with the purchaser, an unrelated private investment group. The 20-year master lease agreement also contains six five-year renewal options that will allow us to maintain our operations at the current location for up to 50 years. Although the corporate headquarters facility was sold and the Company has no legal ownership of the property, SFAS No. 98, *Accounting for Leases* (FASC 840-40-20), precluded us from recording the transaction as a sale since we have subleased a significant portion of the property that was sold. Accordingly, we accounted for the sale as a financing transaction, which required us to continue reporting the corporate headquarters facility as an asset (Note 4) and to record a financing obligation for the sale price. The future minimum payments under the financing obligation for the initial 20 year lease term are as follows (in thousands):

| YEAR ENDING AUGUST 31, | |
|---|---|
| 2010 | $ 3,055 |
| 2011 | 3,116 |
| 2012 | 3,178 |
| 2013 | 3,242 |
| 2014 | 3,307 |
| Thereafter | 40,230 |
| Total future minimum financing obligation payments | 56,128 |
| Less interest | (25,722) |
| Present value of future minimum financing obligation payments | $ 30,406 |

The difference between the carrying value of the financing obligation and the present value of the future minimum financing obligation payments represents the carrying value of the land sold in the financing transaction, which is not depreciated. At the conclusion of the master lease agreement, the remaining financing obligation and carrying value of the land will be written off of the Company's financial statements.

## 9. Operating Leases

**Lease Expense**

In the normal course of business, we lease office space and warehouse and distribution facilities under non-cancelable operating lease agreements. We rent office space, primarily for international and domestic regional sales administration offices, in commercial office complexes that are conducive to sales and administrative operations. We also rent warehousing and distribution facilities that are designed to provide secure storage and efficient distribution of our products. These operating lease agreements generally contain renewal options that may be exercised at our discretion after the completion of the base rental term. In addition, many of the rental agreements provide for regular increases to the base rental rate at specified intervals, which usually occur on an annual basis. At August 31, 2009, we had operating leases that have remaining terms ranging from less than one year to approximately 7 years. Following the sale of our CSBU assets, we no longer lease retail store space and Franklin Covey Products is contractually obligated to pay a portion of our minimum rental payments on certain warehouse and distribution facilities. The following table summarizes our future minimum lease payments under operating lease agreements and the lease amounts receivable from Franklin Covey Products at August 31, 2009 (in thousands):

| YEAR ENDING AUGUST 31, | Required Minimum Lease Payments | Receivable from Franklin Covey Products | Net Required Minimum Lease Payments |
|---|---|---|---|
| 2010 | $ 1,673 | $ (404) | $ 1,269 |
| 2011 | 1,606 | (422) | 1,184 |
| 2012 | 1,498 | (475) | 1,023 |
| 2013 | 1,148 | (529) | 619 |
| 2014 | 1,108 | (584) | 524 |
| Thereafter | 2,218 | (1,167) | 1,051 |
| | $ 9,251 | $ (3,581) | $ 5,670 |

We recognize lease expense on a straight-line basis over the life of the lease agreement. Contingent rent expense is recognized as it is incurred. Total rent expense recorded in selling, general, and administrative expense from operating lease agreements was $3.2 million, $8.7 million, and $10.8 million for the years ended August 31, 2009, 2008, and 2007. Additionally, certain retail store leases contained terms that require additional, or contingent, rental payments based upon the realization of certain sales thresholds. Our contingent rental payments under these arrangements were insignificant during the fiscal years ended August 31, 2009, 2008, and 2007.

**Lease Income**

We have subleased a significant portion of our corporate headquarters office space located in Salt Lake City, Utah to multiple, unrelated tenants as well as to Franklin Covey Products. The cost basis of the office space available for lease was $33.3 million, which had a carrying value of $16.2 million at August 31, 2009. Future minimum lease payments due to us from our sublease agreements at August 31, 2009 were as follows (in thousands):

| YEAR ENDING AUGUST 31, | |
|---|---|
| 2010 | $ 3,094 |
| 2011 | 2,265 |
| 2012 | 2,334 |
| 2013 | 2,090 |
| 2014 | 1,906 |
| Thereafter | 10,274 |
| | $ 21,963 |

Sublease payments made to the Company totaled $3.6 million, $2.7 million, and $2.4 million, during

the fiscal years ended August 31, 2009, 2008, and 2007 of which $0.2 million and $0.3 million was recorded as a reduction of rent expense associated with underlying lease agreements in our selling, general, and administrative expense in fiscal 2008 and 2007.

## 10. Commitments And Contingencies

### EDS Outsourcing Contract

The Company has an outsourcing contract with Electronic Data Systems (EDS) to provide information technology system support and product warehousing and distribution services. During fiscal 2009, primarily as a result of the sale of CSBU assets, we amended the terms of the outsourcing contract with EDS. Under terms of the amended outsourcing contract with EDS: 1) the outsourcing contract and its addendums will continue to expire on June 30, 2016; 2) Franklin Covey and Franklin Covey Products will have separate information systems services support contracts; 3) we will no longer be required to purchase specified levels of computer hardware technology; and 4) our warehouse and distribution costs will consist of an annual fixed charge, which is partially reimbursable by Franklin Covey Products, plus variable charges for actual activity levels. The warehouse and distribution fixed charge contains an annual escalation clause based upon changes in the Employment Cost Index. The following schedule summarizes our estimated minimum information systems support and fixed warehouse and distribution charges, without the effect of estimated escalation charges, to EDS for services over the remaining life of the outsourcing contract (in thousands):

| YEAR ENDING AUGUST 31, | Estimated Gross Minimum and Fixed Charges | Receivable from Franklin Covey Products | Estimated Net Minimum and Fixed Charges |
|---|---|---|---|
| 2010 | $ 4,138 | $ (2,159) | $ 1,979 |
| 2011 | 4,138 | (2,159) | 1,979 |
| 2012 | 4,138 | (2,159) | 1,979 |
| 2013 | 4,138 | (2,159) | 1,979 |
| 2014 | 4,138 | (2,159) | 1,979 |
| Thereafter | 7,107 | (3,955) | 3,152 |
| | $ 27,797 | $ (14,750) | $ 13,047 |

Our actual payments to EDS include a variable charge for certain warehousing and distribution activities and may fluctuate in future periods based upon actual sales and activity levels.

During fiscal years 2009, 2008, and 2007, we expensed $7.1 million, $26.7 million, and $30.1 million for services provided under terms of the EDS outsourcing contract. The total amount expensed each year under the EDS contract includes freight charges, which are billed to the Company based upon activity. Freight charges included in our total EDS costs totaled $1.8 million, $8.8 million, and $9.6 million during the years ended August 31, 2009, 2008, and 2007, respectively.

The outsourcing contracts contain early termination provisions that the Company may exercise under certain conditions. However, in order to exercise the early termination provisions, we would have to pay specified penalties to EDS depending upon the circumstances of the contract termination.

### Purchase Commitments

During the normal course of business, we issue purchase orders to various external vendors for products and services. At August 31, 2009, we had purchase commitments totaling $2.8 million for products and services to be delivered primarily in fiscal 2010. Other purchase commitments for materials, supplies, and other items incident to the ordinary conduct of business were immaterial, both individually and in aggregate, to the Company's operations at August 31, 2009.

### Legal Matters

In August 2005, EpicRealm Licensing (EpicRealm) filed an action in the United States District Court for the Eastern District of Texas against the Company for patent infringement. The action alleged that the Company infringed upon two of EpicRealm's patents directed to managing dynamic web page requests from clients to a web server that in turn uses a page server to generate a dynamic web page from content retrieved from a data source. The Company denied liability in the patent infringement and filed counter-claims related to the case subsequent to the filing of the action in District Court. However, during the fiscal year ended August 31, 2008, the Company paid EpicRealm a one-time license fee of $1.0 million for a non-exclusive, irrevocable, perpetual, and royalty-free license to use any product, system, or invention covered by the disputed patents. In connection with the purchase of the license, EpicRealm and the Company agreed to dismiss their claims with prejudice, and we were released from further action regarding these patents.

The Company is also the subject of certain legal actions, which we consider routine to our business activities. At August 31, 2009, we believe that, after consultation with legal counsel, any potential liability to the Company

under such actions will not materially affect our financial position, liquidity, or results of operations.

## 11. Shareholders' Equity

### Preferred Stock

***Series A*** **–** In accordance with the terms and provisions of the preferred stock recapitalization approved in fiscal 2005, we redeemed all remaining outstanding shares of Series A preferred stock during the third quarter of fiscal 2007 at the liquidation preference of $25 per share plus accrued dividends. In accordance with the terms and provisions of the recapitalization, we redeemed the outstanding shares of Series A preferred stock as shown below (in thousands):

| Fiscal Year | Shares of Preferred Stock Redeemed | Carrying Value of Redeemed Preferred Shares |
|---|---|---|
| 2007 | 1,494 | $ 37,345 |
| 2006 | 800 | 20,000 |
| 2005 | 1,200 | 30,000 |
| | 3,494 | $ 87,345 |

***Series B*** **–** The preferred stock recapitalization completed in fiscal 2005 significantly changed the rights and preferences of our Series B preferred stock. New shares of Series A preferred stock would have automatically converted to shares of Series B preferred stock if the holder of the original Series A preferred stock sold, or transferred, the preferred stock to another party. Series B preferred stock does not have common-equivalent voting rights, but retains substantially all other characteristics of the new Series A preferred stock. At August 31, 2009, there were 4.0 million shares of Series B preferred stock authorized, but no shares outstanding.

### Common Stock Warrants

Pursuant to the terms of the preferred stock recapitalization plan, in fiscal 2005 we completed a one-to-four forward split of the existing Series A preferred stock and then bifurcated each share of Series A preferred stock into a new share of Series A preferred stock that is no longer convertible into common stock, and a warrant to purchase shares of common stock. Accordingly, we issued 6.2 million common stock warrants with an exercise price of $8.00 per share (subject to customary anti-dilution and exercise features), which will be exercisable over an eight-year term that expires in March 2013. These common stock warrants were recorded in shareholders' equity at fair value on the date of the recapitalization as determined by a Black-Scholes valuation methodology, which totaled $7.6 million. During the fiscal years ended August 31, 2009 and 2008, our common stock warrant activity was insignificant.

### Treasury Stock

Following the completion of the sale of CSBU assets (Note 3), we used substantially all of the net proceeds from the sale to conduct a modified "Dutch Auction" tender offer (the Tender Offer) to purchase up to $28.0 million of our common stock at a price not less than $9.00 per share or greater than $10.50 per share, not including transaction costs. The Tender Offer closed fully subscribed on August 27, 2008, and we were able to purchase 3,027,027 shares of our common stock at $9.25 per share plus normal transaction costs that were added to the cost basis of the shares. We recorded a $28.2 million current liability at August 31, 2008 for these shares (Note 7) with a corresponding increase in treasury stock.

During fiscal 2006, our Board of Directors authorized the purchase of up to $10.0 million of our currently outstanding common stock and canceled all previously approved common stock purchase plans. Common stock purchases under this approved plan are made at our discretion for prevailing market prices and are subject to customary regulatory requirements and considerations. The Company does not have a timetable for the purchase of these common shares, and the authorization by the Board of Directors does not have an expiration date. Through August 31, 2007, we purchased 1,009,300 shares of our common stock under the terms of the fiscal 2006 plan for $7.6 million. We did not purchase any shares of our common stock under this purchase plan during fiscal 2009 or fiscal 2008, and at August 31, 2009 we had $2.4 million remaining for future purchases under the terms of this approved plan.

We have issued shares of treasury stock to participants in our employee stock purchase plan (ESPP) and for stock options and warrants as shown below (in thousands, except for share amounts):

| Fiscal Year | Shares Issued to ESPP Participants | Shares Issued from the Exercise of Stock Options and Warrants | Total Treasury Shares Issued for Stock Options, Warrants and ESPP | Cash Proceeds Received from the Issuance of Treasury Shares |
|---|---|---|---|---|
| 2009 | 55,448 | 1,000 | 56,448 | $284 |
| 2008 | 68,702 | 15,371 | 84,073 | 462 |
| 2007 | 55,513 | 37,500 | 93,013 | 321 |

In addition to the treasury shares shown above, we issued 66,112; 36,000; and 31,500 shares of our common stock held in treasury in connection with unvested stock awards during fiscal years 2009, 2008, and 2007 (Note 14).

## 12. Management Common Stock Loan Program

During fiscal 2000, certain of our management personnel borrowed funds from an external lender, on a full-recourse basis, to acquire shares of our common stock. The loan program closed during fiscal 2001 with 3.825 million shares of common stock purchased by the loan participants for a total cost of $33.6 million, which was the market value of the shares acquired and distributed to loan participants. The Company initially participated on these management common stock loans as a guarantor to the lending institution. However, in connection with a new credit facility obtained during fiscal 2001, we acquired the loans from the external lender at fair value and are now the creditor for these loans. The loans in the management stock loan program initially accrued interest at 9.4 percent (compounded quarterly), are full-recourse to the participants, and were originally due in March 2005. Although interest continues to accrue on the outstanding balance over the life of the loans to the participants, the Company ceased recording interest receivable (and related interest income) related to these loans in fiscal 2002.

In May 2004, our Board of Directors approved modifications to the terms of the management stock loans. While these changes had significant implications for most management stock loan program participants, the Company did not formally amend or modify the stock loan program notes. Rather, the Company chose to forego certain of its rights under the terms of the loans and granted participants the modifications described below in order to potentially improve their ability to pay, and the Company's ability to collect, the outstanding balances of the loans. These modifications to the management stock loan terms applied to all current and former employees whose loans do not fall under the provisions of the Sarbanes-Oxley Act of 2002. Loans to the Company's officers and directors (as defined by the Sarbanes-Oxley Act of 2002) were not affected by the approved modifications and loans held by those persons, which totaled $0.8 million, were repaid on the original due date of March 30, 2005.

The May 2004 modifications to the management stock loan terms included the following:

***Waiver of Right to Collect*** – The Company waived its right to collect the outstanding balance of the loans prior to the earlier of (a) March 30, 2008, or (b) the date after March 30, 2005 on which the closing price of the Company's stock multiplied by the number of shares purchased equals the outstanding principal and accrued interest on the management stock loans (the Breakeven Date).

***Lower Interest Rate*** – Effective May 7, 2004, the Company prospectively waived collection of all interest on the loans in excess of 3.16 percent per annum, which was the "Mid-Term Applicable Federal Rate" for May 2004.

***Use of the Company's Common Stock to Pay Loan Balances*** – The Company may consider receiving shares of our common stock as payment on the loans, which were previously only payable in cash.

***Elimination of the Prepayment Penalty*** – The Company will waive its right to charge or collect any prepayment penalty on the management common stock loans.

These modifications, including the reduction of the loan program interest rate, were not applied retroactively and participants remain obligated to pay interest previously accrued using the original interest rate. Also during fiscal 2005, our Board of Directors approved loan modifications for a former executive officer and a former director substantially similar to loan modifications previously granted to other loan participants in the management stock loan program as described above.

Prior to the May 2004 modifications, the Company accounted for the loans and the corresponding shares using a loan-based accounting model that included guidance found in SAB 102, *Selected Loan Loss Allowance Methodology and Documentation Issues*; SFAS No. 114, *Accounting by Creditors for Impairment of A Loan - an Amendment of FASB Statements No. 5 and 15* (FASC 310-10-35); and SFAS No. 5, *Accounting for Contingencies* (FASC 450-20). However, due to the nature of the May 2004 modifications, the Company reevaluated its accounting for the management stock loan program. Based upon guidance found in EITF Issue 00-23, *Issues Related to the Accounting for Stock Compensation under APB Opinion No. 25 and FASB Interpretation No. 44*, and EITF Issue 95-16, *Accounting for Stock Compensation Agreements with Employer Loan*

*Features under APB Opinion No. 25*, we determined that the management common stock loans should be accounted for as non-recourse stock compensation instruments. While this accounting treatment does not alter the legal rights associated with the loans to the employees as described above, the modifications to the terms of the loans were deemed significant enough to adopt the non-recourse accounting model as described in EITF 00-23. As a result of this accounting treatment, the remaining carrying value of the notes and interest receivable related to financing common stock purchases by related parties, which totaled $7.6 million prior to the loan term modifications, was reduced to zero with a corresponding reduction in additional paid-in capital. Since the Company was unable to exercise control over the underlying management common stock loan shares, the loan program shares continued to be included in Basic earnings per share (EPS) following the May 2004 modifications.

We currently account for the management common stock loans as equity-classified stock option arrangements. Under the provisions of SFAS No. 123R, additional compensation expense will be recognized only if the Company takes action that constitutes a modification which increases the fair value of the arrangements. This accounting treatment also precludes us from reversing the amounts expensed as additions to the loan loss reserve, totaling $29.7 million, which were recorded in prior periods.

During fiscal 2006, the Company offered participants in the management common stock loan program the opportunity to formally modify the terms of their loans in exchange for placing their shares of common stock purchased through the loan program in an escrow account that allows the Company to have a security interest in the loan program shares. The key modifications to the management common stock loans for the participants accepting the fiscal 2006 offer were as follows:

***Modification of Promissory Note*** – The management stock loan due date was changed to be the earlier of (a) March 30, 2013, or (b) the Breakeven Date as defined by the May 2004 modifications. The interest rate on the loans increased from 3.16 percent compounded annually to 4.72 percent compounded annually.

***Redemption of Management Loan Program Shares*** – The Company has the right to redeem the shares on the due date in satisfaction of the promissory notes as follows:

- On the Breakeven Date, the Company has the right to purchase and redeem from the loan participants the number of loan program shares necessary to satisfy the participant's obligation under the promissory note. The redemption price for each such loan program share will be equal to the closing price of the Company's common stock on the Breakeven Date.
- If the Company's stock has not closed at or above the breakeven price on or before March 30, 2013, the Company has the right to purchase and redeem from the participants all of their loan program shares at the closing price on that date as partial payment on the participant's obligation.

The fiscal 2006 modifications were intended to give the Company a measure of control of the outstanding loan program shares and to facilitate payment of the loans should the market value of the Company's stock equal the principal and accrued interest on the management stock loans. If a loan participant declines the offer to modify their management stock loan, their loan will continue to have the same terms and conditions that were previously approved in May 2004 by the Company's Board of Directors, and their loans will be due at the earlier of March 30, 2008 or the Breakeven Date. Consistent with the May 2004 modifications, stock loan participants will be unable to realize a gain on the loan program shares unless they pay cash to satisfy the promissory note obligation prior to the due date. As of the closing date of the extension offer, which was substantially completed in June 2006, management stock loan participants holding approximately 3.5 million shares, or 94 percent of the remaining loan shares, elected to accept the extension offer and placed their management stock loan shares into the escrow account. The Company is currently in the process of collecting amounts due from participants that declined to place their shares in the escrow account during fiscal 2006.

As a result of this modification, the Company reevaluated its accounting treatment regarding the loan shares and their inclusion in Basic EPS. Since the management stock loan shares held in the escrow account continue to have the same income participation rights as other common shareholders, the Company has determined that the escrowed loan shares are participating securities as defined by EITF 03-06, *Participating Securities and the Two-Class Method under FASB Statement No. 128* (FASC 260-10-45). As a result, the management loan shares are included in the calculation of Basic EPS in periods of net income and excluded from Basic EPS in periods of net loss.

During fiscal 2009, the effective interest rate on the management stock loans was reduced to 1.65 percent, compounded annually, which was the "Mid-Term Applicable Federal Rate" on the date of the interest rate change.

The inability of the Company to collect all, or a portion, of these receivables could have an adverse impact upon our financial position and cash flows compared to full collection of the loans.

## 13. Financial Instruments

### Fair Value of Financial Instruments

The book value of our financial instruments at August 31, 2009 and 2008 approximated their fair values. The assessment of the fair values of our financial instruments is based on a variety of factors and assumptions. Accordingly, the fair values may not represent the actual values of the financial instruments that could have been realized at August 31, 2009 or 2008, or that will be realized in the future, and do not include expenses that could be incurred in an actual sale or settlement. The following methods and assumptions were used to determine the fair values of our financial instruments, none of which were held for trading or speculative purposes:

***Cash and Cash Equivalents*** – The carrying amounts of cash and cash equivalents approximate their fair values due to the liquidity and short-term maturity of these instruments.

***Accounts Receivable*** – The carrying value of accounts receivable approximate their fair value due to the short-term maturity and expected collection of these instruments.

***Other Assets*** – Our other assets, including notes receivable, were recorded at the net realizable value of estimated future cash flows from these instruments.

***Debt Obligations*** – At August 31, 2009, our debt obligations consisted of a variable-rate line of credit. The interest rate on our line of credit obligation is variable and is adjusted to reflect current market interest rates that would be available to us for a similar instrument. As a result, the carrying value of the outstanding balance on the line of credit approximates its fair value.

### Derivative Instruments

During the normal course of business, we are exposed to fluctuations in foreign currency exchange rates due to our international operations and interest rates. To manage risks associated with foreign currency exchange and interest rates, we make limited use of derivative financial instruments. Derivatives are financial instruments that derive their value from one or more underlying financial instruments. As a matter of policy, our derivative instruments are entered into for periods that do not exceed the related underlying exposures and do not constitute positions that are independent of those exposures. In addition, we do not enter into derivative contracts for trading or speculative purposes, nor were we party to any leveraged derivative instrument. The notional amounts of derivatives do not represent actual amounts exchanged by the parties to the instrument and thus, are not a measure of exposure to the Company through its use of derivatives. Additionally, we enter into derivative agreements only with highly rated counterparties.

***Foreign Currency Exposure*** – Due to the global nature of our operations, we are subject to risks associated with transactions that are denominated in currencies other than the United States dollar, as well as the effects of translating amounts denominated in foreign currencies to United States dollars as a normal part of the reporting process. The objective of our foreign currency risk management activities is to reduce foreign currency risk in the consolidated financial statements. In order to manage foreign currency risks, we make limited use of foreign currency forward contracts and other foreign currency related derivative instruments. Although we cannot eliminate all aspects of our foreign currency risk, we believe that our strategy, which includes the use of derivative instruments, can reduce the impacts of foreign currency related issues on our consolidated financial statements.

During the fiscal years ended August 31, 2009, 2008, and 2007, we utilized foreign currency forward contracts to manage the volatility of certain intercompany financing transactions and other transactions that are denominated in foreign currencies. Because these contracts did not meet specific hedge accounting requirements, gains and losses on these contracts, which expire on a quarterly basis, are recognized in current operations, and are used to offset a portion of the gains or losses of the related accounts. The gains and losses on these contracts were recorded as a component of selling, general, and administrative expense in our consolidated statements of operations and had the following impact on the periods indicated (in thousands):

| YEAR ENDED AUGUST 31, | 2009 | 2008 | 2007 |
|---|---|---|---|
| Losses on foreign exchange contracts | $ (321) | $ (487) | $ (249) |
| Gains on foreign exchange contracts | 105 | 36 | 119 |
| Net losses on foreign exchange contracts | $ (216) | $ (451) | $ (130) |

At August 31, 2009, all of our foreign currency forward contracts were settled.

***Interest Rate Risk Management*** – Due to the limited nature of our interest rate risk, we do not make regular use of interest rate derivatives, and we were not a party to any interest rate derivative instruments during the fiscal years ended August 31, 2009, 2008, and 2007.

## 14. Share-Based Compensation Plans

### Overview

We utilize various share-based compensation plans as integral components of our overall compensation and associate retention strategy. Our shareholders have approved various stock incentive plans that permit us to grant performance awards, unvested stock awards, employee stock purchase plan (ESPP) shares, and stock options. In addition, our Board of Directors and shareholders may, from time to time, approve fully vested stock awards. At August 31, 2009, our stock option incentive plan, which permits the granting of performance awards, unvested stock awards to employees, and incentive stock options had approximately 2,209,000 shares available for granting and our 2004 ESPP plan had approximately 777,000 shares authorized for purchase by plan participants. The total cost of our share-based compensation plans for the fiscal years ended August 31, 2009, 2008, and 2007 were as follows (in thousands):

| YEAR ENDED AUGUST 31, | 2009 | 2008 | 2007 |
|---|---|---|---|
| Performance awards | $ - | $ (1,338) | $ 835 |
| Unvested share awards | 427 | 969 | 481 |
| Compensation cost of the ESPP | 41 | 79 | 75 |
| Stock options | - | 31 | 3 |
| | $ 468 | $ (259) | $ 1,394 |

The compensation cost of our share-based compensation plans was included in selling, general, and administrative expenses in the accompanying consolidated statements of operations, and no share-based compensation was capitalized during fiscal years 2009, 2008 or 2007. The Company generally issues shares of common stock for its share-based compensation plans from shares held in treasury. The following is a description of our share-based compensation plans.

### Performance-Based Awards

Our shareholders have approved a performance based long-term incentive plan (the LTIP) that provides for annual grants of share-based performance awards to certain managerial personnel and executive management as directed by the Organization and Compensation Committee (the Compensation Committee) of the Board of Directors. The LTIP performance awards cliff vest at the completion of a three-year performance period that begins on September 1 in the fiscal year of the grant and are valued at the closing price of our common stock on the grant date. The number of common shares that are finally awarded to LTIP participants is variable and is based entirely upon the achievement of specified financial performance objectives during the three-year performance period. Due to the variable number of common shares that may be issued under the LTIP, we reevaluate our LTIP grants on a quarterly basis and adjust the number of shares expected to be awarded based upon actual and estimated financial results of the Company compared to the performance goals set for the award. Adjustments to the number of shares awarded, and to the corresponding compensation expense, are made on a cumulative basis at the adjustment date based upon the estimated probable number of common shares to be awarded.

During the first quarter of fiscal 2009, the Compensation Committee approved LTIP awards for 205,700 shares of common stock (the target award) to be awarded if we achieve the specified financial results of grant, which were primarily based on cumulative operating income growth over the performance period ending August 31, 2011. The fair value of our common stock was $4.60 per share on the grant date of the fiscal 2009 LTIP award. However, due to ongoing organizational changes following the sale of the CSBU, the Company's structure evolved to the extent that the fiscal 2009 LTIP award criteria were no longer consistent with our organization and performance goals and, in some cases, the approved award criteria were

no longer measurable. As a result of these changes, combined with financial performance during the first two quarters of the measurement period, the Company determined that no shares would be awarded to participants under the terms of the fiscal 2009 LTIP award.

During the third quarter of fiscal 2009, the Compensation Committee formally terminated the fiscal 2009 and fiscal 2007 LTIP awards because no shares were expected to be awarded to participants under the terms of these awards. Accordingly, no compensation expense was recognized for LTIP awards during fiscal 2009.

As we completed our evaluations of the LTIP awards during fiscal 2008, we reduced the number of shares expected to be awarded under the fiscal 2007 and fiscal 2006 LTIP grants based on current financial performance and expected future financial performance. As a result of these evaluations, we determined that no shares of common stock were expected to be awarded under any LTIP grant, and all previously recognized share-based compensation expense, which totaled $1.3 million, was reversed during fiscal 2008. On August 31, 2008, the fiscal 2006 LTIP award expired with no shares granted to participants. Adjustments to decrease share-based compensation resulting from the regular evaluation of LTIP awards totaled $0.4 million in fiscal 2007, and all previously recognized tax benefits, which totaled $0.3 million for the fiscal year ended August 31, 2007, were reversed in fiscal 2008. There were no awards granted under the terms of the LTIP during the fiscal year ended August 31, 2008.

**Unvested Stock Awards**

The fair value of our unvested stock awards is calculated by multiplying the number of shares awarded by the closing market price of our common stock on the date of the grant. The corresponding compensation cost of unvested stock awards is amortized to selling, general, and administrative expense on a straight-line basis over the vesting period of the award, which generally ranges from three to five years. The following is a description of our unvested stock awards granted to certain members of our Board of Directors and to our employees.

***Board of Director Awards*** – The non-employee directors' stock incentive plan (the Directors' Plan) is designed to provide non-employee directors of the Company, who are ineligible to participate in our employee stock incentive plan, an opportunity to acquire an interest in the Company through the acquisition of shares of common stock. Based upon a report from its external compensation consultant regarding competitive compensation practices for Boards of Directors of similar sized public companies, and to provide closer alignment with current and emerging market practices which support the Board's stewardship role, the Compensation Committee approved changes to the fiscal 2009 and future awards under the Directors' Plan. These changes included: 1) a change from an annual grant of 4,500 shares to a whole-share grant equal to $40,000; 2) a change in the vesting period from three years to one year; 3) a change in the grant date from March 31 of each year to January (following the Annual Shareholders' Meeting) of each year; and 4) a minimum stock ownership requirement for directors. No previously granted awards were subject to these approved changes.

Under the provisions of the Directors' Plan, we issued 66,112 shares, 36,000 shares, and 31,500 shares of our common stock to eligible members of the Board of Directors during the fiscal years ended August 31, 2009, 2008, and 2007. The fair value of the shares awarded under the Directors' Plan was $0.3 million, $0.3 million, and $0.2 million during fiscal 2009, 2008, and 2007, which was calculated on the grant date of the award. The corresponding compensation cost is being recognized over the vesting period of the awards, which ranges from one to three years. The cost of the common stock issued from treasury stock for these awards was $0.9 million, $0.6 million, and $0.5 million in fiscal years 2009, 2008, and 2007.

***Employee Awards*** – During fiscal 2005 and in prior periods, we granted unvested stock awards to certain employees as long-term incentives. These unvested stock awards originally cliff vested five years from the grant date or on an accelerated basis if we achieved specified earnings levels. The compensation cost of these unvested stock awards was based on the fair value of our common shares on the grant date and was expensed on a straight-line basis over the vesting (service) period of the awards. The recognition of compensation cost was accelerated when we believed that it was probable that we would achieve the specified earnings thresholds and the shares would vest.

In the fourth quarter of fiscal 2008, our Board of Directors accelerated the vesting of all remaining outstanding unvested share awards previously granted to employees. Based upon guidance in SFAS No. 123R, we determined that the accelerated vesting of these awards constituted modifications to the awards that required separate analysis for awards granted to CSBU

employees and for awards granted to Organizational Solutions Business Unit (OSBU) and corporate employees. Since the unvested share awards granted to CSBU employees would not have vested under the original terms of the award (due to the sale of CSBU assets), the CSBU awards were revalued on the date of the modification. The fair value of our common stock was higher on the modification date than on the grant date, which resulted in $0.4 million of additional share-based compensation expense in the fourth quarter of fiscal 2008. We determined that the OSBU and corporate awards would have vested under the original award terms, and based upon SFAS No. 123R, we accelerated the remaining unrecognized compensation cost, which increased share-based compensation by $0.2 million during the fourth quarter of fiscal 2008. Following the accelerated vesting of these awards, we do not have any remaining unrecognized compensation cost for unvested share awards granted to employees.

During the fourth quarter of fiscal 2007, the financial performance goals were reached for certain employees and one-half of their awards were accelerated. Other awards were vested during fiscal 2007 in connection with the termination of certain management employees. The accelerated vesting of these awards were accounted for as modifications under the provisions of SFAS No. 123R during fiscal 2007. The additional share-based compensation expense resulting from these modifications totaled $0.1 million.

The following information applies to our unvested stock awards for the fiscal year ended August 31, 2009:

| | Number of Shares | Weighted-Average Grant-Date Fair Value Per Share |
|---|---|---|
| Unvested stock awards at August 31, 2008 | 94,500 | $ 7.73 |
| Granted | 66,112 | 4.84 |
| Forfeited | - | - |
| Vested | (27,000) | 7.84 |
| Unvested stock awards at August 31, 2009 | 133,612 | $ 6.28 |

At August 31, 2009, there was $0.3 million of total unrecognized compensation cost related to unvested stock awards granted to our Board of Directors, which is expected to be recognized over the weighted-average vesting period of approximately one year. Compensation expense related to our unvested stock awards totaled $0.4 million, $1.0 million, and $0.5 million in fiscal years 2009, 2008, and 2007, and the total recognized tax benefit from unvested stock awards totaled $0.2 million, $0.4 million, and $0.2 million for the fiscal years ended August 31, 2009, 2008, and 2007, respectively. The intrinsic value of our unvested stock awards at August 31, 2009 was $0.7 million.

**Employee Stock Purchase Plan**

We have an employee stock purchase plan (Note 17) that offers qualified employees the opportunity to purchase shares of our common stock at a price equal to 85 percent of the average fair market value of the Company's common stock on the last trading day of the calendar month in each fiscal quarter. Based upon guidance in SFAS No. 123R, we determined that the discount offered to employees under the ESPP is compensatory, and the amount is therefore expensed at each grant date. During the fiscal year ended August 31, 2009, a total of 55,448 shares were issued to participants in the ESPP.

**Stock Options**

The Company has an incentive stock option plan whereby options to purchase shares of our common stock may be issued to key employees at an exercise price not less than the fair market value of the Company's common stock on the date of grant. The term, not to exceed ten years, and exercise period of each incentive stock option awarded under the plan are determined by a committee appointed by our Board of Directors.

Information related to stock option activity during the fiscal year ended August 31, 2009 is presented below:

| | Number of Stock Options | Weighted Avg. Exercise Price Per Share | Weighted Avg. Remaining Contra-ctual Life (Years) | Aggregate Intrinsic Value (thousands) |
|---|---|---|---|---|
| Outstanding at August 31, 2008 | 2,027,800 | $12.82 | | |
| Granted | - | | | |
| Exercised | (1,000) | 6.56 | | |
| Forfeited | (264,800) | 9.18 | | |
| Outstanding at August 31, 2009 | 1,762,000 | $13.37 | 1.0 | $50 |
| Options vested and exercisable at August 31, 2009 | 1,762,000 | $13.37 | 1.0 | $50 |

Company policy generally allows terminated employees 90 days from the date of termination to exercise vested stock options. However, in connection with the sale of our CSBU (Note 3) during fiscal 2008, we granted extensions to former CSBU employees, who had vested stock options, which allow the stock options to be exercised up to the original expiration date. We determined that these extensions were modifications to the stock options under the guidance found in SFAS No. 123R. The incremental compensation expense resulting from the modification of these stock options was calculated through the use of a Black-Scholes valuation model and totaled approximately $31,000, which was expensed during the fourth quarter of fiscal 2008 since the modified stock options were fully vested prior to the modification date.

The Company did not grant any stock options during the fiscal years ended August 31, 2009, 2008 or 2007, and has no remaining unamortized service cost related to granted stock options.

The following additional information applies to our stock options outstanding at August 31, 2009:

The Company received proceeds totaling approximately $7,000; $21,000; and $0.1 million in fiscal years 2009, 2008, and 2007 from the exercise of common stock options. The intrinsic value of stock options exercised was $2,500; $0.1 million; and $0.3 million for the fiscal years ended August 31, 2009, 2008, and 2007, and the fair value of options that vested during fiscal 2008 and fiscal 2007 totaled $9,375 each year. All stock options were fully vested on August 31, 2008.

| Range of Exercise Prices | Number Outstanding at August 31, 2009 | Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Price | Options Exercisable at August 31, 2009 | Weighted Average Exercise Price |
|---|---|---|---|---|---|
| $2.78 – $2.78 | 18,000 | 0.3 | $2.78 | 18,000 | $2.78 |
| $6.56 – $8.19 | 142,000 | 0.9 | 7.55 | 142,000 | 7.55 |
| $14.00 – $14.00 | 1,602,000 | 1.0 | 14.00 | 1,602,000 | 14.00 |
| | 1,762,000 | | | 1,762,000 | |

## 15. Acquisition Of Coveylink

Effective December 31, 2008, we acquired the assets of CoveyLink Worldwide, LLC (CoveyLink). CoveyLink conducts seminars and training courses and provides consulting based upon the book *The Speed of Trust* by Stephen M.R. Covey, who is the son of our Vice Chairman of the Board of Directors.

Based primarily upon the guidance found in EITF Issue 98-3, *Determining Whether a Nonmonetary Transaction Involves Receipt of Production Assets or of a Business*, we determined that the CoveyLink operation constituted a business, and we accounted for the acquisition of CoveyLink using the guidance found in SFAS No. 141, *Business Combinations*. The purchase price was $1.0 million in cash plus or minus an adjustment for specified working capital and the costs necessary to complete the transaction, which resulted in a total initial purchase price of $1.2 million. The previous owners of CoveyLink, which includes Stephen M.R. Covey, are also entitled to earn annual contingent payments based upon earnings growth over the next five years. Based upon the preliminary purchase price allocation and evaluation of the assets acquired and liabilities assumed, we recorded a $0.4 million increase in our intangible assets, for the fair value of customer relationships and the practice leader agreement, and $0.5 million of goodwill (Note 5). The entire amount of the acquired goodwill is expected to be deductible for income tax purposes. We also acquired $0.6 million of net accounts receivable, $0.2 million of other assets, and $0.5 million of accounts payable and current accrued liabilities on the acquisition date.

The accompanying consolidated financial statements include the financial results of CoveyLink from January 1, 2009 through August 31, 2009. However, the CoveyLink results of operations had an immaterial impact on our consolidated financial statements.

Prior to the acquisition date, CoveyLink had granted a non-exclusive license to the Company related to *The Speed of Trust* book and related training courses for which we paid CoveyLink specified royalties. As part of the CoveyLink acquisition, an amended and restated license of intellectual property was signed that granted us an exclusive, perpetual, worldwide, transferable, royalty-bearing license to use, reproduce, display, distribute, sell, prepare derivative works of, and perform the licensed material in any format or medium and through any market or distribution channel.

## 16. Sale Of Operations In Brazil And Mexico

During the fourth quarter of fiscal 2007 we completed the sales of our wholly-owned subsidiary located in Brazil and the training operations of our wholly-owned subsidiary in Mexico. These operations were sold to third-party entities that will continue to conduct business in Brazil and Mexico as licensees and will be required to pay the Company royalties consistent with other foreign licensees. Since we will continue to participate in the cash flows of these subsidiaries through royalty payments, which are based primarily upon the sales recorded by the licensees, and we expect to have significant continuing involvement in the operations of the licensees, we determined that the financial results of these subsidiaries should not be reported as discontinued operations in our consolidated statements of operations. The financial results of these subsidiaries were previously reported in the international segment of the Organizational Solutions Business Unit.

The sales of the Brazil and Mexico subsidiaries were structured such that the net assets of the subsidiaries were sold at their carrying values plus reimbursement of severance costs paid in Mexico. The carrying amounts of the assets and liabilities of our Brazil subsidiary and training operations of Mexico, which were sold during the quarter ended August 31, 2007 were as follows (in thousands):

| Description | Brazil | Mexico | Total |
|---|---|---|---|
| Cash | $ 95 | $ - | $ 95 |
| Accounts receivable, net | 374 | 210 | 584 |
| Inventories | 155 | 134 | 289 |
| Other current assets | 220 | 28 | 248 |
| Property and equipment, net | 365 | 43 | 408 |
| Other assets | 51 | 375 | 426 |
| Total assets sold | $ 1,260 | $ 790 | $ 2,050 |
| Accounts payable | $ 127 | $ - | $ 127 |
| Accrued liabilities | 260 | - | 260 |
| Total liabilities sold | $ 387 | $ - | $ 387 |

Certain assets and liabilities that were previously held for sale in Mexico were retained by the Company and were reclassified as assets to be held and used at August 31, 2007. We received promissory notes for the sales prices totaling $1.5 million, of which $1.2 million was due during fiscal 2008. Due to the disposition of

these subsidiaries, we recorded a $0.1 million benefit from the cumulative translation adjustment related to assets and liabilities sold, which was offset by expenses necessary to complete the transaction. The net costs to complete the sales transactions resulted in an immaterial loss that was included in consolidated selling, general and administrative expenses for the year ended August 31, 2007.

## 17. Employee Benefit Plans

**Profit Sharing Plans**

We have defined contribution profit sharing plans for our employees that qualify under Section 401(k) of the Internal Revenue Code. These plans provide retirement benefits for employees meeting minimum age and service requirements. Qualified participants may contribute up to 75 percent of their gross wages, subject to certain limitations. These plans also provide for matching contributions to the participants that are paid by the Company. The matching contributions, which were expensed as incurred, totaled $0.9 million, $1.5 million, and $1.5 million during the fiscal 2009, fiscal 2008, and fiscal 2007. The Company does not sponsor or participate in any defined benefit pension plans.

**Employee Stock Purchase Plan**

The Company has an employee stock purchase plan (ESPP) that offers qualified employees the opportunity to purchase shares of our common stock at a price equal to 85 percent of the average fair market value of our common stock on the last trading day of each quarter. A total of 55,448; 68,702; and 55,513 shares were issued to ESPP participants during the fiscal years ended August 31, 2009, 2008, and 2007, which had a corresponding cost basis of $0.7 million, $0.9 million, and $0.5 million, respectively. The Company received cash proceeds from the ESPP participants totaling $0.3 million, $0.4 million, and $0.3 million for fiscal years 2009, 2008, and 2007.

**Deferred Compensation Plan**

We have a non-qualified deferred compensation (NQDC) plan that provided certain key officers and employees the ability to defer a portion of their compensation until a later date. Deferred compensation amounts used to pay benefits were held in a "rabbi trust," which invested in insurance contracts, various mutual funds, and shares of the Company's common stock as directed by the plan participants. However, due to legal changes resulting from the American Jobs Creation Act of 2004, the Company determined to cease compensation deferrals to the NQDC plan after December 31, 2004. Following the cessation of deferrals to the NQDC plan, the number of participants remaining in the plan has steadily declined, and during the fourth quarter of fiscal 2009 our Board of Directors decided to partially terminate the NQDC plan.

Due to the partial termination of the plan, all of the NQDC trust assets were liquidated prior to August 31, 2009, except for shares of our common stock that are held for future distribution to plan participants. Subsequent to August 31, 2009, the liquidated assets were distributed to plan participants, and the NQDC plan liability was paid in full. The NQDC plan's assets were liquidated for $0.3 million, which was received in cash prior to August 31, 2009, and the fair value of NQDC plan assets at August 31, 2008 was $0.5 million. The NQDC plan's liabilities totaled $0.5 million and $0.7 million at August 31, 2009 and 2008. At August 31, 2009, the cost basis of the shares of our common stock held by the rabbi trust was $0.5 million.

We expensed charges totaling $0.1 million during each of the fiscal years ended August 31, 2009, 2008, and 2007 related to insurance premiums and external administration costs for our deferred compensation plan.

## 18. Income Taxes

The benefit (provision) for income taxes consisted of the following (in thousands):

| YEAR ENDED AUGUST 31, | 2009 | 2008 | 2007 |
|---|---|---|---|
| Current: | | | |
| Federal | $ 33 | $ (39) | $ (350) |
| State | 35 | (248) | (135) |
| Foreign | (1,812) | (2,906) | (2,109) |
| | (1,744) | (3,193) | (2,594) |
| Deferred: | | | |
| Federal | 4,846 | (4,276) | (4,880) |
| State | 279 | (205) | (433) |
| Foreign | (68) | 12 | 49 |
| Change in valuation allowance | 316 | 116 | 31 |
| | 5,373 | (4,353) | (5,233) |
| | $ 3,629 | $ (7,546) | $ (7,827) |

Income from operations before income taxes consisted of the following (in thousands):

| YEAR ENDED AUGUST 31, | 2009 | 2008 | 2007 |
|---|---|---|---|
| United States | $ (14,390) | $ 8,857 | $ 11,914 |
| Foreign | (71) | 4,216 | 3,378 |
| | $ (14,461) | $ 13,073 | $ 15,292 |

The differences between income taxes at the statutory federal income tax rate and income taxes reported in our consolidated statements of operations were as follows:

| YEAR ENDED AUGUST 31, | 2009 | 2008 | 2007 |
|---|---|---|---|
| Federal statutory income tax rate | 35.0% | 35.0% | 35.0% |
| State income taxes, net of federal effect | 2.2 | 3.5 | 3.7 |
| Foreign jurisdictions tax differential | (1.6) | 2.7 | 1.2 |
| Tax differential on income subject to both U.S. and foreign taxes | (7.3) | 8.5 | 4.3 |
| Uncertain tax positions | - | (1.6) | (0.9) |
| Tax on management stock loan interest | (2.7) | 5.3 | 5.2 |
| Non-deductible executive compensation | (0.6) | 2.2 | - |
| Other | 0.1 | 2.1 | 2.7 |
| | 25.1% | 57.7% | 51.2% |

We paid significant amounts of withholding tax on foreign royalties during fiscal years 2009, 2008, and 2007. However, no domestic foreign tax credits were available to offset the foreign withholding taxes during those years.

The Company accrues taxable interest income on outstanding management common stock loans (Note 12). Consistent with the accounting treatment for these loans, the Company is not recognizing interest income for book purposes, thus resulting in a permanent book versus tax difference.

The significant components of our deferred tax assets and liabilities were comprised of the following (in thousands):

| YEAR ENDED AUGUST 31, | 2009 | 2008 |
|---|---|---|
| *Deferred income tax assets:* | | |
| Net operating loss carryforward | $ 12,094 | $ 7,815 |
| Sale and financing of corporate headquarters | 11,729 | 11,912 |
| Investment in Franklin Covey Products | 2,934 | 2,986 |
| Foreign income tax credit carryforward | 2,159 | 2,159 |
| Impairment of Franklin Covey Products note receivable | 1,395 | - |
| Impairment of investment in Franklin Covey Coaching, LLC | 1,151 | 1,701 |
| Alternative minimum tax carryforward | 847 | 881 |
| Bonus and other accruals | 725 | 1,135 |
| Inventory and bad debt reserves | 607 | 832 |
| Sales returns and contingencies | 454 | 414 |
| Deferred compensation | 334 | 503 |
| Other | 553 | 559 |
| Total deferred income tax assets | 34,982 | 30,897 |
| Less: valuation allowance | (2,159) | (2,475) |
| Net deferred income tax assets | 32,823 | 28,422 |
| *Deferred income tax liabilities:* | | |
| Intangibles step-ups – definite lived | (10,867) | (11,863) |
| Intangibles step-ups – indefinite lived | (8,658) | (8,647) |
| Property and equipment depreciation | (6,728) | (7,294) |
| Intangible asset impairment and amortization | (2,803) | (2,018) |
| Unremitted earnings of foreign subsidiaries | (181) | (586) |
| Other | (104) | (85) |
| Total deferred income tax liabilities | (29,341) | (30,493) |
| Net deferred income taxes | $ 3,482 | $ (2,071) |

Deferred income tax amounts are recorded as follows in our consolidated balance sheets (in thousands):

| YEAR ENDED AUGUST 31, | 2009 | 2008 |
|---|---|---|
| Current assets | $ 2,551 | $ 2,472 |
| Long-term assets | 931 | 29 |
| Long-term liabilities | - | (4,572) |
| Net deferred income tax asset (liability) | $ 3,482 | $ (2,071) |

A federal net operating loss of $33.3 million was generated in fiscal 2003. During fiscal years 2005 through 2008, a total of $29.6 million of the fiscal 2003 loss carryforward was utilized, leaving a remaining loss carryforward from fiscal 2003 of $3.7 million, which expires on August 31, 2023. The federal net operating loss carryforward generated in fiscal 2004 totaled $21.2 million and expires on August 31, 2024. In fiscal 2009, a federal net operating loss of $9.8 million was generated, which expires on August 31, 2029. The total loss carryforward includes $1.3 million of deductions applicable to additional paid-in capital that will be credited once all loss carryforward amounts are utilized.

The state net operating loss carryforward of $33.3 million generated in fiscal 2003 was reduced by the utilization of $29.6 million during fiscal years 2005 through 2008 for a net carryforward amount of $3.7 million, which primarily expires between August 31, 2009 and August 31, 2018. The state net operating loss carryforward of $21.2 million generated in fiscal 2004 primarily expires between August 31, 2009 and August 31, 2019. The state net operating loss carryforward of $9.8 million generated in fiscal 2009 expires primarily between August 31, 2012 and August 31, 2024.

Our net operating loss carryforwards are effectively no longer limited by Section 382 of the Internal Revenue Code, since the amount of loss allowable in any future year under Section 382 exceeds our actual loss carryforward amount.

Our foreign income tax credit carryforward of $2.2 million that was generated during fiscal 2002 expires on August 31, 2012.

**Valuation Allowance on Deferred Tax Assets**

Although fiscal 2009 produced a domestic pre-tax book loss, we have determined that projected future taxable income is adequate to allow for realization of all domestic deferred tax assets, except for those related to foreign tax credits. We considered sources of taxable income, including future reversals of taxable temporary differences, future taxable income exclusive of reversing temporary differences and carryforwards, and reasonable, practical tax-planning strategies to generate additional taxable income. Based on the factors described above, we concluded that realization of our domestic deferred tax assets, except for foreign tax credit carryforwards, is more likely than not at August 31, 2009.

To realize the benefit of our deferred income tax assets, we must generate total taxable income of approximately $100 million over the next 4 years. Taxable income of approximately $59 million results from the reversal of temporary taxable differences. The remaining taxable income of approximately $41 million must be generated by the operations of the Company. The table below presents the pre-tax book income, significant book versus tax differences, and taxable income for the years ended August 31, 2009, 2008, and 2007 (in thousands).

| YEAR ENDED AUGUST 31, | 2009 | 2008 | 2007 |
|---|---|---|---|
| Domestic pre-tax book income | $ (14,390) | $ 8,857 | $ 11,914 |
| Deferred taxable loss on sale of assets to Franklin Covey Products | - | 4,431 | - |
| Deferred gain for book purposes on sale of assets to Franklin Covey Products | - | 2,755 | - |
| Impairment of note receivable from Franklin Covey Products | 3,706 | - | - |
| Interest on management common stock loans | 1,133 | 1,968 | 2,243 |
| Property and equipment depreciation and dispositions | 1,480 | (10,420) | 1,170 |
| Amortization/write-off of intangible assets | (1,010) | (2,039) | (2,814) |
| Changes in accrued liabilities | (806) | (2,588) | (1,217) |
| Share-based compensation | 187 | (1,144) | 933 |
| Deduction for foreign income taxes | (1,410) | (1,260) | (951) |
| Actual and deemed foreign dividends | 930 | 604 | 439 |
| Other book versus tax differences | 341 | 156 | 44 |
| | $ (9,839) | $ 1,320 | $ 11,761 |

**Adoption of FIN 48**

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109* (FASC 740-10-05). This interpretation addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. We may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. Interpretation No. 48 also provides guidance on de-recognition, classification, interest and penalties on income taxes, accounting for income taxes in interim periods, and requires increased disclosure of various income tax items.

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows (in thousands):

| YEAR ENDED AUGUST 31, | 2009 | 2008 |
|---|---|---|
| Beginning balance | $ 4,232 | $ 4,349 |
| Additions based on tax positions related to the current year | 434 | 267 |
| Additions for tax positions in prior years | 51 | 31 |
| Reductions for tax positions of prior years resulting from the lapse of applicable statute of limitations | (271) | (292) |
| Other reductions for tax positions of prior years | (221) | (123) |
| Ending balance | $ 4,225 | $ 4,232 |

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is $3.0 million. Included in the ending balance of gross unrecognized tax benefits is $3.1 million related to individual states' net operating loss carryforwards. Interest and penalties related to uncertain tax positions are recognized as components of income tax expense. The net accruals and reversals of interest and penalties increased income tax expense by an insignificant amount in fiscal 2009 and reduced income tax expense by a total of $0.1 million during fiscal 2008. The balance of interest and penalties included on our consolidated balance sheet at August 31, 2009 and 2008 is $0.2 million and $0.1 million, respectively. As a result of the lapse of applicable statutes of limitations, during the next 12 months we expect a decrease of approximately $0.5 million in unrecognized tax benefits primarily related to international transactions.

We file United States federal income tax returns as well as income tax returns in various states and foreign jurisdictions. The tax years that remain subject to examinations for the Company's major tax jurisdictions are shown below. Additionally, any net operating losses that were generated in prior years and utilized in these years may be subject to examination.

| | |
|---|---|
| 2002-2009 | Canada |
| 2004-2009 | Japan, United Kingdom |
| 2005-2009 | United States – state and local income tax |
| 2006-2009 | United States – federal income tax |

## 19. Earnings Per Share

Basic earnings per common share (EPS) is calculated by dividing net income (loss) available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS is calculated by dividing net income (loss) available to common shareholders by the weighted-average number of common shares outstanding plus the assumed exercise of all dilutive securities using the treasury stock method or the "as converted" method, as appropriate. Due to modifications to our management stock loan program (Note 12), we determined that the shares of management stock loan participants that were placed in the escrow account are participating securities as defined by EITF Issue No. 03-6, *Participating Securities and the Two-Class Method under FASB Statement No. 128* (FASC 260-10-45), because they continue to have equivalent common stock dividend rights. Accordingly, these management stock loan shares are included in our basic EPS calculation during periods of net income and excluded from the basic EPS calculation in periods of net loss.

During fiscal 2009, we adopted the provisions of FASB Staff Position EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities* (FSP EITF 03-6-1) (FASC 260-10-45). This pronouncement requires unvested share-based compensation instruments that have participation rights in dividends or undistributed

earnings to be considered participating securities for purposes of determining EPS. Our unvested share awards granted to members of our board of directors (and employees in previous periods) have participation rights as described in FSP EITF 03-6-1 on the same basis as outstanding shares of common stock and were determined to be participating securities. However, these unvested shares are not obligated to participate in undistributed losses and are thus excluded from the EPS calculation in periods of net loss. The provisions of FSP EITF 03-6-1 require all prior period EPS data to be adjusted retrospectively. However, due to the relatively small number of unvested share-based compensation instruments outstanding during periods of net income presented below, the adoption of FSP EITF 03-6-1 did not change our reported EPS, and we have elected to present the EPS calculation consistent with prior periods. The Company anticipates that the provisions of FSP EITF 03-6-1 will continue to be immaterial in future periods based on expected grants of unvested share awards.

The following table presents the computation of our EPS for the periods indicated (in thousands, except per share amounts):

| YEAR ENDED AUGUST 31, | 2009 | 2008 | 2007 |
|---|---|---|---|
| Net income (loss) | $(10,832) | $ 5,527 | $ 7,465 |
| Preferred stock dividends | - | - | (2,215) |
| Net income (loss) available to common shareholders | $(10,832) | $ 5,527 | $ 5,250 |
| Weighted average common shares outstanding – Basic | 13,406 | 19,577 | 19,593 |
| Effect of dilutive securities[1]: | | | |
| Stock options | - | 10 | 29 |
| Unvested stock awards | - | 213 | 266 |
| Common stock warrants[2] | - | 122 | - |
| Weighted average common shares outstanding – Diluted | 13,406 | 19,922 | 19,888 |
| Basic EPS | $ (.81) | $ .28 | $ .27 |
| Diluted EPS | $ (.81) | $ .28 | $ .26 |

(1)Since the Company recognized net income for the fiscal years ended August 31, 2008 and 2007, basic weighted average shares for those periods include 3.5 million shares of common stock held by management stock loan participants that were placed in escrow. These shares were excluded from basic weighted-average shares for the fiscal year ended August 31, 2009.

(2)For the fiscal years ended August 31, 2009 and 2007, the conversion of 6.2 million common stock warrants is not assumed because such conversion would be anti-dilutive.

At August 31, 2009, 2008, and 2007, we had 1.7 million, 1.8 million, and 1.9 million stock options outstanding (Note 14) that were not included in the calculation of diluted weighted average shares outstanding for those periods because the options' exercise prices were greater than the average market price of our common stock. We also have 6.2 million common stock warrants outstanding that have an exercise price of $8.00 per share (Note 11). These warrants, which expire in March 2013, and the out-of-the-money stock options described above will have a more pronounced dilutive impact on our EPS calculation in future periods if the market price of our common stock increases.

## 20. Segment Information

### Reportable Segments

Prior to the sale of the CSBU (Note 3), the Company had two operating segments: the Organizational Solutions Business Unit (OSBU) and the CSBU. Following the sale, our operations constitute one reportable segment. However, to improve comparability, the amounts presented in the table below reflect fiscal 2009 and fiscal 2008 operating results based upon the previously defined segments and include the impact of the sale of the CSBU, which closed during the fourth quarter of fiscal 2008. The following is a description of these segments, their primary operating components, and their significant business activities:

***Organizational Solutions Business Unit*** – The OSBU is primarily responsible for the development, marketing, sale, and delivery of strategic execution, productivity, leadership, sales force performance, and communication training and consulting solutions directly to organizational clients, including other companies, the government, and educational institutions. The OSBU includes the financial results of our domestic sales force, public programs, and certain international operations. The domestic sales force is responsible for the sale and delivery of our training and consulting services in the United States and Canada. Our international sales group includes the financial results of our directly owned foreign offices and royalty revenues from licensees.

***Consumer Solutions Business Unit*** – This business unit was primarily focused on sales to individual customers and small business organizations and included the results of our domestic retail stores, consumer direct operations (primarily Internet sales and call center), wholesale operations, international product channels in certain countries, and other related distribution channels, including government product sales and domestic printing and publishing sales. The CSBU results of operations also included the financial results of our paper planner manufacturing operations. Although CSBU sales primarily consisted of products such as planners, binders, software, totes, and related accessories, virtually any component of our leadership, productivity, and strategy execution solutions may have been purchased through the CSBU channels.

The Company's chief operating decision maker is the Chief Executive Officer (CEO), and the primary measurement tool used in business unit performance analysis is earnings before interest, taxes, depreciation, and amortization (EBITDA), which may not be calculated as similarly titled amounts calculated by other companies. For segment reporting purposes, our consolidated EBITDA can be calculated as income or loss from operations excluding depreciation, amortization, the gain from the sale of CSBU in fiscal 2008, and the gain from the sale of a manufacturing facility in fiscal 2007.

The fiscal 2009 restructuring charge totaled $2.0 million, of which $1.9 million was allocated to the domestic division and $0.1 million was allocated to the international division. The fiscal 2009 asset impairment charge of $3.6 million was expensed through our corporate operations. The fiscal 2008 restructuring charge, which totaled $2.1 million, was allocated $1.1 million to domestic and $1.0 million to international. The $1.5 million asset impairment was attributed to domestic financial results in the following segment information.

In the normal course of business, we may make structural and cost allocation revisions to our segment information to reflect new reporting responsibilities within the organization. During fiscal 2009, we closed our directly owned Canadian office and assigned our Canadian sales and support personnel to various domestic sales regions. Accordingly, the results of our Canadian operations are now included in the domestic component of the OSBU segment. We also made other less significant organizational changes during fiscal 2009. All prior period segment information has been revised to conform to the most recent classifications and organizational changes, and we account for our segment information on the same basis as the accompanying consolidated financial statements.

# Segment Information

*(in thousands)*

| *Fiscal Year Ended August 31, 2009* | Sales to External Customers | Gross Profit | EBITDA | Depreciation | Amortization | Segment Assets | Capital Expenditures |
|---|---|---|---|---|---|---|---|
| **Organizational Solutions Business Unit:** | | | | | | | |
| Domestic | $ 83,193 | $ 48,808 | $ (5,212) | $ 2,304 | $ 3,748 | $ 75,743 | $ 3,397 |
| International | 43,369 | 29,883 | 11,441 | 377 | 13 | 13,766 | 343 |
| Total OSBU | 126,562 | 78,691 | 6,229 | 2,681 | 3,761 | 89,509 | 3,740 |
| **Consumer Solutions Business Unit:** | | | | | | | |
| Retail | - | - | - | - | - | - | - |
| Consumer direct | - | - | - | - | - | - | - |
| Wholesale | - | - | - | - | - | - | - |
| CSBU International | - | - | - | - | - | - | - |
| Other CSBU | - | - | - | - | - | - | - |
| Total CSBU | - | - | - | - | - | - | - |
| Total operating segments | 126,562 | 78,691 | 6,229 | 2,681 | 3,761 | 89,509 | 3,740 |
| Corporate and eliminations | 3,556 | 1,722 | (9,375) | 1,851 | - | 54,369 | 94 |
| Consolidated | $ 130,118 | $ 80,413 | $ (3,146) | $ 4,532 | $ 3,761 | $ 143,878 | $ 3,834 |
| *Fiscal Year Ended August 31, 2008* | | | | | | | |
| **Organizational Solutions Business Unit:** | | | | | | | |
| Domestic | $ 99,308 | $ 62,237 | $ 374 | $ 1,407 | $ 3,596 | $ 85,016 | $ 4,796 |
| International | 50,179 | 36,201 | 15,368 | 778 | 7 | 16,190 | 521 |
| Total OSBU | 149,487 | 98,438 | 15,742 | 2,185 | 3,603 | 101,206 | 5,317 |
| **Consumer Solutions Business Unit:** | | | | | | | |
| Retail | 42,167 | 25,474 | 2,849 | 697 | - | - | 263 |
| Consumer direct | 38,662 | 22,657 | 14,667 | 233 | - | - | 110 |
| Wholesale | 16,970 | 9,266 | 8,788 | - | - | - | - |
| CSBU International | 7,259 | 3,802 | 1,244 | 40 | - | - | - |
| Other CSBU | 2,177 | 310 | (19,341) | 391 | - | - | 912 |
| Total CSBU | 107,235 | 61,509 | 8,207 | 1,361 | - | - | 1,285 |
| Total operating segments | 256,722 | 159,947 | 23,949 | 3,546 | 3,603 | 101,206 | 6,602 |
| Corporate and eliminations | 2,471 | 1,081 | (7,786) | 2,146 | - | 76,471 | 401 |
| Consolidated | $ 259,193 | $ 161,028 | $ 16,163 | $ 5,692 | $ 3,603 | $ 177,677 | $ 7,003 |
| *Fiscal Year Ended August 31, 2007* | | | | | | | |
| **Organizational Solutions Business Unit:** | | | | | | | |
| Domestic | $ 99,248 | $ 64,238 | $ 10,477 | $ 893 | $ 3,599 | $ 85,949 | $ 6,193 |
| International | 51,734 | 35,292 | 12,135 | 690 | 8 | 17,715 | 628 |
| Total OSBU | 150,982 | 99,530 | 22,612 | 1,583 | 3,607 | 103,664 | 6,821 |
| **Consumer Solutions Business Unit:** | | | | | | | |
| Retail | 54,316 | 31,932 | 4,666 | 735 | - | 8,607 | 1,761 |
| Consumer direct | 48,018 | 27,829 | 18,509 | 222 | - | 620 | 358 |
| Wholesale | 17,991 | 10,087 | 9,475 | - | - | - | - |
| CSBU International | 7,342 | 4,373 | 894 | - | - | - | - |
| Other CSBU | 3,336 | 221 | (22,561) | 1,187 | - | 9,052 | 5,503 |
| Total CSBU | 131,003 | 74,442 | 10,983 | 2,144 | - | 18,279 | 7,622 |
| Total operating segments | 281,985 | 173,972 | 33,595 | 3,727 | 3,607 | 121,943 | 14,443 |
| Corporate and eliminations | 2,140 | 733 | (8,110) | 1,667 | - | 74,238 | 678 |
| Consolidated | $ 284,125 | $ 174,705 | $ 25,485 | $ 5,394 | $ 3,607 | $ 196,181 | $ 15,121 |

Capital expenditures in the OSBU domestic segment include $1.8 million, $4.0 million, and $5.1 million of spending on capitalized curriculum during the fiscal years ended August 31, 2009, 2008 and 2007, respectively.

A reconciliation of reportable segment EBITDA to consolidated income (loss) before taxes is provided below (in thousands):

| YEAR ENDED AUGUST 31, | 2009 | 2008 | 2007 |
|---|---|---|---|
| Reportable segment EBITDA | $ 6,229 | $ 23,949 | $ 33,595 |
| Corporate expenses | (9,375) | (7,786) | (8,110) |
| Consolidated EBITDA | (3,146) | 16,163 | 25,485 |
| Gain on sale of CSBU assets | - | 9,131 | - |
| Gain on sale of manufacturing facility | - | - | 1,227 |
| Depreciation | (4,532) | (5,692) | (5,394) |
| Amortization | (3,761) | (3,603) | (3,607) |
| Consolidated income (loss) from operations | (11,439) | 15,999 | 17,711 |
| Interest income | 27 | 157 | 717 |
| Interest expense | (3,049) | (3,083) | (3,136) |
| Income (loss) before income taxes | $ (14,461) | $ 13,073 | $ 15,292 |

Interest expense and interest income are primarily generated at the corporate level and are not allocated to the segments. Income taxes are likewise calculated and paid on a corporate level (except for entities that operate in foreign jurisdictions) and are not allocated to segments for analysis.

Corporate assets, such as cash, accounts receivable, and other assets are not generally allocated to business segments for business analysis purposes. However, inventories, intangible assets, goodwill, identifiable fixed assets, and certain other assets are classified by segment. A reconciliation of segment assets to consolidated assets is as follows (in thousands):

| AUGUST 31, | 2009 | 2008 | 2007 |
|---|---|---|---|
| Reportable segment assets | $ 89,509 | $101,206 | $121,943 |
| Corporate assets | 54,513 | 78,010 | 76,047 |
| Intercompany accounts receivable | (144) | (1,539) | (1,809) |
| | $143,878 | $177,677 | $196,181 |

**Enterprise-Wide Information**

Our revenues are derived primarily from the United States. However, we also operate wholly-owned offices or contract with licensees to provide products and services in various countries throughout the world. Our consolidated revenues were derived from the following countries (in thousands):

| YEAR ENDED AUGUST 31, | 2009 | 2008 | 2007 |
|---|---|---|---|
| *Net sales:* | | | |
| United States | $ 82,437 | $ 197,181 | $ 219,152 |
| Japan | 23,939 | 25,611 | 24,166 |
| Canada | 6,555 | 10,389 | 8,400 |
| United Kingdom | 5,235 | 10,174 | 9,843 |
| Australia | 3,314 | 4,313 | 4,016 |
| Singapore | 1,652 | 1,443 | 1,306 |
| Brazil/South America | 1,039 | 1,283 | 4,314 |
| Korea | 917 | 1,234 | 1,377 |
| Indonesia/Malaysia | 706 | 794 | 710 |
| Mexico | 138 | 1,905 | 4,362 |
| Others | 4,186 | 4,866 | 6,479 |
| | $ 130,118 | $ 259,193 | $ 284,125 |

At August 31, 2009, we had wholly-owned offices in Australia, Japan, and the United Kingdom. Our long-lived assets were held in the following locations for the periods indicated (in thousands):

| AUGUST 31, | 2009 | 2008 | 2007 |
|---|---|---|---|
| *Long-lived assets:* | | | |
| United States | $ 101,335 | $ 106,878 | $ 121,279 |
| Americas | - | 2,230 | 2,433 |
| Japan | 1,835 | 1,509 | 1,453 |
| United Kingdom | 410 | 258 | 976 |
| Australia | 156 | 141 | 387 |
| | $ 103,736 | $ 111,016 | $ 126,528 |

Inter-segment sales were immaterial and are eliminated in consolidation.

## 21. Related Party Transactions

The Company pays the Vice-Chairman and a former Vice-Chairman of the Board of Directors a percentage

of the proceeds received for seminars that they present. During the fiscal years ended August 31, 2009, 2008, and 2007, we expensed charges totaling $1.4 million, $2.9 million, and $2.0 million to the Vice-Chairman and former Vice Chairman for their seminar presentations. We also pay the Vice-Chairman and former Vice-Chairman a percentage of the royalty proceeds received from the sale of certain books that were authored by them. During fiscal 2009, 2008, and 2007, we expensed $0.2 million, $0.3 million, and $0.2 million for royalties to the Vice-Chairman and former Vice-Chairman under these agreements. At August 31, 2009 and 2008, we had accrued $0.8 million and $0.6 million payable to the Vice-Chairman and former Vice-Chairman under the forgoing agreements. These amounts were included as a component of accrued liabilities in our consolidated balance sheets.

We pay a son of the Vice-Chairman of the Board of Directors, who is also an employee of the Company, a percentage of the royalty proceeds received from the sales of certain books authored by the son of the Vice-Chairman. During the fiscal years ended August 31, 2009, 2008, and 2007, we expensed $0.1 million, $0.7 million, and $0.4 million to the son of the Vice-Chairman for these royalties and had $0.1 million accrued at August 31, 2009 and 2008 as payable under the terms of this arrangement. These amounts are included in accrued liabilities in our consolidated balance sheets.

During fiscal 2006, we signed a non-exclusive license agreement for certain intellectual property with a son of the Vice-Chairman of the Board of Directors, who was previously an officer of the Company and a member of our Board of Directors. We are required to pay the son of the Vice-Chairman royalties for the use of certain intellectual property developed by the son of Vice-Chairman. The amount expensed for these royalties due to the son of the Vice-Chairman totaled $0.5 million, $0.3 million, and $0.2 million during the fiscal years ended August 31, 2009, 2008, and 2007, respectively. During fiscal 2009, we acquired CoveyLink (Note 15), which was owned by this son of the Vice-Chairman, and signed an amended license agreement as well as a speaker services agreement. Based on the provisions of the speakers' services agreement, we pay the son of the Vice-Chairman a portion of the speaking revenues received for his presentations. During fiscal 2009, we expensed $0.8 million for payment from these presentations, which are based upon the concepts found in *The Speed of Trust*, which was authored by the son of the Vice-Chairman.

As part of a preferred stock offering to a private investor, an affiliate of the investor, who was then a director of the Company, was named as the Chairman of the Board of Directors and was later elected as CEO. This individual continues to serve as our Chairman of the Board and CEO at August 31, 2009. In addition, one of the affiliates of the private investor was named to our Board of Directors and continues to serve in that position. In connection with the preferred stock offering, we paid an affiliate of the investor $0.1 million during the fiscal year ended August 31, 2007 for monitoring fees, which were eventually eliminated by redemptions of outstanding Series A preferred stock.

## Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

## Item 9A. Controls and Procedures

### Evaluation of Disclosure Controls and Procedures

An evaluation was conducted under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act, as of the end of the period covered by this report.

Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

### Management's Report on Internal Control Over Financial Reporting

The management of Franklin Covey Co. is responsible for establishing and maintaining adequate internal control over financial reporting for the Company (including its consolidated subsidiaries) and all related information appearing in the Company's annual report on Form 10-K. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes those policies and procedures that:

1. pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
2. provide reasonable assurance that the transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with the authorization of management and/or of our Board of Directors; and
3. provide reasonable assurance regarding the prevention or timely detection of any unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness in future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting using the criteria set forth in *Internal Control—Integrated Framework* as issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based upon this evaluation, our management concluded that our internal control over financial reporting was effective as of the end of the period covered by this annual report on Form 10-K.

Our independent registered public accounting firm, KPMG LLP, has audited the consolidated financial statements included in this annual report on Form 10-K and, as part of their audit, has issued an audit report, included herein, on the effectiveness of our internal control over financial reporting. Their report is included in Item 8 of this Report on Form 10-K.

**Changes in Internal Control Over Financial Reporting**

As previously noted in the Company's Annual Report on Form 10-K/A filed with the Securities and Exchange Commission on January 29, 2009, and Quarterly Reports on Form 10-Q for the quarterly periods in fiscal 2009, we determined that material weaknesses existed at our Japan subsidiary that relate to: 1) the lack of controls to ensure the approval and appropriate accounting treatment of non-standard shipping terms on product sales and 2) the calculation of inventory reserves which was not designed in a manner to evaluate obsolescence at the individual product level. In order to address these material weaknesses, we have designed and implemented controls to require the approval of non-standard shipping terms on product sales and to require the approval of the inventory reserve calculation in Japan. We have also significantly strengthened management oversight of the accounting function in Japan through the use of our corporate accounting and finance group.

We have monitored the operating effectiveness of these controls during fiscal 2009 and have determined that these material weaknesses were remediated at August 31, 2009.

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) or 15d-15(f)), other than described above, during the fourth quarter ended August 31, 2009 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## Item 9B. Other Information

There was no information to be disclosed in a current Report on Form 8-K during fourth quarter of fiscal 2009 that was not previously reported.

# PART III

## Item 10. Directors, Executive Officers and Corporate Governance

Certain information required by this Item is incorporated by reference to the sections entitled "Nominees for Election to the Board of Directors," "Directors Whose Terms of Office Continue," "Executive Officers," "Section 16(a) Beneficial Ownership Compliance," "Corporate Governance," and "Board of Director Meetings and Committees" in our definitive Proxy Statement for the annual meeting of shareholders, which is scheduled to be held on January 29, 2010. The definitive Proxy Statement will be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended.

The Board of Directors has determined that one of the Audit Committee members, Robert Daines, is a "financial expert" as defined in Regulation S-K 407(d)(5) adopted under the Securities Exchange Act of 1934, as amended. Our Board of Directors has determined that Mr. Daines is an "independent director" as defined by the New York Stock Exchange (NYSE).

We have adopted a code of ethics for our senior financial officers that include the Chief Executive Officer, the Chief Financial Officer, and other members of the Company's financial leadership team. This code of ethics is available on our website at www.franklincovey.com. We intend to satisfy the disclosure requirement regarding any amendment to, or a waiver of, any provision of the Company's code of ethics through filing a current report on Form 8-K for such events if they occur.

## Item 11. Executive Compensation

The information required by this Item is incorporated by reference to the sections entitled "Compensation Discussion and Analysis," "Compensation Committee Interlocks and Insider Participation," and "Compensation Committee Report" in the Company's definitive Proxy Statement for the annual meeting of shareholders, which is scheduled to be held on January 29, 2010.

## Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The remaining information required by this Item is incorporated by reference to the section entitled "Principal Holders of Voting Securities" in the Company's definitive Proxy Statement for the annual meeting of shareholders, which is scheduled to be held on January 29, 2010.

## Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is incorporated by reference to the section entitled "Certain Relationships and Related Transactions" and "Corporate Governance" in the Company's definitive Proxy Statement for the annual meeting of shareholders, which is scheduled to be held on January 29, 2010.

## Item 14. Principal Accountant Fees and Services

The information required by this Item is incorporated by reference to the section entitled "Principal Accountant Fees" in the Company's definitive Proxy Statement for the annual meeting of shareholders, which is scheduled to be held on January 29, 2010.

| | [a] | [b] | [c] |
|---|---|---|---|
| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants, and rights | Weighted-average exercise price of outstanding options, warrants, and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column [a]) |
| | *(in thousands)* | | *(in thousands)* |
| Equity compensation plans approved by security holders(1)(2) | 1,762 | $13.37 | 2,209 |

(1) Excludes 133,612 shares of unvested (restricted) stock awards that are subject to forfeiture.

(2) As of August 31, 2009, all previously awarded long-term incentive plan (LTIP) awards were either expired or cancelled, and these awards have no impact upon the amounts disclosed.

# PART IV

## Item 15. Exhibits and Financial Statement Schedules

(a) List of documents filed as part of this report:

1. *Financial Statements.* The consolidated financial statements of the Company and Report of Independent Registered Public Accounting Firm thereon included in the Annual Report to Shareholders on Form 10-K for the year ended August 31, 2009, are as follows:

   Report of Independent Registered Public Accounting Firm

   Consolidated Balance Sheets at August 31, 2009 and 2008

   Consolidated Statements of Operations and Statements of Comprehensive Income (Loss) for the years ended August 31, 2009, 2008, and 2007

   Consolidated Statements of Shareholders' Equity for the years ended August 31, 2009, 2008, and 2007

   Consolidated Statements of Cash Flows for the years ended August 31, 2009, 2008, and 2007

   Notes to Consolidated Financial Statements

2. *Financial Statement Schedules.*

   Schedule II – Valuation and Qualifying Accounts and Reserves (Filed as Exhibit 99.2 to this Report on Form 10-K).

   Other financial statement schedules are omitted because they are not required or applicable, or the required information is shown in the financial statements or notes thereto, or contained in this report.

3. *Exhibit List.*

| Exhibit No. | Exhibit | Incorporated By Reference | Filed Herewith |
|---|---|---|---|
| 2.1 | Master Asset Purchase Agreement between Franklin Covey Products, LLC and Franklin Covey Co. dated May 22, 2008 | (19) | |
| 2.2 | Amendment to Master Asset Purchase Agreement between Franklin Covey Products, LLC and Franklin Covey Co. dated May 22, 2008 | (20) | |
| 3.1 | Articles of Restatement dated March 4, 2005 amending and restating the Company's Articles of Incorporation | (8) | |
| 3.2 | Amendment to Amended and Restated Articles of Incorporation of Franklin Covey (Appendix C) | (12) | |
| 3.3 | Amended and Restated Bylaws of the Registrant | (1) | |
| 4.1 | Specimen Certificate of the Registrant's Common Stock, par value $.05 per share | (2) | |
| 4.2 | Stockholder Agreements, dated May 11, 1999 and June 2, 1999 | (5) | |
| 4.3 | Registration Rights Agreement, dated June 2, 1999 | (5) | |
| 4.4 | Restated Shareholders Agreement, dated as of March 8, 2005, between the Company and Knowledge Capital Investment Group | (8) | |
| 4.5 | Restated Registration Rights Agreement, dated as of March 8, 2005, between the Company and Knowledge Capital Investment Group | (8) | |

| | | |
|---|---|---|
| 10.1* | Amended and Restated 1992 Employee Stock Purchase Plan | (3) |
| 10.2* | Amended and Restated 2000 Employee Stock Purchase Plan | (6) |
| 10.3* | Amended and Restated 2004 Employee Stock Purchase Plan | (15) |
| 10.4* | Amended and Restated 1992 Stock Incentive Plan | (4) |
| 10.5* | First Amendment to Amended and Restated 1992 Stock Incentive Plan | (16) |
| 10.6* | Third Amendment to Amended and Restated 1992 Stock Incentive Plan | (17) |
| 10.7* | Fifth Amendment to the Franklin Covey Co. Amended and Restated 1992 Stock Incentive Plan (Appendix A) | (12) |
| 10.8* | Forms of Nonstatutory Stock Options | (1) |
| 10.9* | Amended and Restated Option Agreement, dated December 8, 2004, by and between the Company and Robert A. Whitman | (7) |
| 10.10 | Restated Monitoring Agreement, dated as of March 8, 2005, between the Company and Hampstead Interests, LP | (8) |
| 10.11 | Warrant, dated March 8, 2005, to purchase 5,913,402 shares of Common Stock issued by the Company to Knowledge Capital Investment Group | (8) |
| 10.12 | Form of Warrant to purchase shares of Common Stock to be issued by the Company to holders of Series A Preferred Stock other than Knowledge Capital Investment Group | (8) |
| 10.13* | Franklin Covey Co. 2004 Non-Employee Directors' Stock Incentive Plan | (9) |
| 10.14* | The first amendment to the Franklin Covey Co. 2004 Non-Employee Director Stock Incentive Plan, (Appendix B) | (12) |
| 10.15* | Form of Option Agreement for the 2004 Non-Employee Directors Stock Incentive Plan | (9) |
| 10.16* | Form of Restricted Stock Agreement for the 2004 Non-Employees Directors Stock Incentive Plan | (9) |
| 10.17 | Master Lease Agreement between Franklin SaltLake LLC (Landlord) and Franklin Development Corporation (Tenant) | (10) |
| 10.18 | Purchase and Sale Agreement and Escrow Instructions between Levy Affiliated Holdings, LLC (Buyer) and Franklin Development Corporation (Seller) and Amendments | (10) |
| 10.19 | Redemption Extension Voting Agreement between Franklin Covey Co. and Knowledge Capital Investment Group, dated October 20, 2005 | (11) |
| 10.20 | Agreement for Information Technology Services between each of Franklin Covey Co., Electronic Data Systems Corporation, and EDS Information Services LLC, dated April 1, 2001 | (13) |
| 10.21 | Additional Services Addendum No. 1 to Agreement for Information Technology Services between each of Franklin Covey Co., Electronic Data Systems Corporation, and EDS Information Services LLC, dated June 30, 2001 | (13) |
| 10.22 | Amendment No. 2 to Agreement for Information Technology Services between each of Franklin Covey Co., Electronic Data Systems Corporation, and EDS Information Services LLC, dated June 30, 2001 | (13) |
| 10.23 | Amendment No. 6 to the Agreement for Information Technology Services between each of Franklin Covey Co., Electronic Data Systems Corporation, and EDS Information Services L.L.C. dated April 1, 2006 | (14) |

| | | |
|---|---|---|
| 10.24 | Revolving Line of Credit Agreement ($18,000,000) by and between JPMorgan Chase Bank, N.A. and Franklin Covey Co. dated March 14, 2007 | (18) |
| 10.25 | Secured Promissory Note between JPMorgan Chase Bank, N.A. and Franklin Covey Co. dated March 14, 2007 | (18) |
| 10.26 | Security Agreement between Franklin Covey Co., Franklin Covey Printing, Inc., Franklin Development Corporation, Franklin Covey Travel, Inc., Franklin Covey Catalog Sales, Inc., Franklin Covey Client Sales, Inc., Franklin Covey Product Sales, Inc., Franklin Covey Services LLC, Franklin Covey Marketing, LTD., and JPMorgan Chase Bank, N.A. and Zions First National Bank, dated March 14, 2007 | (18) |
| 10.27 | Repayment Guaranty between Franklin Covey Co., Franklin Covey Printing, Inc., Franklin Development Corporation, Franklin Covey Travel, Inc., Franklin Covey Catalog Sales, Inc., Franklin Covey Client Sales, Inc., Franklin Covey Product Sales, Inc., Franklin Covey Services LLC, Franklin Covey Marketing, LTD., and JPMorgan Chase Bank N.A., dated March 14, 2007 | (18) |
| 10.28 | Pledge and Security Agreement between Franklin Covey Co. and JPMorgan Chase Bank, N.A. and Zions First National Bank, dated March 14, 2007 | (18) |
| 10.29 | Revolving Line of Credit Agreement ($7,000,000) by and between Zions First National Bank and Franklin Covey Co. dated March 14, 2007 | (18) |
| 10.30 | Secured Promissory Note between Zions First National Bank and Franklin Covey Co. dated March 14, 2007 | (18) |
| 10.31 | Repayment Guaranty between Franklin Covey Co., Franklin Covey Printing, Inc., Franklin Development Corporation, Franklin Covey Travel, Inc., Franklin Covey Catalog Sales, Inc., Franklin Covey Client Sales, Inc., Franklin Covey Product Sales, Inc., Franklin Covey Services LLC, Franklin Covey Marketing, LTD., and Zions First National Bank, dated March 14, 2007 | (18) |
| 10.32 | Master License Agreement between Franklin Covey Co. and Franklin Covey Products, LLC | (21) |
| 10.33 | Supply Agreement between Franklin Covey Products, LLC and Franklin Covey Product Sales, Inc. | (21) |
| 10.34 | Master Shared Services Agreement between The Franklin Covey Products Companies and the Shared Services Companies | (21) |
| 10.35 | Amended and Restated Operating Agreement of Franklin Covey Products, LLC | (21) |
| 10.36 | Sublease Agreement between Franklin Development Corporation and Franklin Covey Products, LLC | (21) |
| 10.37 | Sub-Sublease Agreement between Franklin Covey Co. and Franklin Covey Products, LLC | (21) |
| 10.38 | Loan Modification Agreement between Franklin Covey Co. and JPMorgan Chase Bank, N.A. dated July 8, 2008 | (21) |
| 10.39 | General Services Agreement between Franklin Covey Co. and Electronic Data Systems (EDS) dated October 27, 2008 | (22) |

| | | | |
|---|---|---|---|
| 10.40* | Second Amendment to the Franklin Covey Co. Non-Employee Directors Stock Incentive Plan | (23) | |
| 10.41 | Asset Purchase Agreement by and Among Covey/Link LLC, CoveyLink Worldwide LLC, Franklin Covey Co., and Franklin Covey Client Sales, Inc. dated December 31, 2008 | (24) | |
| 10.42 | Amended and Restated License of Intellectual Property by and Among Franklin Covey Co. and Covey/Link LLC, dated December 31, 2008 | (24) | |
| 10.43 | Loan Modification Agreement between Franklin Covey Co. and JPMorgan Chase Bank, N.A. dated November 11, 2009 | (25) | |
| 21 | Subsidiaries of the Registrant | | ★★ |
| 23 | Consent of Independent Registered Public Accounting Firm | | ★★ |
| 31.1 | Rule 13a-14(a) Certification of the Chief Executive Officer | | ★★ |
| 31.2 | Rule 13a-14(a) Certification of the Chief Financial Officer | | ★★ |
| 32 | Section 1350 Certifications | | ★★ |
| 99.1 | Report of KPMG LLP, Independent Registered Public Accounting Firm, on Consolidated Financial Statement Schedule for the years ended August 31, 2009, 2008, and 2007 | | ★★ |
| 99.2 | Financial Statement Schedule II – Valuation and Qualifying Accounts and Reserves. | | ★★ |

(1) Incorporated by reference to Registration Statement on Form S-1 filed with the Commission on April 17, 1992, Registration No. 33-47283.
(2) Incorporated by reference to Amendment No. 1 to Registration Statement on Form S-1 filed with the Commission on May 26, 1992, Registration No. 33-47283.
(3) Incorporated by reference to Report on Form 10-K filed November 27, 1992, for the year ended August 31, 1992.**
(4) Incorporated by reference to Registration Statement on Form S-1 filed with the Commission on January 3, 1994, Registration No. 33-73728.
(5) Incorporated by reference to Schedule 13D (CUSIP No. 534691090 as filed with the Commission on June 14, 1999). Registration No. 005-43123.
(6) Incorporated by reference to Report on Form S-8 filed with the Commission on May 31, 2000, Registration No. 333-38172.
(7) Incorporated by reference to Report on Form 8-K filed with the Commission on December 14, 2004.**
(8) Incorporated by reference to Report on Form 8-K filed with the Commission on March 10, 2005.**
(9) Incorporated by reference to Report on Form 8-K filed with the Commission on March 25, 2005.**
(10) Incorporated by reference to Report on Form 8-K filed with the Commission on June 27, 2005.**
(11) Incorporated by reference to Report on Form 8-K filed with the Commission on October 24, 2005.**
(12) Incorporated by reference to Definitive Proxy Statement on Form DEF 14A filed with the Commission on December 12, 2005.**
(13) Incorporated by reference to Report on Form 10-Q filed July 10, 2001, for the quarter ended May 26, 2001.**
(14) Incorporated by reference to Report on Form 8-K filed with the Commission on April 5, 2006.**
(15) Incorporated by reference to Definitive Proxy Statement on Form DEF 14A filed with the Commission on February 1, 2005.**
(16) Incorporated by reference to Definitive Proxy Statement on Form DEF 14A dated November 5, 1993.**
(17) Incorporated by reference to Definitive Proxy Statement on Form DEF 14A filed with the Commission on December 3, 1999.**
(18) Incorporated by reference to Report on Form 8-K filed with the Commission on March 19, 2007.**
(19) Incorporated by reference to Report on Form 8-K/A filed with the Commission on May 29, 2008.**
(20) Incorporated by reference to Report on Form 10-Q filed July 10, 2008, for the Quarter ended May 31, 2008.**
(21) Incorporated by reference to Report on Form 8-K filed with the Commission on July 11, 2008.**
(22) Incorporated by reference to Report on Form 10-K filed with the Commission on November 14, 2008.**
(23) Incorporated by reference to Report on Form 10-Q filed with the Commission on January 13, 2009.**
(24) Incorporated by reference to Report on Form 10-Q filed with the Commission on April 9, 2009.**
(25) Incorporated by reference to Report on Form 8-K filed with the Commission on November 16, 2009.**
★★ Filed herewith and attached to this report.
* Indicates a management contract or compensatory plan or agreement.
** Registration No. 001-11107.

# Signatures

Pursuant to the requirements of Section 13 or 15(d) 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, on November 16, 2009.

FRANKLIN COVEY CO.

By: /s/ ROBERT A. WHITMAN
Robert A. Whitman, Chairman and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|---|---|
| /s/ ROBERT A. WHITMAN<br>Robert A. Whitman | Chairman of the Board and Chief Executive Officer | November 16, 2009 |
| /s/ STEPHEN R. COVEY<br>Stephen R. Covey | Vice-Chairman of the Board | November 16, 2009 |
| /s/ CLAYTON M. CHRISTENSEN<br>Clayton M. Christensen | Director | November 16, 2009 |
| /s/ ROBERT H. DAINES<br>Robert H. Daines | Director | November 16, 2009 |
| /s/ E. J. "JAKE" GARN<br>E.J. "Jake" Garn | Director | November 16, 2009 |
| /s/ DENNIS G. HEINER<br>Dennis G. Heiner | Director | November 16, 2009 |
| /s/ DONALD J. MCNAMARA<br>Donald J. McNamara | Director | November 16, 2009 |
| /s/ JOEL C. PETERSON<br>Joel C. Peterson | Director | November 16, 2009 |
| /s/ E. KAY STEPP<br>E. Kay Stepp | Director | November 16, 2009 |

# Certification of the Chief Executive Officer

## PURSUANT TO RULE 13A-14(A) OF THE SECURITIES EXCHANGE ACT ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Robert A. Whitman, certify that:

1. I have reviewed this annual report on Form 10-K of Franklin Covey Co.;
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 15d-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.

Date: November 16, 2009

/s/ ROBERT A. WHITMAN

Robert A. Whitman
President and Chief Executive Officer

# Certification of the Chief Financial Officer

## PURSUANT TO RULE 13A-14(A) OF THE SECURITIES EXCHANGE ACT ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Stephen D. Young, certify that:

1. I have reviewed this annual report on Form 10-K of Franklin Covey Co.;
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 15d-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.

Date: November 16, 2009

/s/ STEPHEN D. YOUNG

Stephen D. Young
Chief Financial Officer

# Certification of Chief Executive Officer and Chief Financial Officer of Franklin Covey Pursuant to 18 U.S.C. § 1350

In connection with the annual report of Franklin Covey Co. (the "Company") on Form 10-K for the fiscal year ended August 31, 2009 as filed with the Securities and Exchange Commission (the "Report"), we, Robert A. Whitman, President and Chief Executive Officer of the Company, and Stephen D. Young, Chief Financial Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of our knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

This Certification has not been, and shall not be deemed, "filed" with the Securities and Exchange Commission.

November 16, 2009

/s/ ROBERT A. WHITMAN

Robert A. Whitman
President and Chief Executive Officer

/s/ STEPHEN D. YOUNG

Stephen D. Young
Chief Financial Officer

## Executive Team

Robert A. Whitman
Chairman of the Board of Directors and Chief Executive Officer

Stephen D. Young
Chief Financial Officer and Corporate Secretary

Sean M. Covey
Chief Product Officer

David M.R. Covey
Co-Chief Operating Officer Global Operations

Stephan Mardyks
Co-Chief Operating Officer Global Operations

Jennifer C. Colosimo
Chief Learning Officer

Clifton Todd Davis
Chief People Officer

## Board of Directors

Robert A. Whitman
Chairman of the Board of Directors

Stephen R. Covey
Vice Chairman of the Board of Directors

Clayton M. Christensen
Director

Robert H. Daines
Director

E.J. "Jake" Garn
Director

Dennis G. Heiner
Director

Donald J. McNamara
Director

Joel C. Peterson
Director

E. Kay Stepp
Director

## Shareholder Information

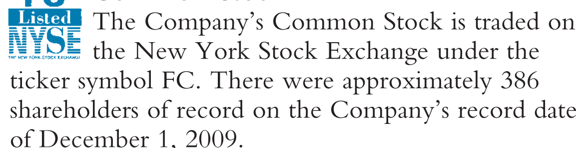
**Annual Meeting**
We invite shareholders to attend our Annual Meeting of Shareholders at 8:30 a.m. on Friday, January 29, 2010, at the Hyrum W. Smith Auditorium on the Franklin Covey Co. headquarters campus,
2200 West Parkway Boulevard,
Salt Lake City, Utah 84119.

**Independent Registered Public Accountants**
KPMG LLP
15 West South Temple, Suite 1500
Salt Lake City, Utah 84101-9800

**Counsel**
Dorsey & Whitney LLP
170 South Main Street
Salt Lake City, Utah 84111

Jones Day Reavis & Pogue
222 East 41st Street
New York, New York 10017-6702

**Registrar and Transfer Agent**
Zions First National Bank, N.A.
Stock Transfer Department
One South Main Street
Salt Lake City, Utah 84111




**Common Stock**
The Company's Common Stock is traded on the New York Stock Exchange under the ticker symbol FC. There were approximately 386 shareholders of record on the Company's record date of December 1, 2009.

**Certifications**
The certifications required by Section 302 of the Sarbanes-Oxely Act have been filed as exhibits to the Company's SEC Form 10-K. The most recent certification required by Section 303A.12(a) of the New York Stock Exchange Listed Company Manual has been filed with the New York Stock Exchange without qualification.

**Dividend**
No dividends have been paid or declared on the Company's common stock.

**Requests for Additional Information**
Additional financial information is available to shareholders. Requests should be directed to the attention of Investor Relations, Franklin Covey Co., 2200 West Parkway Boulevard, Salt Lake City, Utah 84119-2331, or call at 801-817-1776. Additional information on the Company is available on the Internet at http://www.franklincovey.com.

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FranklinCovey has impacted millions of lives and thousands of organizations around the world. We have direct and licensee offices worldwide.

## U.S. Offices

California
Georgia
Illinois
Pennsylvania
Utah

## International Offices

Argentina
Australia
Austria
Bangladesh
Belgium
Bermuda
Brazil
Bulgaria
Canada
Chile
China
Colombia
Costa Rica
Croatia
Cyprus
Czech Republic
Denmark
Dominican Republic
Egypt
El Salvador
Estonia
Finland
France
Germany
Greece
Guatemala
Hong Kong
Hungary
Iceland
India
Indonesia
Ireland
Israel
Italy
Japan
Kenya
Latvia
Lebanon
Lithuania
Luxembourg
Malaysia
Mexico
Nepal
Netherlands
New Zealand
Nicaragua
Nigeria
Norway
Panama
Peru
Philippines
Poland
Portugal
Puerto Rico
Romania
Russia
Serbia
Singapore
Slovak Republic
Slovenia
South Africa
South Korea
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