FranklinCovey

we enable greatness

Annual Report 2010

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,	2010	2009	2008	2007	2006
In thousands, except per share data					
Income Statement Data:					
Net sales	$ 136,874	$ 123,134	$ 252,074	$ 276,660	$ 271,463
Income (loss) from operations	4,038	(11,840)	14,204	16,133	11,492
Net income (loss) from continuing operations before income taxes	1,180	(14,862)	11,278	13,714	11,077
Income tax benefit (provision)(1)	(2,484)	3,814	(6,738)	(7,172)	16,017
Income (loss) from continuing operations	(1,304)	(11,048)	4,540	6,542	27,094
Income from discontinued operations, net of tax	548	216	987	923	1,439
Gain on sale of discontinued operations, net of tax	238	-	-	-	-
Net income (loss)(1)	(518)	(10,832)	5,527	7,465	28,533
Net income (loss) available to common shareholders(1)	(518)	(10,832)	5,527	5,250	24,148
Earnings (loss) per share:					
Basic	$ (.01)	$ (.81)	$ .28	$ .27	$ 1.20
Diluted	$ (.01)	$ (.81)	$ .28	$ .26	$ 1.17
Balance Sheet Data:					
Total current assets	$ 48,616	$ 40,142	$ 66,661	$ 69,653	$ 87,056
Other long-term assets	9,396	11,608	11,768	14,542	12,249
Total assets	147,343	143,878	177,677	196,181	216,495
Long-term obligations	32,988	32,191	38,762	35,178	35,347
Total liabilities	76,308	74,874	99,500	95,476	83,185
Preferred stock(2)	-	-	-	-	37,345
Shareholders' equity	71,035	69,004	78,177	100,705	133,310

(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 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, 2010:				
High	$ 6.44	$ 6.39	$ 8.19	$ 7.52
Low	4.76	5.06	5.75	5.35
Fiscal Year Ended August 31, 2009:				
High	$ 9.45	$ 6.05	$ 5.69	$ 7.24
Low	4.02	3.61	3.20	5.30

To My Fellow Shareholders –

I am delighted to report that FranklinCovey achieved significant, and broad-based, growth in both revenue and profitability during fiscal 2010. I am also are pleased to report that we have achieved each of the strategic growth goals we established for our new "practice" and solution offerings. The strength of our booking momentum in the third and fourth quarters resulted in our ending the year with a pipeline of booked training days and contracts which was substantially higher than at the end of last fiscal year. These bookings are expected to be delivered in the first three quarters of our new fiscal year, underpinning our expectation that we will also achieve significant growth in revenue and profitability during fiscal 2011.

FranklinCovey achieved significant growth in both revenue and profitability during fiscal 2010.

Revenues for fiscal 2010 totaled $136.9 million, an increase of $13.7 million (+11%), from the $123.1 million achieved in fiscal 2009, and Adjusted EBITDA for fiscal 2010 was $13.3 million (see Table 1), a significant increase from the $2.6 million in Adjusted EBITDA achieved during fiscal 2009. Income from operations increased from a loss of $11.8 million in fiscal 2009, to income of $4.0 million, a $16 million improvement; with pre-tax income increasing from a loss of $14.9 million in fiscal 2009 to income of $1.2 million in fiscal 2010, a $16 million improvement.

We were pleased that these improvements were very broad-based across all of our major channels and major offering categories:

- U.S. and Canada Direct Office Growth: Revenues in our five direct offices in North America grew $11.8 million (+21%) for the year, led by growth in our Government Services group. Four of five offices achieved revenue growth for the year as a whole, and with strengthening bookings during the last half of the year, all five offices achieved revenue growth during the fourth quarter.
- International Direct Office Growth. Our direct offices in the United Kingdom and in Australia achieved double-digit revenue growth during the FY2010. Our office in Japan, a country whose economy was particularly impacted by the global recession, experienced year-over-year revenue declines for the year as a whole. During the 4^{th} quarter, we sold our Japanese consumer products business (the only consumer products business not sold in fiscal 2008), to put our full focus behind our training business there. We were pleased to achieve growth in our remaining Japanese business during the fourth quarter, and expect to achieve double-digit growth during the first quarter of fiscal 2011.
- International Licensee Partners: royalties from our 38 international licensee partner offices grew 5% for the year, with a 15% decline during the first quarter being more than offset by a cumulative 15% growth in royalties during the second, third, and fourth quarters. Royalties from eight of our top ten licensees and seventeen of our top twenty licensees grew compared to the prior year.

We were also pleased that during fiscal 2010, a time when clients around the world were experiencing difficult and uncertain economic conditions, the percentage of our customers who were repeat purchasers from fiscal 2009 not only increased over the prior year, but their average training/consulting investment with us also increased.

In fiscal 2010, we also had a 20% increase in the number of domestic accounts which generated revenues of at least $50,000 (an indicator of a customer's commitment to our solution). These larger accounts generally have higher gross margins and flow through a higher percentage of revenue to profit. These accounts contributed to the Company increasing its gross margin percentage. During the year we were also awarded a number of large contracts whose impact on our clients and revenue will be felt in fiscal 2011.

The Company met or exceeded the growth goals established for our new "practice" and solution offerings.

We are also pleased with our progress in our various solution "practices" and offerings.

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, Trust, and Sales Performance, we have established "practices" in each of these areas. These practice teams bring world class thought leadership on their solution category (e.g. Execution), to ensure that: (1) we are correctly defining the specific problems and challenges which our clients experience in each of these areas; (2) the solutions we develop exactly meet the needs of our clients and successfully help them to address those challenges; and (3) we have chosen the right target markets and have effective go-to-market approaches.

Our efforts to create and build these have yielded significant results over the past several years.

Field Support Practices – the focus of some of these practices, including Execution and Speed of Trust, is to build the capabilities of our direct and international licensee offices to sell these solutions strategically, and all revenues related to these solutions are recognized in our direct and licensee offices. These practices are known as Field Support Practices. During fiscal 2010, revenues in the Execution and Speed of Trust practice grew $9.9 million (+63%), compared to fiscal 2009, and exceeded our expectations.

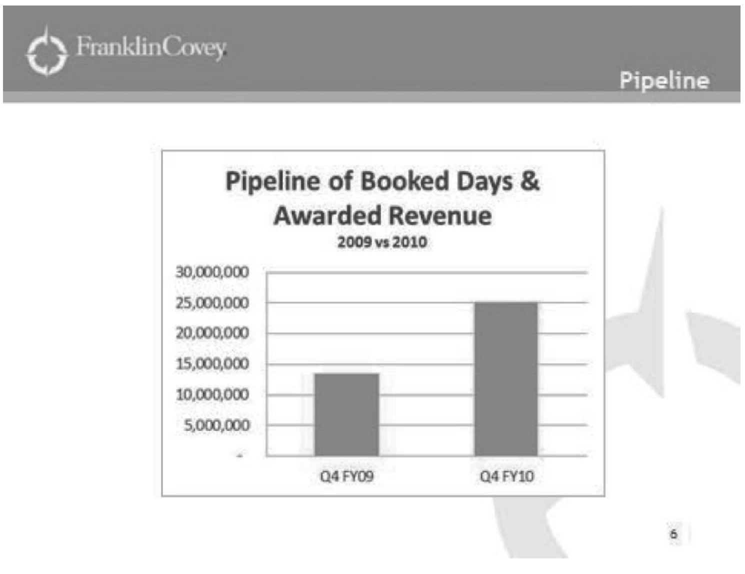
National Account Practices – other practices which focus in more specialized areas, including Education, Sales Performance, and Customer Loyalty, and have their own sales forces and accounts are known as National Account Practices. Collectively, revenues in these practices grew $7.7 million in fiscal 2009, followed by a $4.7 million increase in fiscal 2010, again exceeding our expectations.

We expect continued growth in these practice areas during fiscal 2011 and beyond, and see the opportunity to create additional practices around a number of other solution categories in the future.

Our year-end pipeline of booked training commitments and contracts was substantially higher than at the end of last fiscal year.

We were very encouraged by the continued strong momentum in our bookings during the third and fourth quarters. One of our key metrics is "booked days" – contracts for the future delivery of training engagements at client locations. During the 4th quarter of fiscal 2009, we booked approximately 1,400 days for future delivery. In the 4th quarter of fiscal 2010 we booked approximately 2,300 days for future delivery, an increase of 65%. Even without the benefit of bookings related to a large government services contract, our bookings grew 14% during the 4th quarter of fiscal 2010.

As shown in Figure 1, this strong booking momentum, together with the addition of new contracts during the quarter, resulted in our having $11.5 million more in our pipeline of booked day and awarded contract revenue at the end of the 4th quarter than we had at the end of the fourth quarter in fiscal 2009. We expect that the bulk of these bookings will be delivered over the first three quarters of fiscal 2011.



We believe that the factors discussed above can not only drive substantial top and bottom line growth in fiscal 2011 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 own great purposes; to our associates and partners, who with such great competency, character, and passion, represent our solutions in markets and communities through the world; and to you, our shareholders, for your continued trust and support.

Sincerely,

Robert A. Whitman
Chairman and Chief Executive Officer

TABLE 1

Reconciliation of Net Loss to Adjusted EBITDA
(in thousands)

	Fiscal Year Ended August 31, 2010	Fiscal Year Ended August 31, 2009
	(unaudited)	
Reconciliation of net loss to Adjusted EBITDA:		
Net loss	$ (518)	$ (10,832)
Adjustments:		
Loss (income) from discontinued operations, net of tax	(548)	(216)
Gain from sale of discontinued operations, net of tax	(238)	-
Interest expense, net	2,858	3,022
Income tax provision (benefit)	2,484	(3,814)
Amortization	3,760	3,761
Depreciation	3,669	4,532
Officer severance costs	920	-
Impairment of assets	-	3,569
Restructuring costs	-	2,047
International closure costs and adjustments	-	580
Reimbursed travel expenses	686	-
Management stock loan costs	268	-
Adjusted EBITDA	$ 13,341	$ 2,649

FranklinCovey

Proxy Statement

Notice Of Annual Meeting Of Shareholders

To Be Held January 14, 2011

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 14, 2011 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 nine directors to serve until the 2012 Annual Meeting;

(ii) To approve the amendment and restatement of the Franklin Covey Co. 1992 Stock Incentive Plan;

(iii) 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 quarter ending November 27, 2010; and

(iv) 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 Annual Meeting to be Held on January 14, 2011. The proxy statement and annual report to shareholders are available at www.shareholdermaterial.com/FC.

The Board of Directors has fixed the close of business on November 19, 2010, 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 13, 2010

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.

Franklin Covey Co.
2200 West Parkway Boulevard
Salt Lake City, Utah 84119-2331

PROXY STATEMENT

Annual Meeting of Shareholders
January 14, 2011

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 14, 2011, 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. This Proxy Statement, the Notice of Annual Meeting of Shareholders, and the accompanying form of proxy are first being mailed to shareholders of the Company on or about December 14, 2010.

PURPOSE OF THE ANNUAL MEETING

Shareholders of the Company will consider and vote on the following proposals: (i) to elect nine directors to serve until the next annual meeting; (ii) to approve the amendment and restatement of the Franklin Covey Co. 1992 Stock Incentive Plan; (iii) to consider and vote on a proposal to ratify the appointment of KPMG LLP (KPMG) as our independent registered public accountants for the fiscal quarter ending November 27, 2010; and (iv) 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 to shareholders this Proxy Statement and accompanying materials. 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.

INFORMATION ABOUT VOTING

Who Can Vote

The only voting securities that we have outstanding are shares of our Common Stock. Our Board of Directors has fixed the close of business on November 19, 2010 as the record date for determination of shareholders entitled to notice of, and to vote at, the Annual Meeting (the Record Date). Only shareholders of record at the close of business at November 19, 2010 are entitled to vote at the Annual Meeting. As of the Record Date, there were 17,037,070 shares of our Common Stock issued and outstanding. The holders of record of the shares of our 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.

How You Can Vote

You may submit your vote by completing, signing and dating each proxy card received before the Annual Meeting or by voting in person at 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 13, 2011 to be voted at the Annual Meeting.

Voting by Proxy

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 nine director nominees; (ii) **FOR** the approval of the amendment and restatement of the Franklin Covey Co. 1992 Stock Incentive Plan; and (iii) **FOR** the ratification of the appointment of KPMG as our independent registered public accountants for the fiscal quarter ending November 27, 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.

Voting at the Annual Meeting

You may vote in person by written ballot at the Annual Meeting. However, if your shares are held in the name of a broker, trust, bank, or other nominee, you must bring a legal proxy or other proof from that broker, trust, bank, or other nominee of your beneficial ownership of those shares as of the record date in order to vote at the Annual Meeting. If you vote by proxy and also attend the Annual Meeting, you do not need to vote again at the Annual Meeting.

Revocation of Proxies

A shareholder who has completed a proxy may revoke it 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 nine 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 approval of the amendment and restatement of the Franklin Covey Co. 1992 Stock Incentive Plan 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.

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 NINE NOMINEES AS DIRECTORS

At the Annual Meeting, nine directors are to be elected to serve until the next annual meeting of shareholders and until their successors shall be duly elected and qualified. Unless the shareholder indicates otherwise, each proxy will be voted in favor of the nine nominees listed below. Each of the nominees is currently serving as a Director of the Company. 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 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 NINE NOMINEES TO THE BOARD OF DIRECTORS.

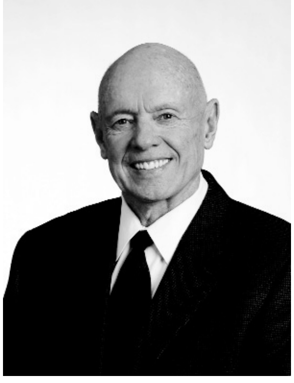
Nominees for Election to the Board of Directors

Certain information with respect to each of the nominees is set forth below. The information presented below for each director includes the specific experience, qualifications, attributes, and skills that led us to the conclusion that such director should be nominated to serve on our Board of Directors in light of our business.

Clayton M. Christensen, Professor – Harvard Business School

Dr. Christensen 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. 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.

Director Qualifications: Dr. Christensen's 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 is widely recognized as a leader in these fields and his knowledge and valuable insights enable him to make significant contributions to our strategic direction and development of new training and consulting services. Additionally, Mr. Christensen's previous work with various companies provides him with a broad perspective in the areas of management and operations. Age: 58.



Stephen R. Covey, Author of *The 7 Habits of Highly Effective People*

Dr. Covey 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 who served during fiscal 2010.

Director Qualifications: Dr. Covey is widely recognized as a thought leader in the areas of leadership, management, and organizational behavior. Dr. Covey remains one of the most sought-after speakers in the areas of leadership and organizational development and his extensive experience in these areas provides valuable contributions to the Board of Directors with regard to innovation, strategy, curriculum development, and business planning. Dr. Covey's extensive experience in the training and consulting industry provides valuable insight into understanding our clients and their needs, which contributes to strategic planning and development. Age: 78.

Robert H. Daines, Retired Professor – Brigham Young University

Dr. Daines 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. He also served as director of the MBA program from 1966 to 1978. 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.

Director Qualifications: Dr. Daines' extensive academic and business consulting experience provides him with significant financial, strategic, and management experience as well as a strong business acumen. In addition to his teaching responsibilities, Dr. Daines has consulted with numerous corporations across many industries. This experience has provided Dr. Daines with a broad perspective and enables him to make valuable contributions in the areas of management, finance, operations, strategy, and long-range planning. Dr. Daines' strong financial background qualifies him as our audit committee financial expert, enabling him to make valuable contributions to our audit committee. In addition, his 20 years of experience on our Board of Directors gives him significant insight into the Company and its long-term goals. Age: 76.

E.J. "Jake" Garn, Retired United States Senator

Mr. Garn 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).

Director Qualifications: Mr. Garn's nearly 20 years of experience on our Board of Directors provides him with considerable knowledge of our business as well as historical perspective and long-term focus on the interests of the Company and its shareholders. During his tenure in public office, Mr. Garn developed leadership and executive skills that allow him to make important contributions to various areas of management and executive decision making. Mr. Garn's experience with various governmental committees and organizations also provides him with valuable understanding of the regulatory and compliance environment, which allows him to make valuable contributions to the Board of Directors as the Chairman of the Audit Committee. Age: 77.

Dennis G. Heiner, Managing Member of Sunrise Oaks Capital Fund, LLC and Lead Independent Director

Mr. Heiner was appointed as a director of the Company in January 1997 and 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 for 6 years as Senior Vice President and President Worldwide Small Electric Appliances, and later 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 has also served on several other boards including Rayteck, Shell Oil's AERA Board, and Werner Holdings. 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.

Director Qualifications: Mr. Heiner brings to the Board of Directors chief executive leadership and business management experience, as well as strong operational knowledge and expertise. Mr. Heiner's broad industry experience, including previous roles in leadership, finance, and marketing, provides the Board of Directors with valuable contributions in the areas of management, strategy, leadership, governance, growth, and long-term planning. Mr. Heiner's executive leadership experience and strong business background enable him to provide strong and independent leadership on the Board of Directors in his role as Lead Independent Director. Mr. Heiner also makes important contributions to the Company in the areas of board and business leadership development and succession planning. Age: 67.

Donald J. McNamara, Founder of the Hampstead Group, LLC

Mr. McNamara 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.

Director Qualifications: Mr. McNamara's experience in private equity provides him with considerable expertise in financial and strategic matters. This expertise enables him to make valuable contributions to the Company in the areas of raising capital, capital deployment, acquisitions and dispositions, and other major financial decisions. Mr. McNamara's involvement with other entities throughout his career provides him with wide-ranging perspective and experience in the areas of management, operations, and strategy. In addition, Mr. McNamara has a meaningful understanding of our operations having served on our board of directors for more than 10 years, enabling him to make contributions to our strategy, innovation, and long-range plans. Age: 57.

Joel C. Peterson, Founder of Peterson Partners and Chairman of Jet Blue Airlines

Mr. Peterson 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 and 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, Board member, and Chief Executive Officer 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.

Director Qualifications: Mr. Peterson brings chief executive leadership, extensive financial experience, and strong academic skills to our Board of Directors. Mr. Peterson's roles in executive leadership, financial management, and private equity enable him to make key contributions in the areas of leadership, raising capital, capital deployment, strategy, operations, and growth. His experience with Peterson Ventures and teaching courses on entrepreneurship adds valuable knowledge in growth and long-term strategic planning as well as accessing and deploying capital. Mr. Peterson also has a deep understanding of the Company's operations and background with over 10 years of experience on our Board of Directors. Age: 63.

E. Kay Stepp, Former Chairperson of Providence Health and Services

Ms. Stepp has been a director of the Company since May 1997 and served as a director of Covey Leadership Center from 1992 to 1997. Ms. Stepp is the former 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.

Director Qualifications: Ms. Stepp's experience in management and as chief operating officer brings valuable knowledge to the Board of Directors in areas such as marketing, distribution, human resources, technology, and administration. Ms. Stepp also brings the Company extensive governance experience with public corporations, private corporations, and non-profit organizations. This background and experience allow Ms. Stepp to make valuable contributions to the Board of Directors in the areas of operations, management, compensation, and innovation. She also brings special expertise and experience in human resource management and compensation from her consulting career, which provides her with the knowledge to serve as the chairperson of the Board's Compensation and Organization Committee. Ms. Stepp has a deep understanding of our operations and long-term goals from her nearly 20 years of experience on the Board of Directors. Age: 65.

Robert A. Whitman, Chief Executive Officer and Chairman of the Board of Directors

Mr. Whitman has been a director of the Company since May 1997 and 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 the Harvard Business School.

Director Qualifications: Mr. Whitman's leadership experience as the Chief Executive Officer of the Company and his in-depth knowledge of our strategic priorities and operations enable him to provide valuable contributions and facilitate effective communication between management and the Board of Directors. Mr. Whitman's role as Chief Executive Officer also enables him to provide important contributions to strengthening our leadership, operations, strategy, growth and long-range plans. Mr. Whitman's extensive experience in finance, private equity investing, and leadership also provides him with the knowledge to make valuable contributions to the Board of Directors in the areas of finance, raising capital, and capital deployment. Age: 57.

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, and senior financial officers that include the Chief Executive Officer and Chief Financial Officer and other members of our financial leadership team. 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 Leadership Structure

The Board of Directors does not have a policy regarding the separation of roles of Chief Executive Officer (CEO) and Chairman of the Board as the Board believes it is in the best interests of the Company to make that determination based upon our position and direction and the overall membership of the Board. The Board of Directors has determined that having our Chief Executive Officer currently serve as Chairman is in the best interest of our shareholders at this time because having Mr. Whitman serve in both positions makes the best use of his extensive knowledge of FranklinCovey and our industry, as well as fostering greater communication between our management and the Board. The Board does have a Lead Independent Director, as described below.

The Board of Director’s Role in Risk Management Oversight

The Audit Committee of our Board of Directors has responsibility for the oversight of risk management, while the management team is responsible for the day-to-day risk management process. With the oversight of the Board of Directors, management is in the process of developing an enterprise risk management strategy, whereby management identifies the top individual risks that we face with respect to our business, operations, strategy, and other factors that were recognized after discussions with key business and functional leaders and reviews of external information. In addition to evaluating various key risks, management identifies ways to manage and mitigate such risks. During fiscal 2010, management met with the Audit Committee to discuss the identified risks and the efforts that are designed to mitigate and manage these risks. These risks were allocated to the various committees of the Board of Directors to allow the committees to examine a particular risk in detail and assess its potential impact to our operations. For example, the Audit Committee reviews compliance and risk management processes and practices related to accounting and financial reporting matters; the Nominating Committee reviews the risks related to succession planning and the independence of the Board of Directors; and the Compensation Committee reviews the risks related to our various compensation plans. In the event that a committee is allocated responsibility for examining and analyzing a specific risk, such committee reports on the relevant risk exposure during its regular reports to the entire Board of Directors to facilitate proper risk oversight by the entire Board of Directors.

As part of its responsibilities, the Compensation Committee periodically reviews our compensation policies and programs to ensure that the compensation programs offer appropriate performance incentives for employees, including executive officers, while mitigating excessive risk taking. We believe that our various compensation programs contain provisions that discourage excessive risk taking. These provisions include:

- An appropriate balance between annual cash compensation and equity compensation that may be earned over several years.
- Metrics that are weighted between the achievement of overall financial goals and individual objectives.
- Stock ownership guidelines that encourage executive officers to accumulate meaningful levels of equity ownership, which align the interests of executives with those of long-term shareholders.

Based on a review of the nature of our operations by the Compensation Committee, we do not believe that any areas of the Company are incented to take excessive risks that would likely have a material adverse effect on our operations.

BOARD OF DIRECTOR MEETINGS AND COMMITTEES

During the fiscal year ended August 31, 2010, 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 our 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 2010.

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 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	-	-	-

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 seven times during fiscal 2010. 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, 2010. 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 Committee 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 seven times during fiscal 2010. 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 the our executive officers, employees, and independent directors; (v) to review management development plans and succession plans to ensure business continuity; and (vi) to provide risk oversight of all Company compensation plans. 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 the 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 2010, the members of the Compensation Committee were E. Kay Stepp, who served 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 had any material business relationships with the Company. The Compensation Committee held seven meetings during fiscal year 2010 and regularly met 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 conduct 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. However, during fiscal 2010, the Compensation Committee did not engage the services of an external compensation consultant.

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 2010, the Company employed Boyd Craig, who is the son-in-law of Robert H. Daines, a member of the Compensation Committee, and paid him compensation totaling $151,905.

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. We believe it is important to have an appropriate mix of diversity for the optimal functionality of the Board of Directors. Although we do not have a formal diversity policy relating to the identification and evaluation of nominees for director, the Nominating Committee considers all of the criteria described above in identifying and selecting nominees and in the future may establish additional minimum criteria for nominees.

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 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. Shareholders or other interested parties wishing to communicate with Dennis G. Heiner, the Lead Independent Director, may reach him at: c/o Stephanie King, Franklin Covey Co., 2200 West Parkway Boulevard, Salt Lake City, Utah 84119-2331.

DIRECTOR COMPENSATION

In a prior year, the Compensation Committee received a report from its external consultants regarding competitive compensation practices for Boards of Directors of similar sized public companies. There were no changes to the Board of Director compensation plan during fiscal 2010.

Robert A. Whitman, our Chairman of the Board of Directors and CEO, does not currently receive compensation for Board or committee meetings. In fiscal 2010, the remaining directors were paid the following amounts for services provided, which did not change from fiscal 2009:

- Each Board member was paid an annual retainer of $30,000, paid in quarterly installments, 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 2010 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	$39,997	-	-	-	-	$69,997
Robert H. Daines	$51,000	$39,997	-	-	-	-	$90,997
E.J. "Jake" Garn	$42,000	$39,997	-	-	-	-	$81,997
Stephen R. Covey	$30,000	$39,997	-	-	-	-	$69,997
Dennis G. Heiner	$54,000	$39,997	-	-	-	-	$93,997
Joel C. Peterson	$30,000	$39,997	-	-	-	-	$69,997
E. Kay Stepp	$56,000	$39,997	-	-	-	-	$95,997
Donald McNamara	$30,000	$39,997	-	-	-	-	$69,997
Robert A. Whitman	-	-	-	-	-	-	-

Amounts reported in column C represent the fair value of share-based compensation granted to each member of the Board of Directors. All Board of Director unvested stock awards are made annually in January following the Annual Meeting, and have one year vesting terms. During the year ended August 31, 2010, each non-employee member of the Board received an unvested share award of 7,633 shares that had a fair value of $39,997. The fair value of the stock awards presented in column C was based on a share price of $5.24 per share, which was the closing price of our common stock on the date that the award was granted. At August 31, 2010, the directors named above, other than Mr. Whitman, held a total of 97,064 shares of unvested stock and each of the directors held 12,133 shares of unvested stock. We have not granted any 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 2010:

Jennifer Colosimo, 41, was appointed an Executive Vice President and Chief Operations Officer in July 2010. Ms. Colosimo joined FranklinCovey in 1996 as a Project Lead, and has been a Client Partner, Delivery Consultant, Vice President of Sales and Delivery Effectiveness, and Chief Learning Officer. She brings 20 years of values-based change management, organizational and leadership development, and global sales experience to her work with FranklinCovey clients and our internal sales and delivery associates. Jennifer has influenced over 30,000 clients in 48 states and 14 countries through her teaching, facilitation, and keynotes. She is an executive coach and a catalyst for high performance at all organizational levels, from front-line to CEO. Previous to joining FranklinCovey, Jennifer was a Change Management Consultant with Accenture. Ms. Colosimo earned her undergraduate degree at the University of Utah and a Master's degree in organizational communication and business administration from Purdue University. She co-authored the book *Great Work, Great Career* with Dr. Stephen R. Covey which offers a practical, mind-shifting path to greatness for those seeking employment or examining how to re-engage in their current careers.

David M.R. Covey, 44, served as Co-Chief Operating Officer for Global Operations until August 31, 2010. In this capacity, he was 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 is the brother of M. Sean Covey.

M. Sean Covey, 46, was appointed Executive Vice President of Global Solutions and Partnerships and Education Practice Leader during fiscal 2010. Sean was formerly Senior Vice President of Innovations and Product Development from April 2006 to September 2009, where he led the development of nearly all of FranklinCovey's current organizational offerings, including: Focus; The 7 Habits curriculum; xQ; The 4 Disciplines of Execution; The Leader in Me, and Leadership Greatness. Prior to 2006, Sean ran the FranklinCovey retail chain of stores, growing it to $152 million in sales. Before joining FrankinCovey, Sean worked for the Walt Disney Company, Trammel Crow Ventures, and Deloitte & Touche Consulting. Sean is also the author of several books, including *The 6 Most Important Decisions You'll Ever Make*, the New York Times Best Seller *The 7 Habits of Happy Kids*, and the international bestseller *The 7 Habits of Highly Effective Teens*, which has been translated into 20 languages and has sold over 4 million copies. 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 is the brother of David M.R. Covey.

C. Todd Davis, 53, was appointed Executive Vice President and Chief People Officer. Todd has over 27 years of experience in training, training development, sales and marketing, human resources, coaching, and executive recruiting. He has been with FranklinCovey for the past 14 years. Previously, Todd was a Director of our Innovation Group where he led the development of core offerings including The 7 Habits of Highly Effective People – Signature Program and The 4 Disciplines of Execution. He also worked for several years as our Director of Recruitment and was responsible for attracting, hiring, and retaining top talent for the organization. Prior to FranklinCovey, Todd worked in the medical industry for 9 years where he recruited physicians and medical executives along with marketing physician services to hospitals and clinics throughout the country.

Stephan Mardyks, 47, served as Co-Chief Operating Officer for Global Operations until August 31, 2010. In this role, he was responsible for 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.

Shawn D. Moon, 43, is an Executive Vice-President of Global Sales and Delivery for FranklinCovey, where he is responsible for the Company's U.S. and International direct offices, the Sales Performance Practice, and the Execution and Speed of Trust Practices. Additionally, he oversees FranklinCovey's Government Business, Facilitator Initiatives, and Public Programs. Mr. Moon has more than twenty years of experience in sales and marketing, program development, and consulting services. From November 2002 to June 2005, Shawn was a Principal with Mellon Financial Corporation where he was responsible for business development for their human resources outsourcing services. Shawn also coordinated activities within the consulting and advisory community for Mellon Human Resources and Investor Solutions. Prior to November 2002, he served as the Vice President of Business Development for our Training Process Outsourcing Group, managed vertical market sales for nine of our business units, and managed our eastern regional sales office. Shawn received a Bachelor of Arts from Brigham Young University in English Literature and he is the author of the book, *On Your Own: A Young Adults' Guide to Making Smart Decisions*.

Stephen D. Young, 57, 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 over 25 years of accounting and management experience and is a Certified Public Accountant. Mr. Young was awarded a Bachelor of Science in Accounting degree from Brigham Young University. Mr. Young also serves as a board member of COMPLETExRM, Inc. a privately held related party.

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, 2010.

Date: November 18, 2010

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 FranklinCovey's 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 FranklinCovey's Named Executive Officers (NEOs). Specifically:

- **FranklinCovey pays for performance**. Executives – those with the greatest direct influence on organizational performance – have a significant portion of their compensation dependent upon achieving key annual business performance objectives and their individual contributions to those objectives. Executives are held accountable for overall organizational performance and for the execution of the Company's key strategies.
- **Compensation rewards successful execution of the business strategy**. The executive compensation program is aligned to reward achievement of our strategic and annual business plans and is paid in direct relation to our Company's performance.
- **Our success depends on teamwork from the executive level down through the organization**. The compensation program is designed to promote shared goals and to reward Company and 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, engaged, and focused on achieving our business goals and strategies. Consequently, in addition to being performance-oriented, 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 period.

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

In assessing the contributions of our Executive Officers to our performance, the Compensation Committee gives disproportionate weight to the quantitative results obtained, but also links a portion of executive compensation to how results were achieved and whether the decisions and actions leading to results are consistent with the Governing Values.

Objectives of the Executive Compensation Program

During fiscal 2010 we continued simplifying and streamlining our corporate organizational structure to ensure focus on our key initiatives and to allow us to adapt quickly to new client opportunities and changing market conditions. Consistent with these objectives, our compensation objectives were specifically designed to:

1. Ensure that total targeted compensation is competitive to attract and retain executive talent. Also, the compensation program must be cost effective in order to achieve an acceptable business model which will increase shareholder value.

2. Provide wide target ranges in total executive compensation. We believe that we put a higher percentage of pay at risk than our market comparators.
3. Emphasize incentive payouts tied to goal achievement over base salary. This results in a more highly leveraged total compensation program.

We believe these compensation objectives position us for success in the context of our Guiding Principles and Governing Values and create consistency between the CEO and his direct reports in terms of overall compensation structure.

Compensation Reviews

Executive compensation is reviewed annually by the Compensation Committee. As a result of the impending departure of certain members of the executive team at the end of fiscal 2010, the Compensation Committee conducted an additional review during the first quarter of fiscal 2011. While determining the total compensation package for the Named Executive Officers in fiscal 2010 and fiscal 2011, the Compensation Committee considered the following:

Competitiveness to the External Market

To assess the competitiveness of our compensation plans to market, the Compensation Committee referred to the previous year's public survey data from general industry and professional services companies similar in size to us as one information source in the mix of available information. This procedure normalized the potential of market compensation data, preventing bias due to practices intrinsic to any one industry segment. Survey sources included companies similar to Franklin Covey in terms of size, revenues, and/or market capitalization. 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 job role and responsibility perspectives. The information was used primarily as supplemental data to assist the Compensation Committee in understanding the current market practices, trends, and plan designs related to executive compensation and not specifically for benchmarking. The Compensation Committee also referenced their knowledge of pay for similar positions in other professional services firms in their assessment of compensation levels. In positioning executive compensation policy for 2010, the Compensation Committee considered our future business model and how executive compensation could and should drive desired performance to that model. Also, the Compensation Committee took into consideration the specific business challenges facing the Company as compared to those of known competitors and similar sized companies. As a result, the Compensation Committee adjusted our total targeted compensation for the Company's Executive Officers at the 50th to 75th percentile (depending on maturity in the position and previous performance as described above) of the general industry group for total direct compensation (base pay, short-term incentive pay at target, and long-term incentive pay) and at 100 percent of budget, i.e., for target level of performance.

Finally, the Compensation Committee considered the past performance of the Named Executive Officers, including performance against previous individual and corporate objectives; expected contribution to future corporate objectives, including changing job responsibilities; and whether the executive's performance was achieved consistent with the Governing Values. The Compensation Committee made final judgments regarding the appropriate compensation for each Named Executive Officer based on these additional inputs.

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 Named Executive Officer's compensation and then made final compensation decisions. The CEO did not participate in any final decisions that determined his own compensation.

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

Following the review of market data and CEO recommendations, the Compensation Committee considered, once again, individual contributions to the business, experience, ability to impact our financial results, and the continued impact of the slow economy on the business to determine adjustments to the level of pay for each NEO. After considering all the factors described above, the Compensation Committee agreed that the final target total direct compensation opportunity for each NEO in fiscal 2010 would remain the same as the 2009 target which maintained each NEO within the approximate range of the 50th to 75th percentile of the market (depending on role and previous performance). This positioning was consistent with continuing to move toward the Company's desired business model. The NEOs could earn more or less relative to the opportunity described below based on actual performance:

Fiscal 2010 Target Total Direct Compensation

Name	Base Salary	Target STIP	Target Total Cash	Target LTIP	Total Targeted Direct Compensation
Robert A. Whitman Chief Executive Officer	500,000	500,000	1,000,000	600,000	1,600,000
Stephen D. Young Chief Financial Officer	250,000	175,000	425,000	150,000	575,000
David Covey(1) Co-Chief Operating Officer, Global Operations	275,000	213,000	488,000	40,000	528,000
Stephan Mardyks(1) Co-Chief Operating Officer, Global Operations	275,000	213,000	488,000	40,000	528,000
M. Sean Covey Executive Vice President Global Solutions and Partnerships	275,000	150,000	425,000	68,000	493,000
Shawn Moon(2) Executive Vice President Domestic and Global Sales and Delivery	250,000	194,000	444,000	10,000	454,000
Jennifer Colosimo(2) Executive Vice President Chief Operations Officer	200,000	70,000	270,000	30,000	300,000

(1) David Covey and Stephan Mardyks, by mutual agreement, terminated their employment with the Company effective August 31, 2010. Mr. Covey and Mr. Mardyks received STIP payments as shown in the Summary Compensation Table, but all performance share awards granted under terms of the 2010 LTIP award were forfeited and they will not be eligible to receive these shares.

(2) Subsequent to August 31, 2010, the LTIP awards noted for Shawn Moon and Jennifer Colosimo were cancelled, since these awards would have been additive to their Total Targeted Compensation, and a proposal for a new equity incentive plan is being discussed.

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. The target STIP was set at 77% of base salary for David Covey, Stephan Mardyks, and Shawn Moon. The target STIP was set at 55% of base salary for Sean Covey. The target STIP was set at 35% of base salary for Jennifer Colosimo. Differences in target STIP amounts as a percentage of base salary were 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 within approximately the 50th to the 75th percentile of the market.

David Covey and Stephan Mardyks have since left FranklinCovey but were with FranklinCovey as NEO's for the entire 2010 fiscal year and are therefore included in this report. For 11 months of fiscal 2010, Shawn Moon was in the role of General Manager for our Government Services vertical market and was then promoted to the role of Executive Vice President – Domestic and Global Sales and Delivery, and as such, became an Executive Officer for FranklinCovey on July 28, 2010. For the remaining month of fiscal 2010, Shawn Moon continued with the same compensation as in his previous role.

During the first quarter of fiscal 2010, the Compensation Committee approved LTIP awards for 232,576 shares of common stock (the target award) to be awarded to the NEO's and other leaders, if the Company achieved specified financial results within a specified time period. Subsequent to year-end, the Compensation Committee cancelled this LTIP award for the majority of the potential recipients, since these awards would have been additive to their Total Targeted Compensation, and a proposal for a new LTIP award is being discussed.

In reviewing and 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.

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
6. Change in Control severance benefits

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

1. Base Salary

Base salaries for NEOs were determined by considering the relative importance of the position, the competitive marketplace, and the individual's experience, performance and contribution. Base salaries were targeted between the 50th and 75th percentiles for fiscal 2010. Base salaries are reviewed annually, and may or may not be adjusted to reflect changing market levels. During the first quarter of fiscal 2010, the Compensation Committee increased Sean Covey's base salary from $250,000 to $275,000, commensurate with his expanding role and to align with market competitive levels. Base compensation was also reviewed for Mr. Whitman, Mr. Young and the other NEOs; the Compensation Committee determined that their base salaries were competitive with the market and no changes were made for fiscal 2010.

2. Short-Term Incentive Plan (STIP)

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 2010 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 was weighted so that 70% of the incentive was based on corporate financial goals, while 30% of the incentive was based on the achievement of individual goals. The 70/30 split was focused on achieving significant performance improvement tied to our strategic and operational objectives. The largest portion of the incentive (70%) was aligned with achieving financial results (Operating Income), which the Compensation Committee believes is the best driver of shareholder value.

For the majority of fiscal 2010, Sean Covey continued to have primary responsibility for the development of all our products and programs. As such, his STIP was weighted so that approximately 70% of the incentive was based on product development, market research, book publishing, financial results of the Education Practice, and meeting overall SG&A and Adjusted EBITDA targets each quarter. Approximately 30% of his incentive was 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 2010, 80% of the STIP for David Covey and Stephan Mardyks was focused on achieving Adjusted EBITDA results domestically and internationally, and 20% was focused on growing the Speed of Trust and Execution Practices. For Jennifer Colosimo, 75% of the STIP was focused on achieving Adjusted EBITDA results domestically and internationally and 25% was focused on growing the Speed of Trust and Execution Practices. Shawn Moon's STIP was 100% focused on achieving Adjusted EBITDA results for the Government Services vertical market, the Education Practice, and Sales Performance Practice, and revenue growth for our Platform Sales Initiative.

STIP Payout Opportunities: Whitman, Young, and Sean Covey

The annual STIP payout opportunities for fiscal 2010, as a percentage of base salary for Robert Whitman, Stephen Young, and Sean Covey are shown below. The target earnings opportunity was established to position total cash compensation of these NEOs between the 50th and 75th percentiles of the market when performance is at targeted levels.

The Compensation Committee established the payout scale illustrated below with the intent of the plan paying out at target five to six times every ten years and paying out at the 120% of financial performance target one to two times every ten years. Payouts at 120% of the financial performance target 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: Whitman, Young, and Sean Covey

Name	Minimum Payout for Financial Performance Less than 80% of Target	Threshold Payout for Financial Performance at 80% of Target [1]	Payout for Financial Performance at 100% of Target	Payout for Financial Performance at 120% of Target
Robert A. Whitman CEO	0	1%	100%	200%
Stephen D. Young CFO	0	1%	70%	140%
M. Sean Covey	0	1%	55%	110%

(1) Financial Performance is defined as Adjusted EBITDA less certain pre-determined charges for Mr. Whitman, Mr. Young, and Sean Covey.

For Mr. Whitman, Mr. Young, and Mr. 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 Covey, Stephan Mardyks, Shawn Moon, and Jennifer Colosimo

STIPs for David Covey, Stephan Mardyks, Shawn Moon, and Jennifer Colosimo rewarded performance in their sales leadership roles, and for growing specific program areas in support of our overall business strategy. As noted, for David Covey and Stephan Mardyks, 80% of the STIP payment was based on achieving domestic and international Adjusted EBITDA results and 20% was based on revenue growth for the Speed of Trust and Execution Practices. For Jennifer Colosimo, 75% of the STIP payment was based on achieving domestic and international Adjusted EBITDA results and 25% was based on revenue growth for the Speed of Trust and Execution Practices.

For Shawn Moon, who as previously mentioned was paid for his role as General Manager of the Government Services vertical market and, of the Sales Performance Practice, and Sales Leader for the Education Practice and Platform Sales Initiative, STIP payment was based on Adjusted EBITDA results for Government Services, Education Practice, Sales Performance Practice, and revenue results for the Platform Sales Initiative. Adjusted EBITDA is defined as net income or loss from operations excluding the impact of interest expense, income tax benefit, amortization, depreciation, and other non-recurring items.

David Covey, Stephan Mardyks, Shawn Moon, and Jennifer Colosimo received a percentage of Adjusted EBITDA from their respective business unit's performance. Once the unit Adjusted EBITDA exceeded the Adjusted EBITDA achieved in the prior year, the respective manager received an accelerated percentage of Adjusted EBITDA during the remainder of the fiscal year. The target earnings opportunity was established to position total cash compensation for David Covey, Stephan Mardyks, Shawn Moon, and Jennifer Colosimo between the 50th and 75th percentiles of the market assuming performance at targeted levels. Commissions for Adjusted EBITDA results greater than budget continued to be paid at the same accelerated percentage.

The Compensation Committee established the payout scale illustrated below with the intent of the plan paying out at target five to six times every ten years and paying out at the 110% of financial performance target one to two times every ten years. Payouts at 110% of the financial performance target 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, Stephan Mardyks, Shawn Moon, Jennifer Colosimo

Name	Minimum Payout for no Financial Performance(1)	Payout for Financial Performance equal to FY10 Revenues(2)	Payout for Financial Performance at 100% of Target	Payout for Financial Performance at 110% of Target
David M.R. Covey	0%	51%	100%	136%
Stephan Mardyks	0%	51%	100%	136%
Shawn Moon	0%	0%	108%	143%
Jennifer Colosimo	0%	59%	100%	207%

(1) Financial Performance is defined as domestic and international sales Adjusted EBITDA with the exception of Shawn Moon whose financial performance is defined as Adjusted EBITDA for Government Services, Education Practice, Sales Performance & Platform Sales.

(2) Payouts for performance up to and equal to prior year Adjusted EBITDA is a straight line calculation after achieving certain thresholds based on actual Adjusted EBITDA and may range from 0 to approximately 59% of base salary.

For fiscal 2010 David Covey and Stephan Mardyks were individually eligible for quarterly bonuses based on the number of consecutive quarters in which domestic and international Adjusted EBITDA targets were achieved. As shown in the chart below, these bonuses could range from $8,000 to $15,000 per quarter to a target payout of $38,000 per year during fiscal 2010, or an amount approximately equal to 15% of base salary. If the Adjusted EBITDA target was missed during a quarter, the payout was zero and the target quarterly bonus would be reset to begin at $8,000 the next time the quarterly Adjusted EBITDA target is achieved.

Quarterly Adjusted EBITDA Budget Achievement

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

For fiscal 2010, Shawn Moon was eligible for quarterly bonuses based on the number of consecutive quarters in which Government Services, Education Practice, and Sales Performance Practice Adjusted EBITDA targets were at least 3% over last year's Adjusted EBITDA results. As shown in the chart below, these bonuses could range from $7,000 to $10,000 per quarter to a target payout of $34,000 per year during fiscal 2010, or an amount approximately equal to 15% of base salary. If the Adjusted EBITDA target was missed during a quarter, the payout was zero and the target quarterly bonus would be reset to begin at $3,000 the next time the quarterly Adjusted EBITDA target was achieved.

Quarterly Revenue Budget Achievement

First quarter of achieving revenue budget	$ 7,000
Second successive quarter of making budget	$ 8,000
Third successive quarter of making budget	$ 9,000
Fourth and subsequent successive quarters of making budget	$10,000

Performance Measures

Financial Performance Measures

2010 Short-Term Incentive Payouts were based on corporate financial performance and individual objectives. The table below presents the corporate financial measures for the NEOs:

Name	Financial Measure	Fiscal 2010 Target	Fiscal 2010 Quarterly Targets
Robert A. Whitman Chief Executive Officer	Adjusted Operating Income for Franklin Covey Co. (1)	$5.5 million	n/a
Stephen D. Young Chief Financial Officer	Adjusted Operating Income for Franklin Covey Co.	$5.5 million	n/a
David Covey Co-Chief Operating Officer, Global Operations	Adjusted EBITDA for FranklinCovey Domestic & International Sales	$33.4 million	Q1 $7.1 million Q2 $7.2 million Q3 $8.6 million Q4 $10.5 million
Stephan Mardyks Co-Chief Operating Officer, Global Operations	Adjusted EBITDA for FranklinCovey Domestic & International Sales	$33.4 million	Q1 $7.1 million Q2 $7.2 million Q3 $8.6 million Q4 $10.5 million
Shawn Moon Executive Vice President Domestic and Global Sales and Delivery	Adjusted EBITDA for Government Services, Education Practice, Sales Performance Practice, & Platform Sales	$7.6 million	Q1 $1.0 million Q2 $0.8 million Q3 $2.0 million Q4 $3.8 million
Jennifer Colosimo Executive Vice President Chief Operations Officer	Adjusted EBITDA for FranklinCovey Domestic & International Sales	$33.4 million	n/a
M. Sean Covey Executive Vice President Global Solutions and Partnerships	Adjusted Operating Income for Franklin Covey Co.	$15.0 million	n/a

(1) Adjusted Operating Income is equal to Adjusted EBITDA less $9.5 million of certain pre-determined charges.

To establish target Adjusted Operating Income and Adjusted EBITDA performance ranges for fiscal 2010, the Compensation Committee and the Executive Team reviewed historical performance data, general economic and market trends, industry-specific trends and results, new sales associate hiring and ramp-up plans, known client purchasing trends, new and updated product offerings that will be available during the year, and other variables related to organizational performance.

Individual Performance Objectives

Individual objectives for the NEOs were determined by the CEO for his direct reports and by the Board for the CEO. Because these goals were strategic in nature, and disclosing specifics could cause potential competitive harm, they are not disclosed. In general, targets were set for goals related to overall revenue growth, specific product revenue growth, sales proficiency, product development, customer relations, balance sheet management, and winning culture. Named Executive Officers generally averaged three to four major goals per year – the majority of which underpin or are otherwise related to achieving the annual plan. Achievement of key strategic, customer loyalty, and/or cultural goals required significant effort, and teamwork. Goals established for each NEO were stretch goals tied to achieving our annual plan in support of the long-term strategy. Each goal was typically linked to one of our Wildly Important Goals that are cascaded throughout FranklinCovey; progress toward each of these goals was reported weekly. Because of the focus on individual/team accountability for reaching these goals, there was an expected 70% or greater probability that the goals would be achieved.

Achievement of individual performance objectives accounted for up to 30% of the target STIP amount for Mr. Whitman and Mr. Young. Individual objectives were weighted based on difficulty and on the 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 performance objectives, and shows the STIP amount tied to achieving the payout for the individual portion of the STIP. In addition, the Compensation Committee retains discretion to award STIP payouts for individual performance in excess of 100% when it feels that an executive has exceeded its expectations in contributing to FranklinCovey's success. In 2010, the Compensation Committee awarded Mr. Whitman 110% of his possible STIP payout for individual performance based upon his contributions. David Covey, Stephan Mardyks, and Jennifer Colosimo all achieved 132% of the individual component of their STIP since the growth of the Speed of Trust and Execution Practices substantially exceeded their goal for fiscal 2010.

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 2010 Actual Performance and Short-Term Incentive Plan (STIP) Payouts

For fiscal 2010, 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 CEO	2010	500,000	84% of financial target	110% of 30% target	459,000
Stephen D. Young CFO	2010	175,000	84% of financial target	100% of 30% target	155,400
David Covey	2010	213,000	74% of financial target	132% of 20% target	183,540
Stephan Mardyks	2010	213,000	74% of financial target	132% of 20% target	183,540
M. Sean Covey	2010	150,000	91% of financial target	68% of 70% target	112,286
Shawn Moon	2010	194,000	367% of financial target	-	711,433
Jennifer Colosimo	2010	70,000	88% of financial target	132% of 25% target	69,448

The Compensation Committee established the STIP payout targets for 2010 such that FranklinCovey would need to significantly improve its applicable financial metrics in order for the Name Executive Officers to receive bonus payouts based upon the financial metrics applicable to them. In addition, the percentage of the payouts was not directly tied to the percentage of the target financial performance achieved. For example, the financial metrics that were tied to Mr. Whitman's and Mr. Young's bonus payouts exceeded 84%, but, based upon the payout ratios established by the Compensation Committee at the beginning of 2010, Mr. Whitman and Mr. Young were only entitled to receive 84% of the payout for financial performance.

STIP Plan Changes for Fiscal 2011

The following changes were made to the STIP for fiscal 2011:

- For fiscal 2011, the Executive Team will share and work on the same financial goals and the same individual performance targets. The target STIP amount as a percentage of base salary will be different for each executive. We believe this complete alignment of pay and individual performance targets will serve to further strengthen the alignment of all our NEO's toward our critical objectives for fiscal 2011.
- The mix between financial objectives and individual performance will be adjusted in fiscal 2011 to bring all NEO's to the existing 70% financial and 30% individual performance targets in place during fiscal 2010 for Mr. Whitman, Mr. Young, and Mr. Sean Covey. For fiscal 2011, all NEO's will share the same financial and individual performance targets.
- The maximum payout for any executive will be 200% of target. This 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) – Performance-Based Equity Grants

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 key employees to provide incentive to achieve the specific financial objectives included in our long-term financial plan. The number of shares that eventually vest and are issued to LTIP participants is variable and based entirely upon the achievement of specified performance objectives during a defined performance period.

The Compensation Committee approved a LTIP award in fiscal 2010 which included the following:

- Target Number of Shares originally expected to Vest at August 31, 2012 - 232,576 shares
- Remaining Vesting Dates - August 31, 2012, March 2, 2013, and August 31, 2013
- Grant Date Fair Value of Common Stock - $5.28 per share

The fiscal 2010 LTIP has a four-year performance period with three potential vesting dates if certain financial measures are achieved during the performance period.

The Compensation Committee determined to cancel this LTIP for the majority of the potential recipients, since the amount of these awards would have been additive to their Total Targeted Compensation and a proposal for a new equity incentive plan is now being discussed. With this decision, 50,190 shares were cancelled.

New Equity Incentive Plan for Fiscal 2011

The Compensation Committee has begun initial discussions regarding a new equity incentive plan for the NEO's and other senior leaders of the Company. An outside consultant has been engaged, and has provided initial analysis and design parameters for this new equity incentive plan. Discussions regarding this equity incentive plan will continue in the next Organization and Compensation Committee Meeting to be held in January 2011.

Stock Ownership Guidelines. Philosophically, we believe that ownership of our Common Stock is important to further increase the alignment of interests of executives and outside with those of our shareholders. Through the LTIP and issuance of Restricted Share Awards (RSAs), executives have the opportunity to increase stock ownership. As a general guideline, and consistent with industry best practices, beginning in fiscal 2009 outside directors were encouraged to maintain stock ownership equal to at least 3 times their annual retainer or a value of $90,000. Executives were 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, 2010, multiplied by the number of shares including common shares and vested and unvested RSAs held by each director and executive:

- All directors meet the foregoing guidelines.
- Three of the six Executive Officers already meet the foregoing guidelines; with the other three Executive Officers expected to meet the guideline within a three- to five-year time frame.

4. Certain Other Benefits

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 **High Deductible Health Plans and Health Savings Accounts** administered pursuant to Section 125 of the Internal Revenue Code of 1986, as amended ("the Code"), and Section 223.
- 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.** FranklinCovey provides 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 percent of his fiscal 2010 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: Consistent with the spirit of partnership at FranklinCovey, there are no other executive perquisites.

5. Severance 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 week's salary for every $10,000 of their annual TTC (Total Targeted Compensation). This is the same formula that is used when calculating severance for all FranklinCovey employees. Additionally, we pay COBRA medical and dental insurance premiums for the term of the severance. Consistent with FranklinCovey's severance payment policy, all severance payments are made as a lump sum. 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.

6. Change in Control Severance Benefits

Change-in-Control Severance Agreements

We have 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 market assessment, the Compensation Committee determined the following change-in-control severance benefits to be appropriate for a company of our size and revenues. Specifically, in the event an Executive Officer's or key employee's employment is terminated, without good reason, and as the result of a change-in-control, as defined in the policy, the Executive Officer is 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 are also 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 are entitled to have immediately vested, as of his or her employment termination date, all awards granted which at the 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 payment 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 Code 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).

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 2010 were not considered qualified performance-based compensation under Section 162(m).

Fiscal 2010 Equity Awards for CEO and CFO

During fiscal 2010 the Compensation Committee awarded the CEO and CFO options to purchase 250,000 shares and 175,000 shares of our common stock, respectively. These stock options have a contractual life of 10 years and are divided into four equal tranches with exercise prices of $9.00 per share, $10.00 per share, $12.00 per share, and $14.00 per share. The options vest upon resolution of the management common stock loan program, subject to Board of Director approval of the resolution, which was determined to be a market vesting condition based upon our share price. During fiscal 2011, the Compensation Committee intends to award Mr. Whitman an additional 250,000 stock options with similar vesting terms to those awarded during fiscal 2010.

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 Executive Officers listed below (collectively, the Named Executive Officers) as of August 31, 2010, 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.

2010 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	2010	500,000		600,000	289,773	459,000		398,396	2,247,169
Chairman and Chief	2009	500,000	241,500	-	-	150,000	-	49,380	940,880
Executive Officer	2008	500,000	645,134	-	-	295,000	-	56,750	1,496,884
Stephen D. Young	2010	250,000		150,000	202,841	155,400		13,371	771,612
Chief Financial Officer	2009	250,000	70,000	-	-	52,500	-	7,462	379,962
	2008	250,000	177,913	-	-	103,250	-	15,072	546,235
David M.R. Covey	2010	281,442		-		183,540		467,267	932,249
Co-Chief Operating Officer for Global Operations	2009	250,000	25,300	-	-	98,474	-	7,277	381,051
Stephan Mardyks	2010	281,442		-		183,540		459,846	924,828
Co-Chief Operating Officer for Global Operations	2009	250,000	25,300	-	-	124,734	-	14,210	414,244
M. Sean Covey	2010	270,000		68,000		112,285		845,480	1,295,765
Executive Vice President Global Solutions and Partnerships	2009	250,000	70,000	-	-	72,614	-	164,048	556,662
Shawn Moon Executive Vice President Domestic and Global Sales and Delivery	2010	250,000		10,000		711,433	-	18,478	989,911
Jennifer Colosimo Executive Vice President Chief Operations Officer	2010	200,000		30,000		69,447	-	7,066	306,513

Salary (Column C)

The amounts reported in column C represent base salaries paid to each NEO in fiscal 2010.

Bonus (Column D)

The amounts in Column D represent bonuses paid in lieu of LTIP awards made in fiscal 2006 and fiscal 2007 which were canceled as of August 31, 2009 with no shares vesting to participants, and in lieu of LTIP awards that were not made in fiscal 2008 or fiscal 2009, resulting in target total compensation at less than the 50^{th} percentile for the NEOs.

Stock Awards (Column E)

Amounts in this Column represent the grant date fair value of unvested (restricted) shares issued under the terms of our LTIP program. During fiscal 2010, the Compensation Committee approved the fiscal 2010 LTIP award, which includes the following key terms a) target number of shares expected to vest at August 31, 2012 - 232,576 shares; b) vesting dates - August 31, 2012, March 2, 2013, and August 31, 2013; and c) grant date fair value of common stock - $5.28 per share. The fiscal 2010 LTIP has a four-year performance period, but has three vesting dates if certain financial measures are achieved during the performance period. As previously noted, by mutual agreement, the employment of David Covey and Stephan Mardyks was terminated with the Company effective August 31, 2010, and any rights to past or future performance share awards were forfeited concurrently. For further information regarding the LTIP awards, refer to Note 13, *Share-Based Compensation Plans,* to our consolidated financial statement for the three years in the period ended August 31, 2010, included in our Annual Report on Form 10-K for the fiscal year ended August 31, 2010.

Option Awards (Column F)

Amounts in this column represent the grant date fair value of stock options awarded to the CEO and CFO during fiscal 2010. During fiscal 2010, the Compensation Committee awarded the CEO and CFO options to purchase 250,000 shares and 175,000 shares of our common stock, respectively. These stock options have a contractual life of 10 years and are divided into four equal tranches with exercise prices of $9.00 per share, $10.00 per share, $12.00 per share, and $14.00 per share. The options vest upon resolution of the management common stock loan program, subject to Board of Director approval of the resolution, which was determined to be a market vesting condition based upon our share price. Accordingly, the fair value of these stock options was determined using a Monte Carlo simulation with an embedded Black-Scholes valuation model. For further information regarding these stock options, refer to Note 13, *Share-Based Compensation Plans,* to our consolidated financial statement for the three years in the period ended August 31, 2010, included in our Annual Report on Form 10-K for the fiscal year ended August 31, 2010.

Non-Equity Incentive Plan Compensation (Column G)

The amounts reported in column G represent the amounts paid to each Named Executive Officer 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, Stephan Mardyks, Shawn Moon, and Jennifer Colosimo were made monthly. The amounts for David Covey and Stephan Mardyks include $8,000 each in quarterly bonuses for meeting quarterly Adjusted EBITDA targets. The amount for Shawn Moon includes $22,000 in quarterly bonuses for meeting quarterly Adjusted 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, royalty payments, and insurance premiums. The 2010 All Other Compensation Table presents the detail of the amounts included in column I for fiscal 2010.

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.

All Other Compensation Table

The All Other Compensation Table provides numerical information that is incorporated into Column I, All Other Compensation, on the 2010 Summary Compensation Table. For a complete understanding of the data on the table, please refer to the narrative disclosures that follow.

Fiscal 2010 All Other Compensation Table

A	B	C	D	E	F	G	H	I	J
Name	Year	Contributions to DC Plans ($)	Executive Life Insurance Premiums ($)	Executive Disability Premiums ($)	Gross Up ($)	President's Club ($)	Other ($)	Severance ($)	Total ($)
Robert A. Whitman CEO	2010	6,975	7,310	34,878	349,233				398,396
Stephen D. Young CFO	2010	11,101	2,270						13,371
David M.R. Covey	2010	7,421						459,846	467,267
Stephan Mardyks	2010	-						459,846	459,846
M. Sean Covey	2010	12,705			707,523		125,252		845,480
Shawn Moon	2010	14,117				4,361			18,478
Jennifer Colosimo	2010	7,066							7,066

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 percent of his fiscal 2010 target cash compensation. The amount in Column E shows the premiums paid for Mr. Whitman's supplemental long-term disability coverage.

Gross up (Column F)

For Mr. Whitman, the amount in Column F refers to taxes paid by the Company relating to reimbursements of business travel treated under IRS rules as taxable compensation to Mr. Whitman. For Mr. Sean Covey, the amount in Column F refers to a bonus covering taxes resulting from the forgiveness of Sean Covey's management stock loan.

President's Club (Column G)

For Mr. Shawn Moon, the amount in Column G refers to travel and travel-related awards received during fiscal 2010 for performance during fiscal 2009.

Other (Column H)

For Mr. Sean Covey, the amount in Column H refers to royalties of $125,252 paid during fiscal 2010.

Severance (I)

For Mr. David Covey and Mr. Stephan Mardyks, the amounts in Column I refer to the severance amount that each received as their employment with FranklinCovey ended.

Total (Column J)

The amounts reported in Column J reflect the sum of columns C through I 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 and Long-Term Incentive Plan awards made to each of the NEOs in fiscal 2010. For a complete understanding of the data on the table, please refer to the narrative disclosures that follow.

Fiscal 2010 Grants of Plan-Based Awards

A	B	C	D	E	F	G	H	I	J	K	L
		Estimated future payouts under non-equity incentive plan awards			Estimated future payouts under equity incentive plan awards						
Name	Grant Date	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)	Grant date fair value of stock and option awards ($)
Robert A. Whitman CEO											
Short-Term Incentive Plan(1)		-	500,000	1,000,000							
Long-Term Incentive Plan(2)	1/28/2010				20,454	113,636	227,272	-			600,000
Stock Options(3)	1/28/2010								62,500	9.00	80,619
	1/28/2010								62,500	10.00	76,593
	1/28/2010								62,500	12.00	69,399
	1/28/2010								62,500	14.00	63,162
Stephen D. Young CFO											
Short-Term Incentive Plan(1)		-	175,000	350,000							
Long-Term Incentive Plan(2)	1/28/2010				5,114	28,409	56,818	-			150,000
Stock Options(3)	1/28/2010								43,750	9.00	56,433
	1/28/2010								43,750	10.00	53,615
	1/28/2010								43,750	12.00	48,579
	1/28/2010								43,750	14.00	44,213
David M.R. Covey(5)											
Short-Term Incentive Plan(4)			213,000	-							
Long-Term Incentive Plan(4)	1/28/2010	-			1,364	7,576	15,152	-	-	-	40,000
Stephan Mardyks(5)											
Short-Term Incentive Plan(4)		-	213,000	-							
Long-Term Incentive Plan(4)	1/28/2010				1,364	7,576	15,152	-	-	-	40,000
M. Sean Covey(5)											
Short-Term Incentive Plan(1)		-	150,000	-							
Long-Term Incentive Plan(2)	1/28/2010				2,318	12,879	25,758	-	-	-	68,000
Shawn Moon(5)											
Short-Term Incentive Plan(1)		-	194,000	-							
Long-Term Incentive Plan(2)	1/28/2010				341	1,894	3,788	-	-	-	10,000
Jennifer Colosimo(5)											
Short-Term Incentive Plan(1)		-	70,000	-							
Long-Term Incentive Plan(2)	1/28/2010				1,023	5,682	11,364	-	-	-	30,000

(1) Represents estimated payouts for annual incentives under the terms of our STIP for each of the listed NEOs. The STIP is an annual cash incentive opportunity and therefore awards are earned in the year that they are approved (granted). The target amounts represent the potential payout if both Company and individual performance are at targeted levels. The maximum amounts represent the amounts that may be earned if Company and individual performance substantially exceed targeted levels. Refer to the Summary Compensation Table for actual payout amounts for fiscal 2010 under the STIP. Refer to the Compensation Discussion and Analysis for further information regarding the STIP awards.

(2) Represents possible future payouts of Common Stock underlying performance shares awarded in fiscal 2010 under terms of our LTIP. These awards will vest upon the achievement of performance measures based on cumulative Adjusted EBITDA and division Adjusted EBITDA if applicable, over a four-year vesting period. The threshold, target, and maximum awards are equal to 50%, 100%, and 150%, respectively, of the number of performance shares awarded. If the minimum financial goals are not met by the end of the four-year vesting period, no awards will be paid out under the terms of the fiscal 2010 LTIP award. Refer to the Compensation Discussion and Analysis for further information regarding the LTIP awards.

(3) Represents stock options awarded to the CEO and CFO during fiscal 2010 under the Amended and Restated 1992 Franklin Covey Co. Incentive Stock Plan. These options vest upon resolution of the management common stock loan program, subject to Board of Director approval of the resolution, which was determined to be a market vesting condition based upon our share price. Accordingly, the fair value of these stock options was determined using a Monte Carlo simulation with an embedded Black-Scholes valuation model. For further information regarding these stock options, refer to Note 13, *Share-Based Compensation Plans,* to our consolidated financial statement for the three years in the period ended August 31, 2010, included in our Annual Report on Form 10-K for the fiscal year ended August 31, 2010.

(4) David Covey and Stephan Mardyks, by mutual agreement, terminated their employment with the Company effective August 31, 2010. Mr. Covey and Mr. Mardyks received STIP payments as shown in the Summary Compensation Table, but all performance share awards granted under terms of the 2010 LTIP award were forfeited and they will not be eligible to receive these shares.

(5) For fiscal 2010, all or a some of the STIP for David Covey, Stephan Mardyks, Sean Covey, Shawn Moon, and Jennifer Colosimo was tied to Adjusted EBITDA targets and/or revenue growth of specific initiatives. There was no maximum as to what they could earn for exceeding the targets that had been set. For further infomation about these plans, please refer to the STIP discussion previously presented.

Outstanding Equity Awards at Fiscal Year-End

The following equity awards granted to our named executive officers were outstanding as of August 31, 2010.

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 ($)(1)
Robert A. Whitman									
CEO									
LTIP Awards(2)								113,636	693,180
Stock Options(2)		62,500		9.00	1/28/2020				
		62,500		10.00	1/28/2020				
		62,500		12.00	1/28/2020				
		62,500		14.00	1/28/2020				
Stephen D. Young									
CFO									
LTIP Awards(2)								28,409	173,295
Stock Options(2)	35,000			8.00	1/16/2011				
		43,750		9.00	1/28/2020				
		43,750		10.00	1/28/2020				
		43,750		12.00	1/28/2020				
		43,750		14.00	1/28/2020				
David M.R. Covey									
LTIP Awards(3)								-	-
Stephan Mardyks									
LTIP Awards(3)								-	-
M. Sean Covey									
LTIP Awards(2)								12,879	78,562
Shawn Moon									
LTIP Awards(2)								1,894	11,553
Jennifer Colosimo									
LTIP Awards(2)								5,682	34,660

(1) Represents the target number of unvested performance shares issued under the LTIP program multiplied by the closing price of our Common Stock on August 31, 2010 of $6.10 per share. At August 31, 2010, we believe that the target number of shares represents the best estimate of the number of shares that will vest to participants. However, the ultimate value of the LTIP awards will depend on the number of shares actually issued and the share price of our Common Stock on the vesting date.

(2) Grants were made under the terms of the Amended and Restated 1992 Franklin Covey Co. Incentive Stock Plan. Refer to the discussion under Grants of Plan-Based Awards Table for the vesting terms of stock options granted to Mr. Whitman and Mr. Young during fiscal 2010.

(3) David Covey and Stephan Mardyks, by mutual agreement, terminated their employment with the Company effective August 31, 2010. All performance share awards granted under terms of the 2010 LTIP award were forfeited and they will not be eligible to receive these shares in any future period.

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 Change-in-Control Severance Agreement, each executive officer would receive one times his or her current annual total targeted cash compensation paid out in a lump sum, plus reimbursement of premiums to secure benefit continuation coverage during the severance period.

Estimated Change-in-Control Severance Amounts as of August 31, 2010

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 CEO	2010	1,008,288	500,000	500,000	1,000,000	8,288
Stephen D. Young CFO	2010	435,120	250,000	175,000	425,000	10,120
M. Sean Covey	2010	435,120	275,000	150,000	425,000	10,120
Shawn Moon	2010	454,120	250,000	194,000	444,000	10,120
Jennifer Colosimo	2010	282,758	200,000	70,000	270,000	12,758

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 an equivalent of one week's salary for every $10,000 of their annual total targeted compensation. This is the same formula that is used when calculating severance for all FranklinCovey employees. This amount is paid out in a lump sum payment. 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.

David Covey and Stephan Mardyks, by mutual agreement, terminated their employment with the Company effective August 31, 2010. Mr. Covey and Mr. Mardyks were each paid severance totaling $459,846 plus COBRA premiums, which was calculated according to the formula described above.

Estimated Severance Amounts as of August 31, 2010

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 CEO	2010	1,939,015	500,000	500,000	1,923,077	15,938
Stephen D. Young CFO	2010	359,810	250,000	175,000	351,442	8,368
M. Sean Covey	2010	359,810	275,000	150,000	351,442	8,368
Shawn Moon	2010	392,988	250,000	194,000	384,230	8,758
Jennifer Colosimo	2010	146,816	200,000	70,000	140,192	6,624

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). The target annual cash compensation (Column F) is calculated by taking an equivalent of one week's salary for every $10,000 of annual total targeted compensation. The annual salary is equal to the annual total targeted compensation and is calculated by adding the base salary (Column D) and the target annual STIP (Column E).

PRINCIPAL HOLDERS OF VOTING SECURITIES

The following table sets forth information as of October 31, 2010, 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, 2010, 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 October 31, 2010. 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 17,037,070 shares of Common Stock outstanding as of October 31, 2010. At the date of this report, there are no shares of Series A or B Preferred Stock outstanding.

BENEFICIAL OWNERSHIP

As of October 31, 2010	Number of Common Shares	Percentage of Class
Donald J. McNamara[1][2][3][6] c/o Franklin Covey Co. 2200 West Parkway Blvd. Salt Lake City, UT 84119-2331	7,269,535	31.7%
Knowledge Capital Investment Group[1][2] 3232 McKinney Ave. Dallas, TX 75204	6,928,404	30.2%
Dimensional Fund Advisors, Inc.[4] 1299 Ocean Avenue Santa Monica, CA 90401	1,228,909	7.2%
Stephen R. Covey[3][6] c/o Franklin Covey Co. 2200 West Parkway Blvd. Salt Lake City, UT 84119-2331	1,034,281	6.1%
John H. Lewis[7] Osmium Partners, LLC 388 Market Street, Suite 920 San Francisco, CA 94111	1,033,558	6.1%
William Blair & Co., LLC[4] 222 West Adams St. Chicago, IL 60606-5312	969,244	5.7%
Robert A. Whitman	479,882	2.8%
M. Sean Covey	239,062	1.4%
Joel C. Peterson[6]	227,946	1.3%
Dennis G. Heiner[6]	133,654	*%
Stephen D. Young[5]	104,312	*%
E. Kay Stepp[6]	58,806	*%
E.J. "Jake" Garn[6]	45,354	*%
Clayton M. Christensen[6]	41,779	*%
Robert H. Daines[6]	33,313	*%
David M.R. Covey	21,900	*%
Stephan Mardyks	19,513	*%
Jennifer Colosimo	1,112	*%
All directors and executive officers as a group[5][6][8] (13 persons)	9,749,203	42.4%

(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 1,022,148 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 therefore be deemed to have beneficial ownership of such shares.

(4) Information for Dimensional Fund Advisors and William Blair & Co. is provided as of September 30, 2010, the filing of their last 13F Reports.

(5) The share amount indicated includes 35,000 shares subject to currently exercisable stock options held by Stephen D. Young. Mr. Young was the only officer who held exercisable stock options at October 31, 2010.

(6) The share amounts indicated include unvested stock awards currently not vested held by the following persons in the following amounts: Clayton M. Christensen, 12,133 shares; Stephen R. Covey, 12,133 shares; Robert H. Daines, 12,133 shares; E.J. "Jake" Garn, 12,133 shares; Dennis G. Heiner, 12,133 shares; Donald J. McNamara, 12,133 shares; Joel C. Peterson, 12,133 shares; E. Kay Stepp, 12,133 shares; and all directors as a group, 97,064 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 (collectively, 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 200,039 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 31, 2009.

(8) Amount excludes shares held by David M.R. Covey and Stephan Mardyks since their service as named executive officers ceased as of August 31, 2010.

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 our 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 during fiscal 2010.

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

In fiscal 2009, 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. During fiscal 2010, we paid the former owners of CoveyLink $3.3 million in cash for the first earnout payment. 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 $1.1 million during the fiscal year ended August 31, 2010. In connection with the 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 2010, 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 2010, we expensed $1.5 million based upon these agreements.

We pay M. 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 2010, we expensed $0.2 million for these royalty payments.

We employ John Covey, a brother of Stephen R. Covey, and paid him compensation totaling $115,096 during fiscal 2010. During fiscal 2010, 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 $151,905.

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.

Shawn D. Moon was among the 147 participants in our management stock loan program since March 2000, and under that program owed the Company $1,126,595 (75,865 shares) at November 30, 2010. To settle the loan, he will surrender his loan shares (valued at market) to the Company in partial payment of the loan and we will forgive the remaining loan balance. To the extent necessary, we also intend to pay Mr. Moon a bonus to cover the related taxes he will incur as a result of this transaction.

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

Proposal II

TO APPROVE THE AMENDMENT AND RESTATEMENT OF THE FRANKLIN COVEY CO. 1992 STOCK INCENTIVE PLAN

On November 19, 2010, our Board of Directors adopted, subject to shareholder approval, the Second Amended and Restated 1992 Stock Incentive Plan (the Restated Plan). The purpose of the Restated Plan is to promote our long-term success and the creation of incremental stockholder value by encouraging key employees and non-employee directors to focus on critical long-range objectives, encouraging the attraction and retention of key employees and non-employee directors with exceptional qualifications, and linking key employees and non-employee directors directly to stockholder interests through increased stock ownership.

The Restated Plan is intended to replace the existing Amended and Restated 1992 Stock Incentive Plan (the Current Plan), which has been amended multiple times, and to merge the Current Plan and the 2004 Non-Employee Directors' Stock Incentive Plan (the Directors' Plan) into the Restated Plan. Under the Restated Plan, the Directors' Plan will cease to exist and the Restated Plan will govern our stock incentives. By combining the Current Plan and the Directors' Plan, we will reduce the complexity and administrative costs associated with maintaining two share-based compensation plans and will provide flexibility in awarding shares to employees and non-employee directors. The Compensation Committee, composed entirely of independent directors, will administer the Restated Plan.

Under the Restated Plan, non-employee directors will be eligible to receive stock awards and will receive an annual grant (Annual Grant) of a number of restricted shares having an aggregate fair market value of $40,000, rounded up to the nearest whole share. In addition to the Annual Grant, the Compensation Committee may grant additional awards to non-employee directors at its discretion. If a non-employee director dies, all options, restricted stock, and stock units granted to such director automatically vest. If a non-employee director is terminated for cause, all options, restricted stock, and stock units granted to such director automatically terminate and are null and void.

The maximum number of shares of Common Stock that may be issued pursuant to the Current Plan is currently 7,000,000. The Restated Plan will increase the 7,000,000 share limit to 7,300,000 shares by adding the 300,000 shares previously approved by shareholders for the Directors' Plan to the existing 7,000,000 shares previously approved by shareholders for the Current Plan to form one pool of 7,300,000 available shares. We are not requesting the ability to issue any additional shares as a result of this proposal. Any awards issued under the Directors' Plan which counted against the 300,000 share limit will continue to count against the combined 7,300,000 share limit unless and to the extent that the awards again become available for re-issuance in accordance with the terms of the Restated Plan (e.g., in the case of forfeiture).

In addition to the changes described above, the Restated Plan includes changes to comply with current tax requirements, to provide more flexibility to the Compensation Committee in granting awards, and several additional changes, including allowing awards to be settled in cash.

If this proposal is approved, we will not grant any more awards under the Directors' Plan and all outstanding awards issued under the Directors' Plan will be subject to the terms of the Restated Plan. New awards granted to directors will be granted from the Restated Plan. If the shareholders do not approve the Restated Plan at the Annual Meeting, the Restated Plan will be of no effect and the Current Plan and the Directors' Plan will continue to operate as previously approved.

The following is a summary of the material features of the Restated Plan. Because it does not contain all of the information that may be important to you, you should read the entire Restated Plan attached hereto as Appendix A carefully before deciding how to vote.

Summary of the Restated Plan

Administration

The Compensation Committee will administer the Restated Plan. The Compensation Committee is composed entirely of independent directors within the meaning Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code), and under the NYSE standards. The Committee will always be comprised of at least two directors but not less than such number of directors as will be required to permit awards granted under the Restated Plan to qualify under Rule 16b-3 of the Exchange Act and Section 162(m) of the Code. The Board of Directors may, at any time and from time to time, without any further action of the Compensation Committee, exercise the powers and duties of the Compensation Committee under the Restated Plan, unless the exercise of such powers and duties by the Board of Directors would cause the Restated Plan not to comply with the requirements of Rule 16b-3 of the Exchange Act.

The Compensation Committee will select the key employees and non-employee directors who are to receive awards under the Restated Plan. They will further determine the amount, vesting requirements and other conditions of the awards, interpret the Restated Plan, and make all other decisions relating to the operation of the Restated Plan. The Compensation Committee may adopt such rules or guidelines as it deems appropriate to implement the Restated Plan. The Compensation Committee's determinations under the Restated Plan shall be final and binding on all persons. The Compensation Committee may impose such restrictions, conditions or limitations as it determines appropriate as to the timing and manner of any option exercises, share issuances and/or of any resales or other transfers of shares issued under the Restated Plan.

Eligible Participants

Awards may be granted only to our key employees. The Compensation Committee determines which of our employees are deemed to be key employees. Employees of our subsidiaries can be key employees. The Restated Plan will also allow us to grant awards to our non-employee directors. We currently have 9 directors, 5 officers, and approximately 600 employees who will be eligible to participate in the Restated Plan.

Shares Available For Awards

The aggregate number of shares of our Common Stock that may be issued under all stock-based awards made under the Restated Plan will be 7,300,000. Under the Restated Plan, no person may be granted options or stock appreciation rights for more than 500,000 Common Stock shares in any year. No person may be awarded performance shares which are intended to represent "qualified performance-based compensation" with the meaning of Section 162(m) of the Code for more than 500,000 Common Stock shares in any year. The maximum amount payable under the Restated Plan pursuant to all awards denominated in cash to any person in the aggregate in any taxable year will be $5,000,000 in value, whether payable in cash, Common Stock or other property.

The Restated Plan requires appropriate adjustments to the total number of shares of Common Stock available under the Restated Plan, as well as to outstanding awards, to offset the effect of any stock split or dividend of Common Stock, other materially dilutive dividend, consolidation of outstanding shares, recapitalization or similar occurrence.

Types of Awards

The Restated Plan permits us to issue incentive stock options as defined in Section 422 of the Code (ISOs) and nonqualified stock options which are not governed by Section 422 of the Code (Nonqualified Options) to acquire shares of Common Stock (collectively, Options). The Restated Plan also permits the issuance of stock appreciation rights in connection with Options (SARs), restricted shares of Common Stock, and stock units, including performance shares. The various types of share-based awards that may be issued are referred to collectively as "Awards." The Compensation Committee may, in its discretion, pay in cash the fair market value of the Common Stock that was to be delivered pursuant to an Award instead of delivering the Common Stock. On November 30, 2010, the closing price of our Common Stock, as reported on the New York Stock Exchange, was $8.03 per share.

Options. Subject to the terms of the Restated Plan, we may grant ISOs and Nonqualified Options to key employees and non-employee directors. The Compensation Committee sets the terms of such Options, except that the exercise price of any Option cannot be less than the fair market value of the underlying shares of Common Stock as of the date of Option grant. The exercise price of Options is payable upon exercise in the form or forms determined by the Compensation Committee. The Compensation Committee also determines when each Option vests and becomes exercisable. The term of an ISO, however, may not be more than ten years from the date of grant. During the lifetime of the employee receiving the Option (the Optionee), the Option is not assignable or transferable, however, the Compensation Committee may permit transfers of Nonqualified Options to family members. The Compensation Committee may allow an Option to be exercised early if the Optionee dies, retires, or becomes disabled or if we undergo a "change in control" as defined in the Restated Plan. The Compensation Committee may require that a holder's Options expire if that holder's employment is terminated.

The Compensation Committee shall determine the time or times at which an Option may be exercised in whole or in part and the method or methods by which, and the form or forms (including, without limitation, cash, Common Shares, promissory notes (provided, however, that the acceptance of such promissory notes does not conflict with Section 402 of the Sarbanes-Oxley Act of 2002), other securities, other Awards or other property, or any combination thereof, having a fair market value on the exercise date equal to the applicable exercise price) in which payment of the exercise price with respect thereto may be made or deemed to have been made. Alternatively, the Committee may, in its discretion, permit an Option to be exercised using an SAR as described in the Restated Plan. An Optionee may exercise an Option by requesting that the Company deliver to the Optionee a number of Common Shares having an aggregate fair market value (determined as of the date of exercise) equal to the excess, if positive, of the fair market value of the Common Shares underlying the Option being exercised, on the date of exercise, over the exercise price of the Option for such Common Shares (a Net Exercise). Notwithstanding anything to the contrary herein, the Compensation Committee may, in its discretion, require an Optionee to exercise an Option using the Net Exercise method. In addition, notwithstanding the method of exercise, the Compensation Committee may, in its discretion, pay to an Optionee in cash the fair market value of the Common Shares that were to be delivered to the Optionee instead of delivering the Common Shares.

Stock Appreciation Rights (SARs). In connection with the grant of any Option, the Compensation Committee may also grant a SAR related to that Option. Related SARs entitle the Optionee to surrender to the Company, unexercised, all or any part of the Option which then is exercisable and to receive from the Company an amount equal to the difference between the aggregate exercise price of the Option shares and the fair market value of those shares on the date of exercise. The Company will pay the amount owing upon exercise of a SAR in shares of Common Stock. A SAR may be exercised only if the related Option can be exercised.

Restricted Shares. The Compensation Committee may award to key employees and non-employee directors shares of Common Stock subject to vesting conditions (Restricted Shares). The Compensation Committee sets vesting conditions, which may be based upon the recipient's service or performance, our performance, or other criteria and the Restricted Shares vest when those conditions are satisfied. Restricted Shares may also vest if the recipient dies, retires, or becomes disabled of if we undergo a "change in control" as defined in the Restated Plan. The holders of Restricted Shares do not have the same voting, dividend and other rights as our other Common Stock holders until the Restricted Shares vest. To the extent that an Award is granted in the form of Restricted Shares, the Award recipient, as a condition to the grant of such Award, may be required to pay the Company in cash an amount equal to the par value of such Restricted Shares.

Stock Units. The Compensation Committee may grant to participants contractual rights to receive in the future a designated number of shares of Common Stock upon satisfaction of specified vesting conditions (a Stock Unit). The Compensation Committee selects the vesting conditions for each Stock Unit, which may be based upon the recipient's service or performance, our performance, or other criteria. Holders of Stock Units have no voting rights and are not entitled to receive cash dividends or dividend equivalents. Stock Units are settled upon vesting in cash, shares of Common Stock, or a combination thereof, as determined by the Compensation Committee. Under the Restated Plan, Stock Units may be granted in the form of performance shares as described below. To the extent that an Award is granted in the form of Stock Units, no cash consideration shall be required of Award recipients.

Performance Shares. The Restated Plan permits Stock Units to be granted in the form of performance shares (Performance Shares). Performance Shares will provide the holder with the right to receive shares of Common Stock upon completion of specified performance periods. The precise number of shares issued is based upon how well we achieve pre-determined, Compensation Committee-designated target levels of performance during the applicable performance periods.

Performance Shares that are granted to participants who may be "covered employees" under Section 162(m) of the Code and that are intended to be "qualified performance-based compensation" within the meaning of Section 162(m) of the Code, to the extent required by Section 162(m) of the Code, shall be conditioned solely on the achievement of the performance criteria established by the Compensation Committee within the time prescribed by Section 162(m) of the Code, and shall otherwise comply with the requirements of Section 162(m) of the Code.

Performance goals must be based solely on one or more of the following business criteria, applied on a corporate, subsidiary, division, business unit, or line of business basis: earnings per share, revenues (including net sales growth), return on investment, earnings (including net operating profit after taxes), return on equity, profit margins, cost reductions, inventory levels, delivery performance, safety performance, quality performance, core operating earnings, total shareholder return, cash flow (including operating cash flows, free cash flow, discounted cash flow return on investment, and cash flow in excess of cost of capital), economic value added, stockholder value added, market share, price to earnings ratio, expense ratios, workforce goals, total expenditures, or completion of key projects. Performance goals may be an absolute measure or a defined change (amount or percentage) in a measure. The measure of performance may be set by reference to an absolute standard or a comparison to specified companies or groups of companies, or other external measures. The Compensation Committee may provide that, in determining whether the performance goal has been achieved, the effect of certain events may be excluded. These events include, but are not limited to, any of the following: restructurings, acquisitions, divestitures, discontinued operations, extraordinary items, unusual or non-recurring charges, an event not directly related to the operations of the Company or within the reasonable control of the Company's management, or the cumulative effects of tax or accounting changes. To the extent that Section 162(m) of the Code or applicable tax and/or securities laws change to permit Compensation Committee discretion to alter the governing performance measures without disclosing to shareholders and obtaining shareholder approval of such changes and without thereby exposing the Company to potentially adverse tax or other legal consequences, the Compensation Committee shall have the sole discretion to make such changes without obtaining shareholder approval.

Automatic Grant Program. The Restated Plan contains an automatic option grant program for our non-employee directors (the Automatic Grant Program). We will award to each non-employee director on the date of the annual shareholder meeting of each year a number of Restricted Shares having an aggregate fair market value of $40,000, rounded up to the nearest whole share. If the NYSE is not open on such date, the date of grant will be the next subsequent day on which the NYSE is open. Restricted Shares granted pursuant to this automatic grant program shall vest one year from the date of grant. In addition to this annual grant, the Compensation Committee may grant additional Awards to non-employee directors at any time in its discretion.

Accounting for Awards

If an Award entitles the holder thereof to receive or purchase shares, the number of shares covered by such Award or to which such Award relates shall be counted on the date of grant of such Award against the aggregate number of shares available for granting Awards under the Restated Plan. For purposes of determining the number of shares covered on the date of grant by a SAR that is to be settled in shares, the aggregate number of shares with respect to which the SAR is to be exercised shall be counted against the number of shares available for Awards under the Restated Plan (without regard to the number of actual shares issued upon settlement). Awards that do not entitle the holder thereof to receive or purchase shares shall not be counted against the aggregate number of shares available for Awards under the Restated Plan.

Award Adjustments

Subject to further adjustment under the Restated Plan, to the extent an Award under the Restated Plan is settled in cash, expires, or is forfeited or cancelled, Common Stock shares subject to the Award will not be considered to have been issued and will not be applied against the maximum number of Common Stock shares available for future issuance under the Restated Plan. If, however, Options are surrendered upon the exercise of related SARs, then the Common Stock shares underlying such Options shall not be restored to the pool available for future Awards. Any dividend equivalents distributed under the Restated Plan shall not be applied against the number of Common Stock shares available for future Awards. Shares surrendered to or withheld by the Company in payment of the exercise price or applicable withholding taxes upon exercise or settlement of an Award shall not be restored to the pool available for future Awards.

Transferability of Awards

Subject to the provisions of the Restated Plan, any Award granted under the Restated Plan will not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor's process, whether voluntarily, involuntarily or by operation of law. However, this shall not preclude a person from designating a beneficiary who will receive any undistributed Awards in the event of the person's death, nor shall it preclude a transfer by will or by the laws of descent and distribution.

Termination and Amendment

The Board of Directors may, at any time and for any reason, amend or terminate the Restated Plan. No Award shall be granted under the Restated Plan after (a) the tenth anniversary of the earlier of November 19, 2010, or (b) any earlier date of discontinuation or termination established pursuant to the Restated Plan; provided, however, that no Performance Shares shall be granted under the Restated Plan after the fifth year following the year in which stockholders approved the performance criteria unless and until the performance criteria are re-approved by the stockholders.

Any amendment to the Restated Plan is subject to the approval of our shareholders to the extent required by applicable laws and the rules of any exchange on which the Common Stock is listed.

No Awards shall be made under the Restated Plan after the termination thereof. The termination of the Restated Plan, or any amendment thereof, shall not affect any Option, SAR, Restricted Share or Stock Unit previously granted under the Restated Plan.

Certain Federal Income Tax Consequences

The following is a brief summary of the certain U.S. federal income tax consequences generally applicable to awards under the Restated Plan.

This summary is for general information purposes only and does not purport to be a complete analysis or listing of all potential U.S. federal income tax consequences that may apply with respect to participation in the Restated Plan. In addition, this summary does not take into account the individual facts and circumstances of any particular recipient that may affect the U.S. federal income tax consequences of participation in the Restated Plan. Accordingly, this summary is not intended to be, and should not be construed as, legal or U.S. federal income tax advice with respect to any recipient. Each recipient should consult his or her own financial advisor, legal counsel, or accountant regarding the U.S. federal, U.S. state and local, and foreign tax consequences of participation in the Restated Plan.

Scope of this Disclosure

This summary is based on the Code, Treasury Regulations, published Internal Revenue Service (IRS) rulings, published administrative positions of the IRS and U.S. court decisions that are applicable as of the date of this document. Any of the authorities on which this summary is based could be changed in a material and adverse manner at any time, and any such change could be applied on a retroactive basis. This summary does not discuss the potential effects, whether adverse or beneficial, of any proposed legislation that, if enacted, could be applied on a retroactive basis.

Grant of Options and SARs

The grant of a stock Option (either an ISO or a Nonqualified Option) or SAR is not expected to result in any taxable income for the recipient or any deduction for us at the time of grant.

Exercise of Incentive Stock Options

No taxable income is realized by the Optionee upon the exercise of an ISO. If stock is issued to the Optionee pursuant to the exercise of an ISO, and if no disqualifying disposition of such shares is made by such award holder within two years after the date of grant or within one year after the transfer of such shares to such award holder, then (1) upon the sale of such shares, any amount realized in excess of the option price will be taxed to such Optionee as a long-term capital gain and any loss sustained will be a long-term capital loss, and (2) we will not be entitled to a deduction for federal income tax purposes.

If the stock acquired upon the exercise of an ISO is disposed of prior to the expiration of either holding period described above, generally (1) the Optionee will realize ordinary income in the year of disposition in an amount equal to the excess (if any) of the fair market value of such shares at exercise (or, if less, the amount realized on the disposition of such shares) over the option price paid for such shares, and (2) we will be entitled to deduct such amount for federal income tax purposes if the amount represents an ordinary and necessary business expense. Any further gain (or loss) realized by the Optionee will be taxed as short-term or long-term capital gain (or loss), as the case may be, and will not result in any deduction by us.

Exercise of Non-Qualified Stock Options and SARs

Upon exercising a Nonqualified Option, the Optionee must recognize ordinary income equal to the excess of the fair market value of the shares of our Common Stock acquired on the date of exercise over the exercise price, and we generally will be entitled at that time to an income tax deduction for the same amount. Upon exercising a SAR, the amount of any cash received and the fair market value on the exercise date of any shares of our Common Stock received are taxable to the recipient as ordinary income and generally are deductible by us.

The tax consequence upon a disposition of shares acquired through the exercise of a Nonqualified Option or SAR will depend on how long the shares have been held. Generally, there will be no tax consequence to us in connection with the disposition of shares acquired under a Nonqualified Option or SAR.

Restricted Stock

Recipients of grants of Restricted Stock generally will be required to include as taxable ordinary income the fair market value of the Restricted Stock at the time it is no longer subject to a substantial risk of forfeiture. However, an award holder who makes an 83(b) election within 30 days of the date of grant of the Restricted Stock will incur taxable ordinary income on the date of grant equal to the fair market value of such shares of Restricted Stock (determined without regard to forfeiture restrictions). With respect to the sale of shares after the forfeiture restrictions have expired, the holding period to determine whether the Award recipient has long-term or short-term capital gain or loss generally begins when the restrictions expire, and the tax basis for such shares will generally be based on the fair market value of the shares on that date. However, if the award holder made an 83(b) election as described above, the holding period commences on the date of such election, and the tax basis will be equal to the fair market value of the shares on the date of the election (determined without regard to the forfeiture restrictions on the shares). Dividends, if any, that are paid or accrued while the Restricted Stock is subject to a substantial risk of forfeiture will also be taxed as ordinary income. We will be entitled to an income tax deduction equal to amounts the award holder includes in ordinary income at the time of such income inclusion.

Stock Units and Performance Awards

Recipients of grants of Stock Units (including Performance Awards) (collectively, Deferred Awards) will not incur any federal income tax liability at the time the Awards are granted. Award holders will recognize ordinary income equal to (a) the amount of cash received under the terms of the award or, as applicable, (b) the fair market value of the shares received (determined as of the date of receipt) under the terms of the award. Cash or shares to be received pursuant to a Deferred Award generally become payable when applicable forfeiture restrictions lapse; provided, however, that, if the terms of the award so provide, payment may be delayed until a later date to the extent permitted under applicable tax laws. We will be entitled to an income tax deduction for any amounts included by the Award holder as ordinary income. For Awards that are payable in shares, participant's tax basis is equal to the fair market value of the shares at the time the shares become payable. Upon the sale of the shares, appreciation (or depreciation) after the shares are paid is treated as either short-term or long-term capital gain (or loss) depending on how long the shares have been held.

Special Rules for Executive Officers and Directors Subject to Section 16 of the Exchange Act

Special rules may apply to individuals subject to Section 16 of the Exchange Act. In particular, shares received through exercise or payout of a Nonqualified Option, an ISO (for purposes of the AMT only), a SAR or a Restricted Stock unit, and any shares of Restricted Stock that vest, may be treated as restricted property for purposes of Section 83 of the Internal Revenue Code if the recipient has had a non-exempt acquisition of shares of FranklinCovey stock within the six months prior to the exercise, payout or vesting. Accordingly, the amount of any ordinary income recognized and the amount of our income tax deduction will be determined as of the end of that period (unless a special election is made by the recipient pursuant to Section 83(b) of the Internal Revenue Code to recognize income as of the date the shares are received).

Delivery of Shares for Tax Obligation

Under the Restated Plan, participants receiving or exercising Awards, may deliver shares of our Common Stock (either shares received upon the receipt or exercise of the Award or shares previously owned by the participant) to us to satisfy federal, state or local tax obligations.

Section 409A of the Internal Revenue Code

The Restated Plan contains provisions intended to prevent adverse tax consequences under Section 409A of the Internal Revenue Code to holders of Awards granted under the Restated Plan.

Section 162(m) Limitation

Notwithstanding the above rules, under Code Section 162(m), we cannot deduct any compensation in excess of $1,000,000 paid during any taxable year to our Chief Executive Officer or to any of our other three top executive officers whose annual compensation is required to be reported to shareholders under the Exchange Act, other than the Chief Financial Officer. This limit is referred to as the "Section 162 Limitation." The Section 162(m) Limitation does not apply, however, to certain "performance-based compensation" under plans that satisfy certain shareholder approval requirements.

New Plan Benefits

Except with respect to the Automatic Grant Program, Awards under the Restated Plan are made at the discretion of our Compensation Committee. It is not possible to determine the benefits or amounts that will be received by eligible participants under the Restated Plan after the date of this Proxy Statement.

Franklin Covey Co. Second Amended and Restated 1992 Stock Incentive Plan.[1]

	Dollar Value ($)	Number of Units
Robert A. Whitman Chief Executive Officer	-	-
Stephen D. Young Chief Financial Officer	-	-
Jennifer Colosimo Executive Vice President and Chief Operations Officer	-	-
M. Sean Covey Executive Vice President of Global Solutions and Partnerships	-	-
Shawn D. Moon Executive Vice President of Global Sales and Delivery	-	-
Executive Group	-	-
Non-Executive Director Group [2]	$320,000	61,064
Non-Executive Officer Employee Group	-	-

(1) With the exception of the annual grant to non-employee directors, we are unable to determine either the number of or dollar value of Awards to be granted in the future.

(2) The annual grant to each of the eight non-employee directors is a number of restricted shares having an aggregate fair market value of $40,000, rounded up to the nearest whole share. The rounding may result in the total dollar value exceeding $320,000. The number of units is calculated by taking the dollar value and dividing by the stock price on January 29, 2010, the date of our last Annual Meeting.

The following table sets forth, with respect to our Named Executive Officers (as defined under the "Compensation and Analysis" Section) and the other indicated persons and groups, the aggregate number of shares of Common Stock underlying stock Options that have been granted under our Current Plan from the effective date of the Current Plan through November 30, 2010. We cannot determine any future grants of stock Options or the future aggregate number of shares of Common Stock underlying such future stock Options.

Name and Position	Number of Units
Robert A. Whitman Chief Executive Officer	250,000
Stephen D. Young Chief Financial Officer	210,000
Jennifer Colosimo Executive Vice President and Chief Operations Officer	-
M. Sean Covey Executive Vice President of Global Solutions and Partnerships	9,500
Shawn D. Moon Executive Vice President of Global Sales and Delivery	-
All current executive officers as a group	469,500
All current directors who are not executive officers as a group	-
Each nominee for election as a director	-
Each associate of any such directors, executive officers or nominees	-
Each other person who received or is to receive 5 percent of such options, warrants or rights	-
All employees, including all current officers who are not executive officers, as a group	-

Valuation of our Common Stock

On November 30, 2010, the closing price of our Common Stock, as reported on the New York Stock Exchange, was $8.03 per share.

Recommendation of the Board of Directors; Vote Required for Approval

The Board recommends that shareholders of the Company vote for approval of the Restated Plan. Approval of the Restated Plan requires that a quorum be present at the Annual Meeting and that the number of votes cast in favor of the Restated Plan exceed the number of votes cast in opposition to the Restated Plan, provided that the total vote cast on the proposal represents over 50% in interest of all securities entitled to vote on the proposal. If the Restated Plan is not approved by our shareholders, the Current Plan will continue in effect as amended, and the Directors' Plan will continue in effect.

Certain Interests of Directors and Executive Officers

In considering the recommendation of the Board of Directors with respect to the Restated Plan, shareholders should be aware that members of the Board of Directors and executive officers have certain interests which may present them with conflicts of interest in connection with such proposal. Specifically, current directors who are employees of the Company and executive officers are key employees eligible to participate in the Restated Plan. Additionally, the non-employee directors are eligible to participate in the Restated Plan. The Board of Directors recognizes that adoption of the Restated Plan may benefit individual directors and executive officers of the Company and their successors, but it believes that approval of the Restated Plan will strengthen our ability to continue to attract, motivate and retain qualified employees, officers and directors and advance the interests of the Company and its shareholders by encouraging key employees and non-employee directors to make significant contributions to our long-term success. The Board of Directors believes that the Restated Plan is in the best interests of the Company and its shareholders, and therefore unanimously recommends a vote FOR the proposal to approve the Restated Plan.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE IN FAVOR OF APPROVING THE AMENDMENT AND RESTATEMENT OF THE FRANKLIN COVEY CO. 1992 STOCK INCENTIVE PLAN

Equity Compensation Plans Previously Approved by Shareholders

Plan Category	[a] Number of securities to be issued upon exercise of outstanding options, warrants, and rights	[b] Weighted-average exercise price of outstanding options, warrants, and rights	[c] 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)(4)	949	$ 10.99	2,122(3)

(1) Excludes 97,064 shares of unvested (restricted) stock awards that are subject to forfeiture.

(2) Amount includes 217,424 performance share awards that are expected to be awarded under the terms of a Board of Director approved long-term incentive plan (LTIP). The number of shares eventually awarded to LTIP participants is variable and based upon the achievement of specified financial performance goals related to cumulative operating income. The weighted average exercise price of outstanding options, warrants, and rights does not take the LTIP awards into account.

(3) Amount is based upon the number of LTIP shares expected to be awarded at August 31, 2010 and may change in future periods based upon the achievement of specified goals and revisions to estimates.

(4) At August 31, 2010, we had approximately 720,000 shares authorized for purchase by participants in our Employee Stock Purchase Plan.

Proposal III

TO APPROVE THE RATIFICATION OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

The Audit Committee has selected the independent registered accounting firm KPMG LLP (KPMG) to review our financial statements for the fiscal quarter ending November 27, 2010, and is seeking ratification of that choice by our shareholders. During fiscal 2010, the Audit Committee adopted a policy of placing our audit services out to bid every five years and intends to complete the bid process in early 2011. 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 2011 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, 2010 and 2009:

	Fiscal 2010	Fiscal 2009
Audit Fees(1)	$ 782,000	$ 1,071,000
Audit-Related Fees(2)	7,000	-
Tax Fees(3)	35,000	71,000
All Other Fees	-	-
	$ 824,000	$ 1,142,000

(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, 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, 2010 and 2009 were pre-approved by the Audit Committee. All audit work during fiscal 2010 was performed by employees of KPMG. 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

The Audit Committee assists the Board of Directors in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing, and reporting practices of the Company. The Audit Committee operates in accordance with a written charter, which was adopted by the Board of Directors. A copy of that charter is available on our website at www.franklincovey.com. Each member of the Audit Committee is "independent," as required by the applicable listing standards of the New York Stock Exchange and the rules of the SEC.

The Audit Committee oversees the Company's financial reporting process on behalf of the Board of Directors. The Company's management has primary responsibility for the financial statements and reporting process, including the Company's internal control over financial reporting. The independent registered public accounting firm is responsible for performing an integrated audit of the Company's financial statements and internal control over financial reporting in accordance with the auditing standards of the Public Company Accounting Oversight Board.

In fulfilling its oversight responsibilities, the Audit Committee reviewed and discussed with management the audited financial statements to be included in the Annual Report on Form 10-K for the fiscal year ended August 31, 2010. This review included a discussion of the quality and the acceptability of the Company's financial reporting and system of internal controls, including the clarity of disclosures in the financial statements. The Audit Committee also reviewed and discussed with the Company's independent registered public accounting firm the audited financial statements of the Company for the fiscal year ended August 31, 2010, their judgments as to the quality and acceptability of the Company's financial reporting, and such other matters as are required to be discussed by Statement on Auditing Standards No. 61, as amended and as adopted by the Public Company Accounting Oversight Board.

The Audit Committee obtained from the independent registered public accountants a formal written statement describing all relationships between the auditors and the Company that might bear on the auditors' independence consistent with Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*, discussed with the auditors any relationships that may impact their objectivity and independence, and satisfied itself as to the auditors' independence. The Audit Committee meets periodically with the independent registered public accounting firm, with and without management present, to discuss the results of the independent registered public accounting firm's examinations and evaluations of the Company's internal control and the overall quality of the Company's financial reporting.

Based upon the review and discussions referred to above, the Audit Committee recommended to the Board of Directors that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2010, for filing with the SEC.

Date: November 10, 2010

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 QUARTER ENDING NOVEMBER 27, 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 2012 must be received by us, at our executive offices (2200 West Parkway Boulevard, Salt Lake City, Utah 84119-2331) no later than August 17, 2011, 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 2012 is changed by more than 30 days from the date of the annual meeting of shareholders to be held in calendar year 2011. 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 2012 but fails to notify us of that intention prior to October 31, 2011, 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 2012 is changed by more than 30 days from the date of the annual meeting of shareholders to be held in calendar year 2011.

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 2010 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.

APPENDIX A

FRANKLIN COVEY CO.

SECOND AMENDED AND RESTATED
1992 STOCK INCENTIVE PLAN

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FRANKLIN COVEY CO.
SECOND AMENDED AND RESTATED
1992 STOCK INCENTIVE PLAN

ARTICLE 1. INTRODUCTION

This Plan was originally adopted by the Board on March 30, 1992, and approved by the Company's stockholders at a special meeting of stockholders on March 30, 1992. This Plan has subsequently been amended multiple times. This Plan is now being amended and restated in order to, among other things, combine the Franklin Covey Co. 2004 Non-Employee Directors' Stock Incentive Plan (the "Old Directors' Plan") into this Plan, and rename this Plan as the Franklin Covey Co. Second Amended and Restated 1992 Stock Incentive Plan. As a result, the Old Directors' Plan will be terminated, no further awards will be granted pursuant to the Old Directors' Plan, and all outstanding awards issued pursuant to the Old Directors' Plan will be subject to the terms of this Plan.

The purpose of the Plan is to promote the long-term success of the Company and the creation of incremental stockholder value by: (a) encouraging Key Employees and Non-Employee Directors to focus on critical long-range objectives; (b) encouraging the attraction and retention of Key Employees and Non-Employee Directors with exceptional qualifications; and (c) linking Key Employees and Non-Employee Directors directly to stockholder interests through increased stock ownership. The Plan seeks to achieve this purpose by providing for Awards in the form of Restricted Shares, Stock Units, stock appreciation rights or Options, which may constitute incentive stock options or nonstatutory stock options. The Plan shall be governed by, and construed in accordance with, the laws of the State of Utah.

ARTICLE 2. ADMINISTRATION

2.1 The Committee. The Plan shall be administered by the Committee. The Committee shall be comprised of at least two directors but not less than such number of directors as shall be required to permit Awards granted under the Plan to qualify under Rule 16b-3 of the Exchange Act, and Section 162(m) of the Code, and each member of the Committee shall each be an outside director within the meaning of Section 162(m) of the Code. Notwithstanding anything to the contrary contained herein, the Board may, at any time and from time to time, without any further action of the Committee, exercise the powers and duties of the Committee under the Plan, unless the exercise of such powers and duties by the Board would cause the Plan not to comply with the requirements of Rule 16b-3 of the Exchange Act.

2.2 Committee Responsibilities. The Committee shall select the Key Employees and Non-Employee Directors who are to receive Awards under the Plan, determine the amount, vesting requirements and other conditions of such Awards, interpret the Plan, and make all other decisions relating to the operation of the Plan. The Committee may adopt such rules or guidelines as it deems appropriate to implement the Plan. The Committee's determinations under the Plan shall be final and binding on all persons. The Committee may impose such restrictions, conditions or limitations as it determines appropriate as to the timing and manner of any Option exercises, share issuances and/or of any resales or other transfers of shares issued hereunder, including without limitation: (i) restrictions under an insider trading policy; (ii) restrictions as to the use of a specified brokerage firm for such resales or other transfers; (iii) restrictions during any period when the Committee determines that the prospectus relating to such Award may not contain all required information; (iv) restrictions under any applicable federal or state securities law; and (iv) restrictions requested by an underwriter engaged in a registered offering of the Company's securities, not to exceed 200 days following the pricing of securities for sale in such offering.

ARTICLE 3. LIMITATION ON AWARDS

3.1 Available Common Shares. Subject to adjustment under Article 10 below, the aggregate maximum number of Common Shares issued pursuant to Restricted Shares, Stock Units (including Performance Shares), SARs and Options awarded under the Plan shall not exceed 7,300,000. Within this overall limitation, the following additional limitations shall apply (subject to adjustment under Article 10 below):

a) The aggregate maximum number of Common Shares issued pursuant to ISOs shall not exceed 7,300,000;

b) No Participant may be awarded Options and SARs for more than 500,000 Common Shares in any one Award Year; and

c) No Participant may be awarded Performance Shares which are intended to represent "qualified performance-based compensation" with the meaning of Section 162(m) of the Code for more than 500,000 Common Shares in any one Award Year.

d) The maximum amount payable pursuant to all Awards denominated in cash to any Participant in the aggregate in any taxable year shall be $5,000,000 in value, whether payable in cash, Common Shares or other property. This limitation contained in this Section 3.1(d) does not apply to any Award or Awards subject to the limitation contained in Section 3.1(b) or (c). The limitation contained in this Section 3.1(d) shall apply only with respect to any Award or Awards granted under this Plan, and limitations on awards granted under any other stockholder-approved incentive plan maintained by the Company will be governed solely by the terms of such other plan.

3.2 **Adjustments**. To the extent an Award under this Plan is settled in cash, expires, or is forfeited or cancelled, then except as provided below, Common Shares subject to the Award will not be considered to have been issued and will not be applied against the maximum number of Common Shares available for future issuance under the Plan. If, however, Options are surrendered upon the exercise of related SARs, then the Common Shares underlying such Options shall not be restored to the pool available for future Awards. Any dividend equivalents distributed under the Plan shall not be applied against the number of Common Shares available for future Awards. Shares surrendered to or withheld by the Company in payment of the exercise price or applicable withholding taxes upon exercise or settlement of an Award shall not be restored to the pool available for future Awards. The limitations of this Article 3 shall be subject to adjustment pursuant to Article 10.

3.3 **Accounting for Awards**. For purposes of this Article 3, if an Award entitles the holder thereof to receive or purchase shares, the number of shares covered by such Award or to which such Award relates shall be counted on the date of grant of such Award against the aggregate number of shares available for granting Awards under the Plan. For purposes of determining the number of shares covered on the date of grant by a SAR that is to be settled in shares, the aggregate number of shares with respect to which the SAR is to be exercised shall be counted against the number of shares available for Awards under the Plan (without regard to the number of actual shares issued upon settlement). Awards that do not entitle the holder thereof to receive or purchase shares shall not be counted against the aggregate number of shares available for Awards under the Plan.

3.4 **Source of Common Shares**. Any Common Shares issued pursuant to the Plan may be authorized except unissued Common Shares or treasury Common Shares.

ARTICLE 4. ELIGIBILITY

4.1 **General Rule**. Only Key Employees (including, without limitation, members of the Board or officers of the Company who are also Key Employees) and Non-Employee Directors shall be eligible for designation as Participants by the Committee.

4.2 **Ten-Percent Stockholders**. A Key Employee who owns more than 10 percent of the total combined voting power of all classes of outstanding stock of the Company or any of its Subsidiaries shall not be eligible for the grant of an ISO unless (a) the Exercise Price under such ISO is at least 110 percent of the Fair Market Value of a Common Share on the date of grant, and (b) such ISO by its terms is not exercisable after the expiration of five years from the date of grant.

4.3 **Attribution Rules**. For purposes of Section 4.2, in determining stock ownership, a Key Employee shall be deemed to own the stock owned, directly or indirectly, by or for his or her brothers, sisters, spouse, ancestors and lineal descendants. Stock owned, directly or indirectly, by or for a corporation, partnership, estate or trust shall be deemed to be owned proportionately by or for its stockholders, partners or beneficiaries. Stock with respect to which the Key Employee holds an Option shall not be counted.

4.4 **Outstanding Stock**. For purposes of Section 4.2, "outstanding stock" shall include all stock actually issued and outstanding immediately after the grant of the ISO to the Key Employee. "Outstanding stock" shall not include treasury shares or shares authorized for issuance under the outstanding options held by the Key Employee or by any other person.

ARTICLE 5. OPTIONS

5.1 **Stock Option Agreement**. Each grant of an Option under the Plan shall be evidenced by a Stock Option Agreement between the Optionee and the Company. Such Option shall be subject to all applicable terms and conditions of the Plan and may be subject to any other terms and conditions which are not inconsistent with the Plan and which the Committee deems appropriate for inclusion in a Stock Option Agreement. The provisions of the various Stock Option Agreements entered into under the Plan need not be identical. The Committee may designate all or any part of an Option as an ISO.

5.2 Options Nontransferable. No Option granted under the Plan shall be transferable by the Optionee other than by will or by the laws of descent and distribution, and no Option may be exercised during the lifetime of the Optionee except by him or her. No option or interest therein may be transferred, assigned, pledged or hypothecated by the Optionee during his or her lifetime, whether by operation of law or otherwise, or be made subject to execution, attachment or similar process. Notwithstanding the foregoing, the Committee, in its discretion and subject to such additional terms and conditions as it determines, may permit an Optionee to transfer an NSO to any "family member" (as defined in the General Instructions to Form S-8 (or any successor to such Instructions or such Form) under the Securities Act) at any time that such Optionee holds such NSO, *provided* that such transfers may not be for value (as defined in the General Instructions to Form S-8 (or any successor to such Instructions or such Form) under the Securities Act) and the family member may not make any subsequent transfers other than by will or by the laws of descent and distribution.

5.3 Number of Shares. Each Stock Option Agreement shall specify the number of shares subject to the Option and shall provide for the adjustment of such number in accordance with Article 10. The Stock Option Agreement shall also specify whether the Option is an ISO or an NSO.

5.4 Exercise Price. Each Stock Option Agreement shall specify the Exercise Price. The Exercise Price under an Option shall not be less than 100 percent of the Fair Market Value of a Common Share on the date of grant. Subject to the preceding two sentences, the Exercise Price under any Option shall be determined by the Committee. The Exercise Price shall be payable in accordance with Article 6.

5.5 Exercisability and Term. Each Stock Option Agreement shall specify the date when all or any installment of the Option is to become exercisable. The Stock Option Agreement shall also specify the term of the Option. The term of an ISO shall in no event exceed 10 years from the date of grant, and Section 4.2 may require a shorter term. Subject to the preceding sentence, the Committee shall determine when all or any part of an Option (and any SARs included therein) is to become exercisable and when such Option is to expire. A Stock Option Agreement may provide for accelerated exercisability in the event of the Optionee's death, disability or retirement and may provide for expiration prior to the end of its term in the event of the termination of the Optionee's employment. NSOs may also be awarded in combination with Restricted Shares or Stock Units, and such an Award may provide that the NSOs will not be exercisable unless the related Restricted Shares or Stock Units are forfeited.

5.6 Effect on Change in Control. The Committee, at its sole discretion, may determine, at the time of granting an Option or thereafter, that such Option (and any SARs included therein) shall become fully exercisable as to all Common Shares subject to such Option in the event that a Change in Control occurs with respect to the Company. If the Committee finds that there is a reasonable possibility that, within the succeeding six months, a Change in Control will occur with respect to the Company, then the Committee may determine that all outstanding Options (and any SARs included therein) shall become fully exercisable as to all Common Shares subject to such Options.

5.7 Modification, Extension and Renewal of Options. Within the limitations of the Plan, the Committee may modify, extend or renew outstanding Options or may accept the cancellation of outstanding Options (to the extent not previously exercised) in return for the grant of new Options at the same or a different price. The foregoing notwithstanding, no modification of an Option shall, without the consent of the Optionee, alter or impair his or her rights or obligations under such Option.

ARTICLE 6. PAYMENT FOR OPTION SHARES

Except as set forth below in this Article 6, the Committee shall determine the time or times at which an Option may be exercised in whole or in part and the method or methods by which, and the form or forms (including, without limitation, cash, Common Shares, promissory notes (provided, however, that the acceptance of such promissory notes does not conflict with Section 402 of the Sarbanes-Oxley Act of 2002), other securities, other Awards or other property, or any combination thereof, having a Fair Market Value on the exercise date equal to the applicable exercise price) in which payment of the exercise price with respect thereto may be made or deemed to have been made. Alternatively, the Committee may, in its discretion, permit an Option to be exercised using an SAR as described in Article 7. An Optionee may exercise an Option by requesting that the Company deliver to the Optionee a number of Common Shares having an aggregate Fair Market Value (determined as of the date of exercise) equal to the excess, if positive, of the Fair Market Value of the Common Shares underlying the Option being exercised, on the date of exercise, over the exercise price of the Option for such Common Shares (a "Net Exercise"). Notwithstanding anything to the contrary herein, the Committee may, in its discretion, require an Optionee to exercise an Option using the Net Exercise method. In addition, notwithstanding the method of exercise, the Committee may, in its discretion, pay to an Optionee in cash the fair market value of the Common Shares that were to be delivered to the Optionee instead of delivering the Common Shares.

ARTICLE 7. STOCK APPRECIATION RIGHTS

7.1 **Grant of SARs**. Each Option granted under the Plan may, at the discretion of the Committee, include an SAR. Such SAR shall entitle the Optionee (or any person having the right to exercise the Option after his or her death) to surrender to the Company, unexercised, all or any part of that portion of the Option which then is exercisable and to receive from the Company Common Shares, or, at the discretion of the Committee, cash in lieu of Common Shares. If an SAR is exercised, the number of Common Shares remaining subject to the related Option shall be reduced accordingly, and vice versa. The Fair Market Value of Common Shares (or cash) received upon exercise of an SAR shall, in the aggregate, be equal to the amount by which the Fair Market Value (on the date of surrender) of the Common Shares, subject to the surrendered portion of the Option, exceeds the Exercise Price. In no event shall any SAR be exercised if such Fair Market Value does not exceed the Exercise Price. The discretion of the Committee to include an SAR in an ISO may be exercised only at the time of the grant of such ISO. The discretion of the Committee to include an SAR in an NSO may be exercised at the time of the grant of such NSO or at any subsequent time.

7.2 **Manner of Exercise of SARs**. An SAR may be exercised by written notice to the Company. An SAR may be exercised to the extent, and only to the extent, that the Option in which it is included is exercisable. If, on the date when an Option expires, the Exercise Price under such Option is less than the Fair Market Value on such date but any portion of such Option has not been exercised or surrendered, then any SAR included in such Option shall automatically be deemed to be exercised as of such date with respect to such portion.

7.3 **Limited SARs**. An Option granted under the Plan may, at the discretion of the Committee, provide that it will be exercisable as an SAR only in the event of a Change in Control.

ARTICLE 8. RESTRICTED SHARES AND STOCK UNITS

8.1 **Time, Amount and Form of Awards**. The Committee may grant Restricted Shares or Stock Units with respect to an Award Year during such Award Year or at any time thereafter. The amount of each Award of Restricted Shares or Stock Units shall be determined by the Committee. Awards under the Plan may be granted in the form of Restricted Shares, in the form of Stock Units, or in any combination of both, as the Committee shall determine at its sole discretion at the time of the grant. Restricted Shares or Stock Units may also be awarded in combination with NSOs, and such an Award may provide that the Restricted Shares or Stock Units will be forfeited in the event that the related NSOs are exercised.

8.2 **Payment for Awards**. To the extent that an Award is granted in the form of Restricted Shares, the Award recipient, as a condition to the grant of such Award, may be required to pay the Company in cash an amount equal to the par value of such Restricted Shares. To the extent that an Award is granted in the form of Stock Units, no cash consideration shall be required of Award recipients.

8.3 **Vesting Conditions**. Each Award of Restricted Shares or Stock Units shall become vested, in full or in installments, upon satisfaction of the conditions specified in the Stock Award Agreement. The Committee shall select the vesting conditions, which may be based upon the Participant's service, the Participant's performance, the Company's performance or such other criteria as the Committee may adopt. A Stock Award Agreement may also provide for accelerated vesting in the event of the Participant's death, disability or retirement. The Committee, in its sole discretion, may determine, at the time of making an Award or thereafter, that such Award shall become fully vested in the event that a Change in Control occurs with respect to the Company.

8.4 **Form of Settlement of Stock Units**. Settlement of vested Stock Units (including Performance Shares) may be made in the form of cash, in the form of Common Shares, or in any combination of both, as the Committee shall determine at or before the time when distribution commences. The Committee may designate a method of converting Stock Units into cash, including (without limitation) a method based on the Fair Market Value of Common Shares over a series of trading days. Until an Award of Stock Units is settled, the number of such Stock Units shall be subject to adjustment pursuant to Article 10.

8.5 **Time of Settlement of Stock Units**. Vested Stock Units may be settled in a lump sum or in installments. The distribution may occur or commence when all vesting conditions applicable to the Stock Units have been satisfied or have lapsed, or it may be deferred to any later date. The Committee shall determine when all or any part of an Award of Stock Units is to be distributed, and it may modify its original determination with respect to the time of distribution at any time before settlement of the Stock Units is completed. The Committee may also permit Participants to request a deferral of any distribution under this Section 8.5. In the case of any deferred distribution, the Committee may increase the amount of such distribution by an interest factor, as it deems appropriate.

8.6 **Death of Recipient.** Any Stock Units Award which becomes payable after the recipient's death shall be delivered or distributed to the recipient's beneficiary or beneficiaries. Each recipient of a Stock Units Award under the Plan shall designate one or more beneficiaries for this purpose by filing the prescribed form with the Company. A beneficiary designation may be changed by filing the prescribed form with the Company at any time before the Award recipient's death. If no beneficiary was designated or if no designated beneficiary survives the Award recipient, then any Stock Units Award which becomes payable after the recipient's death shall be delivered or distributed to the recipient's estate. The Committee, at its sole discretion, shall determine the form and time of any distribution(s) to a recipient's beneficiary or estate.

8.7 **Performance Shares**

(a) Subject to the other terms of this Plan, the Company may grant Performance Shares to selected Participants upon such terms and conditions as the Committee determines, including: the applicable performance periods and Performance Criteria; maximum, minimum and target settlement values, if applicable; and whether or not the Participant has the right to vote the Performance Shares. The Committee will determine the extent to which Performance Criteria related to Performance Shares have been achieved within the applicable performance periods and certify such determination in writing to the extent required to comply with section 162(m) of the Code.

(b) Performance Shares that are granted to Participants who may be "covered employees" under Section 162(m) of the Code and that are intended to be "qualified performance-based compensation" within the meaning of Section 162(m) of the Code, to the extent required by Section 162(m) of the Code, shall be conditioned solely on the achievement of the Performance Criteria established by the Committee within the time prescribed by Section 162(m) of the Code, and shall otherwise comply with the requirements of Section 162(m) of the Code, as described below:

(i) For each Award intended to be "qualified performance-based compensation," the Committee shall, not later than 90 days after the beginning of each performance period, (i) designate all Participants for such performance period and (ii) using the Performance Criteria, establish the objective performance factors for each Participant for that performance period; provided that, with respect to such performance factors, the outcome is substantially uncertain at the time the Committee actually establishes them. The Committee shall have sole discretion to determine the applicable performance period, provided that in the case of a performance period less than 12 months, in no event shall a performance factor be considered to be pre-established if it is established after 25 percent of the performance period (as scheduled in good faith at the time the performance factors are established) has elapsed;

(ii) Following the close of each performance period and prior to payment of any amount to a Participant with respect to an Award intended to be "qualified performance-based compensation," the Committee shall certify in writing as to the attainment of all factors (including the performance factors for a Participant) upon which any payments to a Participant for that performance period are to be based;

(iii) Certified Awards shall be paid no later than two and one-half months following the conclusion of the applicable performance period; *provided, however,* that the Committee may establish procedures that allow for the payment of Awards on a deferred basis subject to the requirements of Section 409A of the Code. The Committee may, in its discretion, reduce the amount of a payout achieved and otherwise to be paid in connection with an Award but may not exercise discretion to increase such amount if such Award is intended to be "qualified performance-based compensation"; and

(iv) If a Participant dies or becomes permanently and totally disabled before the end of a performance period or after the performance period and before an Award is paid, the Committee may, in its discretion, determine that the Participant shall be paid a pro-rated portion of the Award that the Participant would have received but for his or her death or disability.

(c) Except as otherwise provided in this Section 8.7, Performance Shares shall be treated as Stock Units for all other purposes under the Plan unless the context clearly requires otherwise.

(d) The Committee may make the vesting of any Award of Performance Shares, and the delivery of Common Shares thereunder, contingent upon shareholder approval of the applicable Performance Criteria and goals to the extent the Committee determines such shareholder approval necessary to comply with Section 162(m) of the Code.

8.8 Section 409A Provisions. Notwithstanding anything in the Plan or any Award to the contrary, to the extent that any amount or benefit that constitutes "deferred compensation" to a Participant under Section 409A of the Code and applicable guidance thereunder is otherwise payable or distributable to a Participant under the Plan or any Award solely by reason of the occurrence of a Change in Control or due to the Participant's disability or "separation from service" (as such term is defined under Section 409A of the Code), such amount or benefit will not be payable or distributable to the Participant by reason of such circumstance unless the Committee determines in good faith that (i) the circumstances giving rise to such Change in Control, disability or separation from service meet the definition of a change in ownership or control, disability, or separation from service, as the case may be, in Section 409A(a)(2)(A) of the Code and applicable regulations, or (ii) the payment or distribution of such amount or benefit would be exempt from the application of Section 409A of the Code by reason of the short-term deferral exemption or otherwise. Any payment or distribution that otherwise would be made to a Participant who is a specified employee as defined in Section 409A(a)(2)(B) of the Code or applicable regulations under Section 409A of the Code (determined in accordance with procedures established by the Company and applied uniformly with respect to all plans maintained by the Company that are subject to Section 409A of the Code) on account of separation from service may not be made before the date which is six months after the date of the specified employee's separation from service (or if earlier, upon the specified employee's death) unless the payment or distribution is exempt from the application of Section 409A of the Code by reason of the short term deferral exemption or otherwise.

ARTICLE 9. VOTING RIGHTS AND DIVIDENDS OR DIVIDEND EQUIVALENTS

9.1 Restricted Shares. The holders of Restricted Shares awarded under the Plan will not have the same voting, dividend and other rights as the Company's other stockholders until the Restricted Shares vest.

9.2 Stock Units. The holders of Stock Units shall have no voting rights and shall have no dividend rights, including, without limitation, no right to dividend equivalents.

ARTICLE 10. PROTECTION AGAINST DILUTION

10.1 General. In the event of a subdivision of the outstanding Common Shares, a declaration of a dividend payable in Common Shares, a declaration of a dividend payable in a form other than Common Shares in an amount that has a material effect on the price of Common Shares, a combination or consolidation of the outstanding Common Shares (by reclassification or otherwise) into a lesser number of Common Shares, a recapitalization, a stock split, a reverse stock split, split-up, spin-off, combination, repurchase or exchange of Common Shares or other securities of the Company or a similar occurrence, the Committee shall make appropriate adjustments in one or more of: (a) the number of Options, Restricted Shares and Stock Units available for future Awards under Section 3.1; (b) the number of Stock Units included in any prior Award which has not yet been settled; (c) the number of Common Shares covered by each outstanding Option; or (d) the Exercise Price under each outstanding Option, in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan.

10.2 Reorganizations. In the event that the Company is a party to a merger or other reorganization, outstanding Options, Restricted Shares and Stock Units shall be subject to the agreement of merger or reorganization. Such agreement may provide, without limitation, for the assumption of outstanding Awards by the surviving corporation or its parent, for their continuation by the Company (if the Company is a surviving corporation), for accelerated vesting or for settlement in cash.

10.3 Reservation of Rights. Except as provided in this Article 10, a Participant shall have no rights by reason of any subdivision or consolidation of shares of stock of any class, the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class. Any issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or Exercise Price of Common Shares subject to an Option. The grant of an Award pursuant to the Plan shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure, to merge or consolidate or to dissolve, liquidate, sell or transfer all or any part of its business or assets.

ARTICLE 11. LIMITATION OF RIGHTS

11.1 Employment Rights. Neither the Plan nor any Award granted under the Plan shall be deemed to give any individual a right to remain employed by the Company or a Subsidiary as an employee or retained as a director. The Company and its Subsidiaries reserve the right to terminate the employment of any employee at any time, with or without cause, subject only to a written employment agreement, if any.

11.2 Stockholders' Rights. A Participant shall have no dividend rights, voting rights or other rights as a stockholder with respect to any Common Shares covered by his or her Award prior to the issuance of a stock certificate for such Common Shares. No adjustment shall be made for cash dividends or other rights for which the record date is prior to the date when such certificate is issued, except as expressly provided in Articles 8, 9 and 10.

11.3 Creditors' Rights. A holder of Stock Units shall have no rights other than those of a general creditor of the Company. Stock Units represent an unfunded and unsecured obligation of the Company, subject to the terms and conditions of the applicable Stock Award Agreement.

11.4 Government Regulations. Any other provision of the Plan notwithstanding, the obligations of the Company with respect to Common Shares to be issued pursuant to the Plan shall be subject to all applicable laws, rules and regulations and such approvals by any governmental agencies as may be required. The Company reserves the right to restrict, in whole or in part, the delivery of Common Shares pursuant to any Award until such time as:

(a) Any legal requirements or regulations have been met relating to the issuance of such Common Shares or to their registration, qualification or exemption from registration or qualification under the Securities Act, or any applicable state securities laws; and

(b) Satisfactory assurances have been received that such Common Shares, when issued, will be duly listed or quoted on the New York Stock Exchange, the NASDAQ Stock Market, or any other securities exchange or quotation system on which Common Shares are then listed or quoted.

ARTICLE 12. LIMITATION ON PAYMENTS

12.1 Basic Rule. Any provision of the Plan to the contrary notwithstanding, in the event that the independent auditors most recently selected by the Board (the "Auditors") determine that any payment or transfer by the Company to or for the benefit of a Key Employee or a Non-Employee Director, whether paid or payable (or transferred or transferable) pursuant to the terms of this Plan or otherwise (a "Payment"), would be nondeductible by the Company for federal income tax purposes because of the provisions concerning "excess parachute payments" in Section 280G of the Code, then the aggregate present value of all Payments shall be reduced (but not below zero) to the Reduced Amount; provided, that the Committee, at the time of making an Award under this Plan or at any time thereafter, may specify in writing that such Award shall not be so reduced and shall not be subject to this Article 12. For purposes of this Article 12, the "Reduced Amount" shall be the amount, expressed as a present value, which maximizes the aggregate present value of the Payments without causing any Payment to be nondeductible by the Company because of Section 280G of the Code.

12.2 Reduction of Payments. If the Auditors determine that any Payment would be nondeductible by the Company because of Section 280G of the Code, then the Company shall promptly give the Key Employee or the Non-Employee Director, an applicable notice to that effect and a copy of the detailed calculation thereof and of the Reduced Amount, and the Key Employee or the Non-Employee Director, as applicable, may then elect, in his or her sole discretion, which and how much of the Payments shall be eliminated or reduced (as long as after such election the aggregate present value of the Payments equals the

Reduced Amount) and shall advise the Company in writing of his or her election within 10 days of receipt of notice. If no such election is made by the Key Employee or the Non-Employee Director, as applicable, within such 10-day period, then the Company may elect which and how much of the Payments shall be eliminated or reduced (as long as after such election the aggregate present value of the Payments equals the Reduced Amount) and shall notify the Key Employee or the Non-Employee Director, as applicable, promptly of such election. For purposes of this Article 12, present value shall be determined in accordance with Section 280G(d)(4) of the Code. All determinations made by the Auditors under this Article 12 shall be binding upon the Company and the Key Employee or the Non-Employee Director, as applicable, and shall be made within 60 days of the date when a payment becomes payable or transferable. As promptly as practicable following such determination and the elections hereunder, the Company shall pay or transfer to or for the benefit of the Key Employee or the Non-Employee Director, as applicable, such amounts as are then due to him or her under the Plan and shall promptly pay or transfer to or for the benefit of the Key Employee or the Non-Employee Director, as applicable, in the future such amounts as become due to him or her under the Plan.

12.3 Overpayments and Underpayments. As a result of uncertainty in the application of Section 280G of the Code at the time of an initial determination by the Auditors hereunder, it is possible that Payments will have been made by the Company which should not have been made (an "Overpayment") or that additional Payments which will not have been made by the Company could have been made (an "Underpayment"), consistent in each case with the calculation of the Reduced Amount hereunder. In the event that the Auditors, based upon the assertion of a deficiency by the Internal Revenue Service against the Company or the Key Employee or the Non-Employee Director, as applicable, which the Auditors believe has a high probability of success, determine that an Overpayment has been made, such Overpayment shall be treated for all purposes as a loan to the Key Employee or the Non-Employee Director, as applicable, which he or she shall repay to the Company, together with interest at the applicable federal rate provided in Section 7872(f)(2) of the Code; provided, however, that no amount shall be payable by the Key Employee or the Non-Employee Director, as applicable, to the Company if and to the extent that such payment would not reduce the amount which is subject to taxation under Section 4999 of the Code. In the event that the Auditors determine that an Underpayment has occurred, such Underpayment shall promptly be paid or transferred by the Company to or for the benefit of the Key Employee or the Non-Employee Director, as applicable, together with interest at the applicable federal rate provided in Section 7872(f)(2) of the Code.

12.4 Related Corporations. For purposes of this Article 12, the term "Company" shall include affiliated corporations to the extent determined by the Auditors in accordance with Section 280G(d)(5) of the Code.

ARTICLE 13. WITHHOLDING TAXES

13.1 General. To the extent required by applicable federal, state, local or foreign law, the recipient of any payment or distribution under the Plan shall make arrangements satisfactory to the Company for the satisfaction of any withholding tax obligations that arise by reason of such payment or distribution. The Company shall not be required to make such payment or distribution until such obligations are satisfied.

13.2 Options. An Optionee may exercise Options to satisfy all or part of his or her withholding tax obligations by having the Company withhold a portion of the Common Shares that otherwise would be issued to him or her under such Options. Such Common Shares shall be valued at their Fair Market Value on the date when taxes otherwise would be withheld in cash. The payment of withholding taxes by surrendering Common Shares to the Company, if permitted by the Committee, shall be subject to such restrictions as the Committee may impose, including any restrictions required by rules of the Securities and Exchange Commission.

ARTICLE 14. ASSIGNMENT OR TRANSFER OF AWARD

Subject to Section 5.2, any Award granted under the Plan shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor's process, whether voluntarily, involuntarily or by operation of law. Any act in violation of this Article 14 shall be void. However, this Article 14 shall not preclude a Participant from designating a beneficiary who will receive any undistributed Awards in the event of the Participant's death, nor shall it preclude a transfer by will or by the laws of descent and distribution.

ARTICLE 15. AWARDS TO NON-EMPLOYEE DIRECTORS

15.1 **Annual Grant of Restricted Stock**. The Company will award to each Non-Employee Director on the date of the Annual Shareholder Meeting of each year a number of Restricted Shares having an aggregate fair market value of $40,000, rounded up to the nearest whole share. If the New York Stock Exchange is not open on such date, the date of grant will be the next subsequent day on which the New York Stock Exchange is open. Restricted Shares granted pursuant to this Section 15.1 shall vest one year from the date of grant. In addition to the annual grant provided for in this Section 15.1, the Committee may grant additional Awards to Non-Employee Directors at any time in its discretion.

15.2 **Effect on Options of Termination of Membership on the Board of Directors**. Subject to Section 15.4 below, an Option awarded to a Non-Employee Director whose term has not yet expired or been forfeited shall become fully vested and immediately exercisable upon the Non-Employee Director's termination of Board membership on account of death. Any such Options of a deceased Director may be exercised (a) within five (5) years from such termination of Board membership, or (b) within the original term of the Option, whichever time is less, or such Option shall thereafter automatically terminate. Options held by a Non-Employee Director whose membership on the Board terminates for reasons other than death, unless subject to the provisions of Section 15.4 of the Plan, shall expire six (6) months from Board termination and are exercisable only to the extent they have vested, as otherwise provided for pursuant to the terms of this Plan and the applicable Award agreement, prior to expiration.

15.3 **Effect on Restricted Stock of Termination of Membership on the Board of Directors**. Subject to Section 15.4 below, in the event of a Non-Employee Director's termination of Board membership on account of death (i) all Restricted Stock held by such Non-Employee Director shall immediately vest and cease to be subject to the restrictions of this Plan, and (ii) all Awards of Stock Units shall automatically vest and be issued. In such event, certificates for the Common Stock related to such Award shall be delivered to such Non-Employee Director's beneficiary as soon as administratively feasible after such event.

15.4 **Termination for Cause**. Any provision herein to the contrary notwithstanding, all Options, Restricted Stock, and Stock Units granted to a Non-Employee Director shall automatically terminate and be null and void as of the date a Non-Employee Director's service on the Board of Directors terminates if the directorship is terminated as a result of any act of (a) fraud or intentional misrepresentation, or (b) embezzlement, misappropriation, or conversion of assets or opportunities of the Company or any Subsidiary.

15.5 **Change in Control**. Except as otherwise provided in the applicable Award agreement, vesting and lifting of restrictions of Non-Employee Director Awards will be accelerated in the event of a Change in Control. Share certificates evidencing Restricted Stock may be held in escrow by the Company pending vesting of such shares and shall bear such legends as the Committee deems appropriate to reflect the restrictions applicable under the Plan and Award agreement.

15.6 **Remaining Terms**. The remaining terms and conditions of Awards granted to Non-Employee Directors shall be substantially the same as the terms in effect for the Key Employees made under the Plan and shall be set forth in an Award agreement.

ARTICLE 16. FUTURE OF THE PLAN

16.1 **Term of the Plan**. The Plan, as set forth herein, became effective on March 30, 1992. The Plan has subsequently been amended. No Award shall be granted under the Plan after (a) the tenth anniversary of the earlier of November 19, 2010, or (b) any earlier date of discontinuation or termination established pursuant to 16.2 of the Plan; *provided, however,* that no Performance Shares shall be granted under the Plan after the fifth year following the year in which stockholders approved the Performance Criteria unless and until the Performance Criteria are re-approved by the stockholders.

16.2 **Amendment or Termination**. The Board may, at any time and for any reason, amend or terminate the Plan. However, any amendment of the Plan shall be subject to the approval of the Company's stockholders to the extent required by applicable laws, regulations or rules, including the rules of any exchange on which the Company's common stock is listed.

16.3 **Effect of Amendment or Termination**. No Awards shall be made under the Plan after the termination thereof. The termination of the Plan, or any amendment thereof, shall not affect any Option SAR, Restricted Share or Stock Unit previously granted under the Plan.

ARTICLE 17. GENERAL PROVISIONS

17.1 **No Trust or Fund Created**. Neither the Plan nor any Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company or any affiliate and a Participant or any other person. To the extent that any person acquires a right to receive payments from the Company or any Affiliate pursuant to an Award, such right shall be no greater than the right of any unsecured general creditor of the Company or any affiliate.

17.2 **Consultation With Professional Tax and Investment Advisors**. The holder of any Award granted hereunder acknowledges that the grant, exercise, vesting or any payment with respect to such an Award, and the sale or other taxable disposition of the shares acquired pursuant to the Plan, may have tax consequences pursuant to the Code or under local, state or international tax laws. Such a holder further acknowledges that such holder is relying solely and exclusively on the holder's own professional tax and investment advisors with respect to any and all such matters (and is not relying, in any manner, on the Company or any of its employees or representatives). Finally, such a holder understands and agrees that any and all tax consequences resulting from the Award and its grant, exercise, vesting or any payment with respect thereto, and the sale or other taxable disposition of the shares acquired pursuant to the Plan, is solely and exclusively the responsibility of such holder without any expectation or understanding that the Company or any of its employees, representatives or Affiliates will pay or reimburse such holder for such taxes or other items.

17.3 **Foreign Employees and Foreign Law Considerations**. The Committee may grant Awards to Participants who are foreign nationals, who are located outside the United States, who are United States citizens or resident aliens on global assignments in foreign nations, who are not compensated from a payroll maintained in the United States, or who are otherwise subject to (or could cause the Company to be subject to) legal or regulatory provisions of countries or jurisdictions outside the United States, on such terms and conditions different from those specified in the Plan as may, in the judgment of the Committee, be necessary or desirable to foster and promote achievement of the purposes of the Plan, and, in furtherance of such purposes, the Committee may make such modifications, amendments, procedures, or subplans as may be necessary or advisable to comply with such legal or regulatory provisions.

17.4 **Blackout Periods**. Notwithstanding any other provision of this Plan or any Award to the contrary, the Company shall have the authority to establish any "blackout" period that the Company deems necessary or advisable with respect to any or all Awards.

ARTICLE 18. DEFINITIONS

18.1 "Auditors" shall have the meaning set forth in Section 12.1.

18.2 "Award" means any award of an Option (with or without a related SAR), a Restricted Share, or a Stock Unit (including Performance Shares) under the Plan.

18.3 "Award Year" means the Company's fiscal year (September 1—August 31) with respect to which an Award may be granted.

18.4 "Board" means the Company's Board of Directors, as constituted from time to time.

18.5 "Change in Control" means the occurrence of any of the following events:

(a) A change in control required to be reported pursuant to Item 6(e) of Schedule 14A of Regulation 14A under the Exchange Act;

(b) A change in the composition of the Board, as a result of which fewer than two-thirds of the incumbent directors are directors who either (i) had been directors of the Company 24 months prior to such change or (ii) were elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the directors who had been directors of the Company 24 months prior to such change and who were still in office at the time of the election or nomination; or

(c) Any "person" (as such term is used in Section 13(d) of the Exchange Act) is or becomes the beneficial owner, directly or indirectly, of securities of the Company representing 20 percent or more of the combined voting power of the Company's then outstanding securities ordinarily (and apart from rights accruing under special circumstances) having the right to vote at elections of directors (the "Base Capital Stock"); provided, however, that any change in the relative beneficial ownership of securities of any person resulting solely from a reduction in the aggregate number of outstanding shares of Base Capital Stock, and any decrease thereafter in such person's ownership of securities, shall be disregarded until such person increases in any manner, directly or indirectly, such person's beneficial ownership of any securities of the Company.

18.6 "Code" means the Internal Revenue Code of 1986, as amended.

18.7 "Committee" means the Compensation Committee of the Board, as constituted from time to time.

18.8 "Common Share" means one share of the common stock of the Company.

18.9 "Company" means Franklin Covey Co., a Utah corporation.

18.10 "Exchange Act" means the Securities Exchange Act of 1934, as amended.

18.11 "Exercise Price" means the amount for which one Common Share may be purchased upon exercise of an Option, as specified by the Committee in the applicable Stock Option Agreement.

18.12 "Fair Market Value" means, with respect to any property (including, without limitation, any Common Shares or other securities), the fair market value of such property determined by such methods or procedures as shall be established from time to time by the Committee. Notwithstanding the foregoing, unless otherwise determined by the Committee, Fair Market Value of a Common Share as of a given date shall mean the closing price of a Common Share on the trading day in question, as stated in the New York Stock Exchange composite transactions report or reported by the NASDAQ Stock Market or by such other exchange or quotation system on which the Common Shares are listed or quoted; or if such exchange is not open for trading on such date, on the next date that such exchange is open for trading.

18.13 "ISO" means an incentive stock option described in Section 422A(b) of the Code.

18.14 "Key Employee" means a key employee of the Company or any Subsidiary, as determined by the Committee and includes key employees of the Company or any Subsidiary who are also directors.

18.15 "Net Exercise" shall have the meaning set forth in Article 6.

18.16 "Non-Employee Director" means a director of the Company or any Subsidiary who is not also an employee of the Company or any Subsidiary.

18.17 "NSO" means an employee stock option not described in Sections 422 through 424 of the Code.

18.18 "Old Director's Plan" shall have the meaning set forth in the Introduction.

18.19 "Option" means an ISO or NSO granted under the Plan and entitling the holder to purchase one Common Share.

18.20 "Optionee" means an individual who holds an Option.

18.21 "Overpayment" shall have the meaning set forth in Section 12.3.

18.22 "Participant" means a Key Employee or a Non-Employee Director who has received an Award.

18.23 "Payment" shall have the meaning set forth in Section 12.1.

18.24 "Performance Criteria" means one or more of the following performance goals, either individually, alternatively or in any combination, applied on a corporate, subsidiary, division, business unit or line of business basis:

- earnings per share;
- revenues, including net sales growth;
- return on investment;
- earnings, including net operating profit after taxes;
- return on equity;

- profit margins;
- cost reductions;
- inventory levels;
- delivery performance;
- safety performance;
- quality performance;
- core operating earnings;
- total stockholder return;
- cash flow, including operating cash flows, free cash flow, discounted cash flow return on investment, and cash flow in excess of cost of capital;
- economic value added;
- stockholder value added;
- market share;
- price to earnings ratio;
- expense ratios;
- workforce goals;
- total expenditures;
- completion of key projects.

Each such performance goal may be based (i) solely by reference to absolute results of individual performance or organizational performance at various levels (e.g., the Company's performance or the performance of a subsidiary, division, business segment or business unit of the Company) or (ii) upon organizational performance relative to the comparable performance of other companies selected by the Committee. To the extent consistent with Section 162(m), the Committee may also exclude charges related to an event or occurrence which the Committee determines should appropriately be excluded, including (X) restructurings, acquisitions, divestitures, discontinued operations, extraordinary items, and other unusual or non-recurring charges, (Y) an event either not directly related to the operations of the Company or not within the reasonable control of the Company's management, or (Z) the cumulative effects of tax or accounting changes in accordance with U.S. generally accepted accounting principles (or other accounting principles which may then be in effect). To the extent that Section 162(m) of the Code or applicable tax and/or securities laws change to permit Committee discretion to alter the governing performance measures without disclosing to stockholders and obtaining stockholder approval of such changes and without thereby exposing the Company to potentially adverse tax or other legal consequences, the Committee shall have the sole discretion to make such changes without obtaining stockholder approval.

18.25 "Performance Shares" means a Stock Unit under which the recipient is entitled to receive a Common Share or other benefits at a subsequent date, subject to the attainment of specified Performance Criteria.

18.26 "Plan" means this Franklin Covey Co. Second Amended and Restated 1992 Stock Incentive Plan, as it may be amended from time to time.

18.27 "Reduced Amount" shall have the meaning set forth in Section 12.1.

18.28 "Restricted Stock" or "Restricted Share" means a Common Share awarded to a Participant under the Plan subject to vesting conditions.

18.29 "SAR" means a stock appreciation right granted under the Plan as part of an Option or as a subsequent addition to an Option.

18.30 "Securities Act" means the Securities Act of 1933, as amended.

18.31 "Stock Award Agreement" means the agreement between the Company and the recipient of a Restricted Share or Stock Unit which contains the terms, conditions and restrictions pertaining to such Restricted Share or Stock Unit.

18.32 "Stock Option Agreement" means the agreement between the Company and an Optionee which contains the terms, conditions and restrictions pertaining to his or her Option.

18.33 "Stock Unit" means a bookkeeping entry representing the equivalent of one Common Share and awarded to a Participant under the Plan. "Stock Unit" includes a Performance Share.

18.34 "Subsidiary" means any corporation, if the Company and/or one or more other Subsidiaries own not less than 50 percent of the total combined voting power of all classes of outstanding stock of such corporation. A corporation that attains the status of a Subsidiary on a date after the adoption of the Plan shall be considered a Subsidiary commencing as of such date.

18.35 "Underpayment" shall have the meaning set forth in Section 12.3.

ARTICLE 19. EXECUTION

To record the adoption of the Plan by the Board and approval by the stockholders, the Company has caused its duly authorized officer to sign below.

FRANKLIN COVEY CO.

By: ______________________________

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, 2010.

OR

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

FranklinCovey

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, 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 26, 2010, the aggregate market value of the Registrant's Common Stock held by non-affiliates of the Registrant was approximately $77.1 million, which was based upon the closing price of $5.85 per share as reported by the New York Stock Exchange.

As of November 1, 2010, the Registrant had 17,037,070 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Parts of the Registrant's Definitive Proxy Statement for the Annual Meeting of Shareholders, which is scheduled to be held on January 14, 2011, 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, 2010 totaled $136.9 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 140 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 fiscal 2010, we sold the product sales component of our wholly owned subsidiary in Japan to an unrelated Japan-based paper products company. The sale closed on June 1, 2010 and the total sale price was JPY 305.0 million, or approximately $3.4 million. In addition, the sale agreement provides for a three percent passive royalty on annual sales, which we believe will not be significant to our future operations. We believe that the sale of this division will further align our Japanese operations with our overall strategic focus on training and consulting sales. As a consequence of the sale, we determined that the operating results of the Japan product sales component qualified for discontinued operations presentation and we have presented the operating results of the Japan product sales component as discontinued operations for all periods presented in this report on Form 10-K.

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:

<u>Phase 1: Faculty Development</u>

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.

<u>Phase 2: Implementation Training</u>

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.

<u>Phase 3: Classroom Implementation</u>

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's 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 2010 Training Industry Survey, the total size of the U.S. training industry is estimated to be $52.8 billion, which is up slightly compared to the prior year. 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,	2010	Percent change from prior year	2009	Percent change from prior year	2008
Organizational Solutions Business Unit:					
Domestic	$98,344	18	$83,193	(16)	$99,308
International	35,309	(3)	36,385	(16)	43,060
	133,653	12	119,578	(16)	142,368
Consumer Solutions Business Unit:	-	-	-	(100)	107,235
Total operating units	133,653	12	119,578	(52)	249,603
Leasing	3,221	(9)	3,556	44	2,471
Consolidated sales	$136,874	11	$123,134	(51)	$252,074

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 18).

CLIENTS

We have a relatively broad base of organizational and individual clients. Worldwide, we have more than 4,200 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 2010 consolidated sales of $136.9 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 HP Enterprise Services (HP, formerly Electronic Data Services) to provide warehousing and distribution services for our training products and related accessories. HP maintains a facility at our 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 270 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, 2010, 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 HP. A number of our former employees involved in these operations are now employed by HP 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 risks included here are not exhaustive. Other sections of this report may include additional risk factors which could adversely affect our business and financial performance. Moreover, we operate in a very competitive and rapidly changing global environment. New risk factors emerge from time to time and it is not possible for 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 factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

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 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. Our financial results are somewhat dependent on the amount that current and prospective clients budget for training. A serious and/or prolonged economic downturn (slow recovery) combined with a negative or uncertain political climate could adversely affect our clients' financial condition and the amount budgeted for training by 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.

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. 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.

Our results of operations and cash flows may be adversely affected if Franklin Covey Products LLC 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 Consumer Solutions Business Unit (CSBU) assets to Franklin Covey Products, LLC (Franklin Covey Products) that closed in the fourth quarter of fiscal 2008, we were 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 and continued throughout fiscal 2010. 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 us by third party providers. At August 31, 2010 and 2009 we had $3.4 million and $2.0 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.

Our results of operations and cash flows may be adversely affected if Franklin Covey Products LLC is unable to pay its retail store leases.

Based on the terms of the agreements associated with the sale of the CSBU assets, we assigned the benefits and obligations relating to the leases of our retail stores to Franklin Covey Products, an entity in which we own approximately 19 percent. However, we remain secondarily liable for these leases and may have to fulfill the obligations contained in the lease agreements, including making lease payments, if Franklin Covey Products is unable to fulfill its obligations pursuant to the terms of the lease agreements. Any default by Franklin Covey Products in its lease payment obligations could provide us with certain remedies against Franklin Covey Products, including potentially allowing us to terminate the Master License Agreement. If Franklin Covey Products is unable to satisfy the obligations contained in the lease agreements and we are unable to obtain adequate remedies, our results of operations and cash flows may be adversely affected.

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 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

We may experience foreign currency gains and losses.

Our sales outside of the United States totaled $39.6 million, or 28.9 percent of total sales, for the year ended August 31, 2010. If our international operations 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 discretion. 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.

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 HP Enterprise Systems (HP and formerly Electronic Data Systems) to provide warehousing, distribution, and information system operations. Under the terms of the outsourcing contract and its addendums, HP 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 HP 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 HP 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 HP 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, 2010 we had $65.2 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

At August 31, 2010 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. In order to obtain a more favorable interest rate on the line of credit facility, the credit facility requires an annual renewal. We currently believe that we will be successful in obtaining a new or extended line of credit from our lender prior to the expiration of the current credit facility in March 2011 to ensure available liquidity in future periods. 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. However, there can be no assurance that we will successfully implement these initiatives.

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. In addition, recently proposed legislation in the United States would change how U.S. multinational corporations are taxed on their foreign income. If such legislation is enacted, it may have a material adverse impact on our tax rate and in turn, our profitability.

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.

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.

We may fail to meet analyst expectations, which could cause the price of our stock to decline.

Our common stock is publicly traded on the New York Stock Exchange, and at any given time various securities analysts follow our financial results and issue reports on us. These periodic reports include information about our historical financial results as well as the analysts' estimates of our future performance. The analysts' estimates are based on their own opinions and are often different from our estimates or expectations. If our operating results are below the estimates or expectations of public market analysts and investors, our stock price could decline. If our stock price is volatile, we may become involved in securities litigation following a decline in prices. Any litigation could result in substantial costs and a diversion of management's attention and resources that are needed to successfully run our business.

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.

New or more stringent governmental regulations could adversely affect our business.

Increased government regulations to limit carbon dioxide and other greenhouse gas emissions as a result of concern over climate change may result in increased compliance costs and other financial obligations for us. We rely on the ability of our consultants and salespeople to travel to client destinations using automobiles and jet aircraft, which use fossil fuels. Legislation, regulation, or additional taxes affecting the cost of these inputs could materially affect our profitability.

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 for loss contingencies, 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. Our leases primarily consist of sales and administrative offices both in the United States and various countries around the world. As of August 31, 2010, 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)

Administrative Offices:
United States (2 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.

Item 3. Legal Proceedings

On April 20, 2010, Moore Wallace North America, Inc. dba TOPS filed a complaint against Franklin Covey Products, LLC (Franklin Covey Products) in the Circuit Court of Cook County, Illinois, for breach of contract. The complaint also named us as a defendant and alleged that we should be liable for Franklin Covey Products' debts under the doctrine of alter ego or fraudulent transfer. We are still in the early stages of this litigation and any potential liability is not currently estimable. We believe that we have meritorious defenses against this action, and we will continue to vigorously defend it.

The Company is also the subject of certain other legal actions, which we consider routine to our business activities. At August 31, 2010, we believe that, after consultation with legal counsel, any potential liability to the Company under these other actions will not materially affect our financial position, liquidity, or results of operations.

Item 4. Reserved

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 by the NYSE, for the fiscal years ended August 31, 2010 and 2009.

	High	Low
Fiscal Year Ended August 31, 2010:		
Fourth Quarter	$7.52	$5.35
Third Quarter	8.19	5.75
Second Quarter	6.39	5.06
First Quarter	6.44	4.76
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

We did not pay or declare dividends on our common stock during the fiscal years ended August 31, 2010 or 2009. 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.

As of November 1, 2010, the Company had 17,037,070 shares of common stock outstanding, which were held by 724 shareholders of record.

Purchases of Common Stock

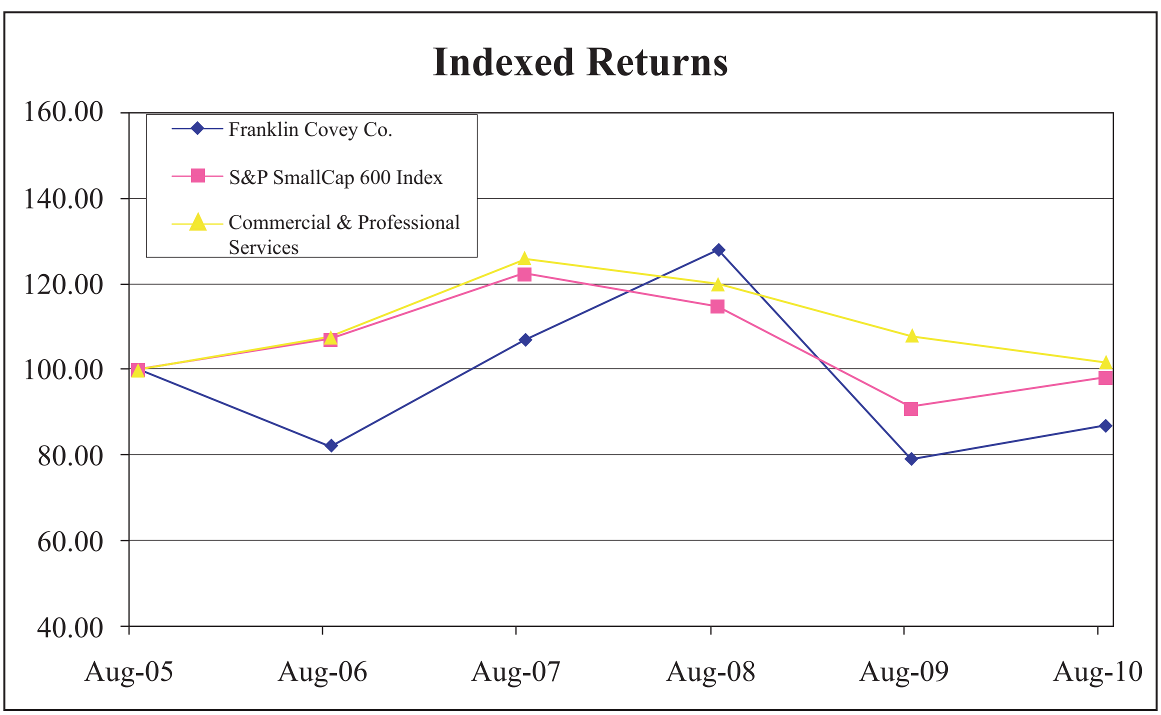
The following table summarizes Company purchases of common stock during the fiscal quarter ended August 31, 2010:

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 30, 2010 to July 3, 2010	3	$7.02	none	$ 2,413
July 4, 2010 to July 31, 2010	-	-	none	2,413
August 1, 2010 to August 31, 2010	15	6.16	none	2,413(1)
Total Common Shares	18	$6.30	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, 2010 under the terms of this plan, which does not have an expiration date.

Performance Graph

The following graph shows a comparison of cumulative total shareholder return indexed to August 31, 2005, calculated on a dividend reinvested basis, for the five fiscal years ended August 31, 2010 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 were 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. We believe that if we were included in an index we would be included in the indices where we were 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 below should be read in conjunction with the consolidated financial statements of Franklin Covey and the related footnotes as found in Item 8 of this report on Form 10-K.

In the fourth quarter of fiscal 2010, we sold the product sales component of our wholly owned subsidiary in Japan to an unrelated Japan-based paper products company. We determined that the operating results of the Japan product sales component qualified for discontinued operations presentation and we have presented the operating results of the Japan product sales component as discontinued operations for all periods presented in this report and have adjusted the financial statement information presented below to be consistent with the discontinued operations presentation.

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.

AUGUST 31,	2010	2009	2008	2007	2006
In thousands, except per share data					
Income Statement Data:					
Net sales	$136,874	$123,134	$252,074	$276,660	$271,463
Income (loss) from operations	4,038	(11,840)	14,204	16,133	11,492
Net income (loss) from continuing operations before income taxes	1,180	(14,862)	11,278	13,714	11,077
Income tax benefit (provision)(1)	(2,484)	3,814	(6,738)	(7,172)	16,017
Income (loss) from continuing operations	(1,304)	(11,048)	4,540	6,542	27,094
Income from discontinued operations, net of tax	548	216	987	923	1,439
Gain on sale of discontinued operations, net of tax	238	-	-	-	-
Net income (loss)(1)	(518)	(10,832)	5,527	7,465	28,533
Net income (loss) available to common shareholders(1)	(518)	(10,832)	5,527	5,250	24,148
Earnings (loss) per share:					
Basic	$ (.01)	$ (.81)	$ .28	$ .27	$ 1.20
Diluted	$ (.01)	$ (.81)	$ .28	$ .26	$ 1.17
Balance Sheet Data:					
Total current assets	$ 48,616	$ 40,142	$ 66,661	$ 69,653	$ 87,056
Other long-term assets	9,396	11,608	11,768	14,542	12,249
Total assets	147,343	143,878	177,677	196,181	216,495
Long-term obligations	32,988	32,191	38,762	35,178	35,347
Total liabilities	76,308	74,874	99,500	95,476	83,185
Preferred stock(2)	-	-	-	-	37,345
Shareholders' equity	71,035	69,004	78,177	100,705	133,310

(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 preferred stock at its liquidation preference of $25 per share plus accrued dividends.

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 Franklin Covey, 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.

Franklin Covey is a leading global provider of execution, leadership, and personal-effectiveness training with over 600 employees worldwide that deliver principle-based curriculum and effectiveness tools to our customers. Our training, consulting services, and related accessories are designed to help organizations and individuals transform the way they conduct their business and personal lives to enable them to achieve greatness. 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 140 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, and 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.

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 the 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 2010 and 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 2010, fiscal 2009, and fiscal 2008 refer to the twelve-month periods ended August 31, 2010, 2009, and 2008 and so forth.

RESULTS OF OPERATIONS

Overview of the Fiscal Year ended August 31, 2010

Our operating results for fiscal 2010 marked a significant improvement over fiscal 2009 financial results. We believe that slowly stabilizing economic conditions in the United States, and in many of the countries which we operate, helped to improve corporate earnings and increase training budgets at many of our existing and newly acquired clients. During fiscal 2010 we experienced broad-based improvements in our training and consulting sales at nearly all of our regional offices and directly owned international offices as well as from most of our international licensees. Nearly all of our major practices and content groups had increased sales and we believe that our investments in curriculum development will allow us to maintain this favorable momentum. In addition, during the fourth quarter of fiscal 2010 we were awarded a contract to provide training and consulting services to a governmental entity, which significantly improved our sales in the fourth quarter compared to the prior year. We started fiscal 2011 with approximately $11.5 million more in our pipeline of booked days and awarded revenue at August 31, 2010 to be delivered in future periods compared to the same time last year. We believe that the combination of stabilized economic conditions and increased booked training days as we enter fiscal 2011 will enable us to achieve improved financial results in fiscal 2011.

During fiscal 2010, we sold the product sales component of our wholly owned subsidiary in Japan to an unrelated Japan-based paper products company. The sale included the disposition of inventories, certain intangibles assets, and other current assets. The sale closed on June 1, 2010, and the total sale price was JPY 305.0 million, or approximately $3.4 million. In addition, the sale agreement provides for a three percent passive royalty on annual sales, which we believe will not be significant to our future operations. We believe that the sale of this division will further align our Japanese operations with our overall strategic focus on training and consulting sales. As a consequence of the sale, we determined that the operating results of the Japan product sales component qualified for discontinued operations presentation, and we have presented the operating results of the Japan product sales component as discontinued operations for all periods presented in this report on Form 10-K. The following management's discussion and analysis is presented on a comparative continuing operations presentation as shown in our consolidated statements of operations, which is found in Item 8.

For the year ended August 31, 2010, our consolidated sales (from continuing operations) increased 11 percent to $136.9 million compared to $123.1 million in fiscal 2009. Increased sales and an improved gross margin percentage contributed to improved operating results and in fiscal 2010 we recognized income from operations of $4.0 million compared to a loss from operations of $11.8 million in fiscal 2009. Our income from continuing operations before taxes was $1.2 million, compared to a loss of $14.9 million in fiscal 2009. We recorded a $2.5 million income tax provision (refer to discussion below) during fiscal 2010 compared to a $3.8 million income tax benefit in the prior year, primarily due to increased pre-tax earnings. After accounting for discontinued operations, our net loss for fiscal 2010 was $0.5 million, or ($0.04) per share, compared to a $10.8 million loss, or ($0.81) per share, recognized in fiscal 2009.

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, 2010:

- **Sales Performance** – Our consolidated sales from continuing operations increased $13.7 million, or 11 percent, compared to fiscal 2009. We continue to be encouraged by revenue growth from our government services group, in our practices, at most of our U.S./Canadian regional sales offices, from our international licensee partners, and from our directly owned offices in Australia and the United Kingdom. Growth in these areas was partially offset by decreased sales in Japan. Sales in Japan were impacted by an intellectual property licensing arrangement in fiscal 2009 that did not repeat in fiscal 2010 and by weak economic conditions in that country. Looking forward, our booking pace continues to improve over the prior year, and in fiscal 2010 we were awarded several training contracts that had a favorable impact on the fourth quarter of fiscal 2010 and which we believe will strengthen sales during fiscal 2011.

- **Gross Profit** – Consolidated gross profit increased to $89.1 million in fiscal 2010 compared to $77.9 million in fiscal 2009 primarily due to increased sales as described above. Our gross margin, which is gross profit stated as a percentage of sales, improved to 65.1 percent compared to 63.2 percent in the prior year.
- **Operating Costs** – Our operating costs decreased by $4.7 million compared to fiscal 2009, which was the net result of a $1.8 million increase in selling, general, and administrative costs; a $2.0 million decrease in restructuring costs; a $3.6 million decrease in impaired asset charges; and a $0.9 million decrease in depreciation expense. During fiscal 2010, we did not initiate a restructuring plan or have impaired asset charges.
- **Income Taxes** – Our income tax provision attributed to continuing operations for the fiscal year ended August 31, 2010 totaled $2.5 million on pre-tax earnings of $1.2 million. Our effective tax rate on continuing operations of approximately 210 percent is higher 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, disallowed executive compensation, and actual and deemed dividends from foreign subsidiaries for which we also cannot utilize foreign tax credits. These items and other differences added approximately $2.0 million to our income tax provision for fiscal 2010. However, due to the utilization of net operating loss carryforwards, our income tax expense is not indicative of the actual cash paid for income taxes.

Further details regarding these items can be found in the comparative analysis of fiscal 2010 compared to fiscal 2009 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 or loss before income taxes in our consolidated statements of operations:

YEAR ENDED AUGUST 31,	2010	2009	2008
Sales:			
Training and consulting services	94.6%	93.3%	54.8%
Products	3.1	3.8	44.2
Leasing	2.3	2.9	1.0
Total sales	100.0	100.0	100.0
Cost of sales:			
Training and consulting services	32.1	33.1	17.7
Products	1.6	2.1	19.2
Leasing	1.2	1.6	0.6
Total cost of sales	34.9	36.8	37.5
Gross profit	65.1	63.2	62.5
Selling, general, and administrative	56.7	61.6	55.4
Gain on sale of CSBU	-	-	(3.6)
Restructuring costs	-	1.7	0.8
Impairment of assets	-	2.9	0.6
Depreciation	2.7	3.6	2.3
Amortization	2.7	3.0	1.4
Total operating expenses	62.1	72.8	56.9
Income (loss) from operations	3.0	(9.6)	5.6
Interest income	0.0	0.0	0.1
Interest expense	(2.1)	(2.5)	(1.2)
Income (loss) from continuing operations before income taxes	0.9%	(12.1)%	4.5%

FISCAL 2010 COMPARED TO FISCAL 2009

Sales

We offer a variety of training courses, consulting services, and training related products that are 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 partners. The following table sets forth sales data from continuing operations by category and by our primary delivery channels (in thousands):

YEAR ENDED AUGUST 31,	2010	Percent change from prior year	2009	Percent change from prior year	2008
Sales by Category:					
Training and consulting services	$129,462	13	$114,910	(17)	$138,112
Products	4,226	(9)	4,668	(96)	111,491
Leasing	3,186	(10)	3,556	44	2,471
	$136,874	11	$123,134	(51)	$252,074
Sales by Channel:					
U.S./Canada direct	$68,707	21	$56,898	(23)	$73,709
International direct	26,110	(6)	27,747	(16)	32,972
International licensees	9,198	5	8,732	(13)	10,091
National account practices	19,447	32	14,711	109	7,042
Self-funded marketing	8,075	(19)	9,954	(43)	17,390
Other	5,337	5	5,092	40	3,635
CSBU channels	-	-	-	(100)	107,235
	$136,874	11	$123,134	(51)	$252,074

Our consolidated sales increased by $13.7 million, or 11 percent, compared to fiscal 2009. The following analysis of our sales performance for the fiscal year ended August 31, 2010 is based on activity through our primary delivery channels as shown above.

U.S./Canada Direct – This channel includes our four regional field offices that serve our clients in the United States and Canada and our government services group. During fiscal 2010, we had improved sales performance in this channel primarily due to increased sales from our government services group, improved sales at three of our four regional offices, increased revenue per training day, and decreased cancellation rates compared to fiscal 2009. Sales through our government services group increased primarily due to a governmental services contract obtained during the fourth quarter of fiscal 2010. We recognized $6.7 million from this contract during the fourth quarter of fiscal 2010. Sales through our regional sales offices increased $2.9 million compared to fiscal 2009 and bookings are currently strong for the first quarter of fiscal 2011.

International Direct – Our three directly owned international offices are located in Australia, Japan, and the United Kingdom. The decrease in international direct sales was due to reduced sales in Japan, which declined $4.9 million (on a continuing operations basis) compared to fiscal 2009. This decrease was partially offset by sales increases in Australia and the United Kingdom. Sales in Japan were impacted by a $0.8 million intellectual property sale in fiscal 2009 that did not repeat in fiscal 2010 and by economic conditions in that country. We believe that continued economic weakness in Japan was the primary factor in decreased sales, which resulted in decreased training and consulting sales and decreased book publishing sales compared to fiscal 2009.

International Licensees – In countries or foreign locations where we do not have a directly owned office, our training and consulting services are delivered through independent licensees, which may translate and adapt our curriculum to local preferences and customs, if necessary. During the fiscal year ended

August 31, 2010, nearly all of our foreign licensees had increased sales compared to the prior year. We believe that increased licensee royalties were indicative of stabilizing economic conditions in many countries around the world.

National Account Practices – Our national account practices are comprised of programs that are not typically offered in our regional field offices and includes Helping Clients Succeed from the sales performance group, *The Leader In Me* curriculum designed for students from our education practice, and Winning Customer Loyalty from our customer loyalty practice. During fiscal 2010, each of our major components of this channel had increased sales compared to the prior year.

Self-Funded Marketing – This group includes our public programs, book and audio sales, and speeches. The decrease in sales was primarily due to decreased speeches delivered and reduced public program sales resulting from the decision to offer fewer programs during the fiscal year.

Other – Our other sales are comprised primarily of leasing and shipping and handling revenues. The decrease in other sales was primarily due to reduced leasing revenues as certain lease contracts at our corporate headquarters expired. We are actively seeking new tenants for available property and believe that we will be successful in attracting new tenants to occupy vacant space at our corporate campus.

Gross Profit

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

Our consolidated gross profit from continuing operations increased to $89.1 million in fiscal 2010 compared to $77.9 million in fiscal 2009. Our consolidated gross margin, which is gross profit stated in terms of a percentage of sales, was 65.1 percent of sales in fiscal 2010 compared to 63.2 percent in fiscal 2009.

Gross margin on our training and consulting sales, which represented approximately 95 percent of our consolidated sales in fiscal 2010, was 66.1 percent compared to 64.5 percent in fiscal 2009. The increase was primarily due to sales from a government services contract that included intellectual property, which have higher margins than other types of training and consulting sales; increased international licensee royalty revenues, which have virtually no cost of sales; and an increase in training and consulting sales as a percent of our consolidated sales as training and consulting sales generally have higher gross margins than product or leasing sales.

Operating Expenses

Selling, General and Administrative – Our selling, general, and administrative (SG&A) expenses increased by $1.8 million compared to the prior year. However, as a percent of sales, consolidated SG&A expense decreased to 56.7 percent of sales in fiscal 2010 compared to 61.6 percent in the prior year. The increase in SG&A expenses was primarily due to increased sales and the corresponding increase in commissions, severance costs, reimbursement of airfare costs previously paid by the Company's CEO for business travel, and costs associated with the forgiveness of certain management stock loans. Due to the significant increase in sales during our fourth quarter of fiscal 2010, our commissions also increased as many of our sales personnel substantially exceeded sales goals, which provides for special bonus compensation. However, as our sales performance improves, annual sales goals are adjusted higher, which we believe provides incentive for continued growth. Of the $3.3 million increase in associate costs, we believe that $1.7 million was attributable to these special commissions. During the fourth quarter of fiscal 2010, it was mutually determined that our co-Chief Operating Officers would terminate their employment with the Company. As a result of this decision, we paid the former co-Chief Operating Officers severance according to our corporate policy, which totaled $0.9 million. During fiscal 2010 we also expensed $0.7 million for the reimbursement of airfare costs previously paid by the Company's CEO for business travel pursuant to a change in policy approved by the

Board of Directors. We also expensed $0.3 million related to bonuses for the income tax consequences resulting from the forgiveness of certain management stock loans during the fiscal year.

In previous fiscal years, we have implemented cost reduction efforts that reduced virtually every aspect of our spending. These initiatives included a restructuring plan that reduced the number of our domestic regional sales offices, decentralized certain sales support functions, reduced our headcount, closed our Canadian office, and made other changes to our operations in Canada. Increased SG&A expenses as described above were partially offset by the decreases in the following areas: 1) our advertising and promotional expenses decreased $2.2 million primarily due to the decision to reduce the number of public programs held and strategic reductions in our overall marketing expenses; 2) our telephone and overall utility charges decreased by $0.6 million primarily due to cost savings initiatives; 3) our spending on computer, office, and other related items declined by $0.5 million; and 4) we experienced reduced expenses in various other areas of our operations resulting from our cost cutting efforts.

Depreciation – Depreciation expense decreased $0.9 million compared to the prior year. The decrease was primarily due to impaired accounting software costs that resulted in an additional $0.5 million depreciation charge during the fourth quarter of fiscal 2009 (which did not repeat in fiscal 2010) and the full depreciation of other capital assets during the year. Based upon anticipated capital asset acquisitions in fiscal 2011 and previous depreciation expense levels, we expect depreciation expense to total approximately $3.6 million during fiscal 2011.

Amortization – Amortization expense from definite-lived intangible assets was flat compared to the prior year. We currently expect that intangible asset amortization expense will total $3.5 million in fiscal 2011.

FISCAL 2009 COMPARED TO FISCAL 2008

Sales

Training and Consulting Services and Leasing (continuing channels) – Our consolidated training and consulting service sales decreased by $23.2 million compared to the prior year, which was attributable to unfavorable performance from the majority of our domestic and international delivery channels. 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 primary delivery channels:

U.S./Canada Direct – During fiscal 2009, our sales decreased at all of our regional offices, primarily due to the economic factors described above. These factors led to cancelations or deferral of scheduled programs, reduced on-site training days, and overall decreased sales. Partially offsetting decreased sales at our regional offices was improved government services sales, which increased $1.4 million compared to fiscal 2008.

International Direct – Consistent with sales performance in the United States, sales at all of our directly owned international offices declined compared to fiscal 2008. In addition, the translation of foreign sales was adversely affected by changes in the exchange rates as these sales were translated to United States dollars. 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.

International Licensees – During the fiscal year ended August 31, 2009, nearly all of our foreign licensees had decreased sales compared to the prior year. We believe that decreased licensee royalties were indicative of deteriorating economic conditions in many countries around the world throughout late 2008 and the majority of fiscal 2009.

National Account Practices – Our national account practices are comprised of programs that are not typically offered in our regional field offices and includes Helping Clients Succeed from the sales performance group, *The Leader In Me* curriculum designed for students from our education practice, and Winning Customer Loyalty from our customer loyalty practice. During fiscal 2009, each of our major components of this channel had increased sales compared to the prior year primarily because most of these offerings were relatively new to the marketplace and gained momentum in fiscal 2009.

Self-Funded Marketing – This group includes our public programs, book and audio sales, and speeches. The decrease in 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; and 2) lower books and audio sales as fiscal 2008 sales were favorably impacted by the release of *The Leader in Me* book by Dr. Stephen R. Covey.

Other – Our other sales are comprised primarily of leasing and shipping and handling revenues. The improvement over fiscal 2008 was due to increased leasing sales totaling $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.

Product Sales (primarily CSBU channels) – 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.

Gross Profit

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 $77.9 million in fiscal 2009 compared to $157.5 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 from continuing operations was 63.2 percent of sales in fiscal 2009 compared to 62.5 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 43.9 percent compared to 56.6 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.

Operating Expenses

Selling, General and Administrative – Our SG&A expenses decreased $63.8 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.

Restructuring Costs – Following the sale of our CSBU, 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. The restructuring plan was 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.

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 was purchased in fiscal 2009.

Income Taxes

Our income tax benefit from continuing operations for fiscal 2009 was $3.8 million compared to a $6.7 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 in the prior year. Our effective tax benefit rate of approximately 26 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.

SEGMENT REVIEW

Prior to the sale of the CSBU, we had two operating segments: the 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 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 the previously reported operating segments, their primary operating components, and their significant business activities:

Organizational Solutions Business Unit – The OSBU was 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 included the financial results of our domestic sales force, public programs, and certain international operations. The domestic sales force remains 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 our operating segments for the periods indicated. For further information regarding our reporting segments and geographic information, refer to Note 18 to our consolidated financial statements as found in Item 8 of this report on Form 10-K (in thousands).

YEAR ENDED AUGUST 31,	2010	Percent change from prior year	2009	Percent change from prior year	2008
Organizational Solutions Business Unit:					
Domestic	$ 98,344	18	$ 83,193	(16)	$ 99,308
International	35,309	(3)	36,385	(16)	43,060
Total OSBU	133,653	12	119,578	(16)	142,368
Consumer Solutions Business Unit:	-	-	-	(100)	107,235
Total operating units	133,653	12	119,578	(52)	249,603
Corporate and eliminations	3,221	(9)	3,556	44	2,471
Consolidated	$136,874	11	$123,134	(51)	$252,074

QUARTERLY RESULTS

The following tables set forth selected unaudited quarterly consolidated financial data for the years ended August 31, 2010 and 2009. 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.

YEAR ENDED AUGUST 31, 2010 (unaudited)

	November 28	February 27	May 29	August 31
In thousands, except per share amounts				
Net sales	$ 31,926	$ 29,751	$ 30,496	$ 44,701
Gross profit	20,620	19,299	19,204	29,948
Selling, general, and administrative expense	17,275	18,464	17,530	24,335
Depreciation	974	1,012	915	768
Amortization	962	940	929	929
Income (loss) from operations	1,409	(1,117)	(170)	3,916
Income (loss) from continuing operations before income taxes	694	(1,850)	(902)	3,238
Income (loss) from continuing operations	116	(417)	263	(1,266)
Income (loss) from discontinued operations, net of tax	132	36	(128)	508
Gain on sale of discontinued operations, net of tax	-	-	-	238
Net income (loss)	248	(381)	135	(520)
Net income (loss) per share:				
Basic and diluted	$ .01	$ (.03)	$ .01	$ (.04)

YEAR ENDED AUGUST 31, 2009 (unaudited)

	November 29	February 28	May 30	August 31
In thousands, except per share amounts				
Net sales	$ 32,455	$ 27,773	$ 29,492	$ 33,414
Gross profit	20,259	17,839	18,665	21,119
Selling, general, and administrative expense	20,114	19,634	16,798	19,267
Restructuring costs	-	-	843	1,204
Impairment of assets	-	-	-	3,569
Depreciation	903	906	994	1,729
Amortization	902	903	995	961
Loss from operations	(1,660)	(3,604)	(965)	(5,611)
Loss from continuing operations before income taxes	(2,435)	(4,124)	(1,910)	(6,393)
Loss from continuing operations	(908)	(314)	(5,542)	(4,284)
Income (loss) from discontinued operations, net of tax	339	(319)	489	(293)
Net loss	(569)	(633)	(5,053)	(4,577)
Net loss per share:				
Basic and diluted	$ (.04)	$ (.05)	$ (.38)	$ (.34)

Training sales are moderately seasonal 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.

LIQUIDITY AND CAPITAL RESOURCES

Summary

At August 31, 2010 we had $3.5 million of cash and cash equivalents compared to $1.7 million at August 31, 2009 and our net working capital (current assets less current liabilities) increased significantly to $4.6 million compared to a deficit of $3.2 million at August 31, 2009. 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.

During the second quarter of fiscal 2010, we obtained a modification to our existing line of credit facility (the Fourth Modification). The Fourth Modification Agreement affected the following terms of our existing line of credit agreements:

- **Loan Amount** – The line of credit will continue to allow up to $13.5 million of borrowing capacity until December 31, 2010, when the loan amount will be reduced to $10.0 million.
- **Maturity Date** – The maturity date of the credit facility has been extended one year to March 14, 2011.
- **Interest Rate** – The effective interest rate will be based upon the calculation of the Funded Debt to EBITDAR Ratio and the Fixed Charge Coverage Ratio. If our Funded Debt to EBITDAR Ratio is less than 2.5 to 1.0 and the Fixed Charge Coverage Ratio is greater than 2.0 to 1.0, the interest rate will be LIBOR plus 2.6 percent. If the ratios are in excess of these amounts, but still in compliance with the terms of the line of credit facility, the interest rate will be LIBOR plus 3.5 percent.
- **Financial Covenants** – The Funded Debt to EBITDAR Ratio was modified for the twelve month periods to be less than (a) 3.75 to 1.00 as of the end of the fiscal quarter ending on February 27, 2010, (b) 3.50 to 1.00 as of the end of the fiscal quarter ending on May 29, 2010, and (c) 3.00 to 1.00 as of the end of the fiscal quarter ending on August 31, 2010 and each fiscal quarter thereafter. The Fixed Charge Coverage Ratio is required to be greater than 1.5 to 1.0 for all periods and the minimum net worth was revised to $67.0 million. The capital expenditure limitations remain unchanged.

We may use the line of credit facility for general corporate purposes as well as for other transactions, unless specifically prohibited by the terms of the line of credit agreement. The line of credit also contains customary representations and guarantees as well as provisions for repayment and liens. At August 31, 2010, we had $9.5 million outstanding on our line of credit.

In addition to customary non-financial terms and conditions, our line of credit requires us to be in compliance with specified financial covenants, as described above. 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. At August 31, 2010, we believe that we were in compliance with the terms and financial covenants of our line of credit facility.

In addition to our $13.5 million line of credit facility, we have a long-term lease on our corporate campus that is accounted for as a long-term financing obligation.

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

YEAR ENDED AUGUST 31,	2010	2009	2008
Total cash provided by (used for):			
Operating activities	$ 7,024	$ 5,282	$ 7,868
Investing activities	(2,002)	(3,203)	18,520
Financing activities	(3,617)	(16,248)	(16,159)
Effect of exchange rates on cash	391	(47)	(451)
Increase (decrease) in cash and cash equivalents	$ 1,796	$(14,216)	$ 9,778

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, 2010.

Cash Flows from Operating Activities

Our cash provided by operating activities totaled $7.0 million in fiscal 2010 compared to $5.3 million during fiscal 2009. The increase was primarily due to improved operating results from increased sales during fiscal 2010 compared to the prior year. 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 2010 was primarily related to:

- Increased accounts receivable resulting from significantly increased sales during the fourth quarter of fiscal 2010;
- Increased accrued liabilities resulting primarily from increased sales and a corresponding increase in commissions and bonuses; and
- Reduced inventory balances resulting from improved forecasting and purchasing processes.

We continue to strive to optimize our working capital balances by, among other things, improving our collections of accounts receivable, maintaining proper levels of inventory, and control spending for prepaid and other assets. Combined with existing and future sales growth programs and cost-reduction initiatives, we hope to 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, 2010 we used $2.0 million of net cash for investing activities. Our primary uses of cash for investing activities were the payment of the first of five potential earnout payments to the former owners of CoveyLink, purchases of property and equipment, and additional spending on curriculum development. During fiscal 2010, we paid $3.3 million to the former owners of CoveyLink based on earnings growth over the specified earnings period. The former owners of CoveyLink include a son of our Vice-Chairman of the Board of Directors. Our purchases of property and equipment, which totaled $1.4 million, consisted primarily of computer hardware and software. During fiscal 2010, we also spent $0.7 million for further investment in curriculum development activities. These uses of cash were partially offset by the receipt of $3.4 million from the sale of our product sales component of our Japan subsidiary.

During fiscal 2011, we expect to spend approximately $1.0 million on purchases of property and equipment and $2.9 million on curriculum development activities. Purchases of property and equipment are expected to consist primarily of new computer hardware, software, 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, 2010 totaled $3.6 million. Our uses of cash for financing activities primarily consisted of $3.4 million of cash used to reduce our line of credit balance and $0.7 million used for principal payments on our financing obligation. These uses were partially offset by $0.3 million of cash received from participants in the employee stock purchase plan to purchase shares of our common stock, and $0.2 million of cash received from a management stock loan participant to repay their loan.

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. In order to obtain a more favorable interest rate on the line of credit facility, the facility requires an annual renewal. We currently believe that we will be successful in obtaining a new or extended line of credit from our lender prior to the expiration of the current credit facility in March 2011 to ensure available liquidity in future periods. 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 would 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 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 HP Enterprise Services (HP) 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 2011; 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 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	Fiscal 2015	Thereafter	Total
Required lease payments on corporate campus	$ 3,116	$ 3,178	$ 3,242	$ 3,307	$ 3,373	$ 36,858	$ 53,074
Minimum required payments to HP for outsourcing services(1)	4,138	4,138	4,138	4,138	4,138	2,969	23,659
Minimum operating lease payments(2)	1,853	1,923	1,376	1,248	1,210	1,067	8,677
Line of credit	9,532	-	-	-	-	-	9,532
Purchase obligations	3,220	-	-	-	-	-	3,220
Total expected contractual obligation payments	$ 21,859	$ 9,239	$ 8,756	$ 8,693	$ 8,721	$ 40,894	$ 98,162

(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 of $3.9 million for which we cannot make a reasonably reliable estimate of the amount and period of payment. For further information regarding the application of FASC 740-10-05, refer to the Notes to the consolidated financial statements as presented in Item 8 of this report on Form 10-K.

Other Items

Franklin Covey Products is contractually obligated to pay us for rented warehouse and office space, a portion of the fixed costs for warehousing and distribution facilities, and is primarily liable for leasing costs at its retail stores. In the event that Franklin Covey Products is unable to pay these items, our cash flows and operating results may be adversely affected.

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 primarily 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 products, such as books, audio products, and other related items.

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 were 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 the guidance for multiple element arrangements. 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. Royalty revenue is reported as a component of training and consulting service sales in our consolidated statements of operations.

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

Share-Based Compensation

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 number of common shares that are vested and issued to LTIP participants is variable and is based entirely upon the achievement of specified financial performance objectives during a defined 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 awards contain 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 may produce additional volatility in our consolidated financial statements as we record cumulative adjustments to the estimated number of common shares to be awarded under the LTIP grants as described above.

During fiscal 2010 we granted options to purchase shares of our common stock that have a share price, or market based, vesting condition. As a result, we used a Monte Carlo simulation to determine the fair value of these stock options. The Monte Carlo option pricing model required the input of subjective assumptions, including items such as the expected term of the options. If factors change and we use different assumptions for estimating share-based compensation expense related to stock options, our share-based compensation expense may differ materially from that recorded in the current period.

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, 2010 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, 2010 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. 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. Our goodwill at August 31, 2010 was generated by the acquisition of CoveyLink during the second quarter of fiscal 2009 and the subsequent payment of the first of five potential earnout payments contained in the acquisition agreement.

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 methodologies for both indefinite-lived intangible assets and goodwill are also dependent upon the share price of our common stock and corresponding market capitalization, which may differ from estimated royalties used in our annual impairment testing. Based upon the fiscal 2010 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. 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 FASC 740-10-05 (formerly FIN 48), 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 FASC 740-10-05 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

Revenue Recognition – In October 2009, the Financial Accounting Standards Board issued guidance on revenue recognition that will be effective for us beginning September 1, 2010. The new guidance 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). The new guidance 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. We have not completed our evaluation of the impact of this guidance.

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, 2010, 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 HP 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, 2010, 2009, and 2008, 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,	2010	2009	2008
Losses on foreign exchange contracts	$ (240)	$ (321)	$ (487)
Gains on foreign exchange contracts	-	105	36
Net loss on foreign exchange contracts	$ (240)	$ (216)	$ (451)

At August 31, 2010, we had one open foreign currency sell contract that did not qualify for hedge accounting. The notional amount of this contract was JPY 186.1 million with a contracted value of $2.0 million. The fair value of this foreign currency forward contract, which was determined using the estimated amount at which the contract could be settled based upon forward market exchange rates, was insignificant.

Interest Rate Sensitivity

The Company is exposed to fluctuations in interest rates primarily due to our line of credit borrowings. At August 31, 2010, 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 an effective interest rate of 3.8 percent at August 31, 2010. At August 31, 2010 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, 2010, 2009, and 2008, 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, 2010, 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, 2010, 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, 2010 and 2009, 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, 2010, and our report dated November 12, 2010 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Salt Lake City, Utah
November 12, 2010

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, 2010 and 2009, 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, 2010. 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, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended August 31, 2010, 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, 2010, 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 12, 2010 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

KPMG LLP

Salt Lake City, Utah
November 12, 2010

Consolidated Balance Sheets

AUGUST 31,	2010	2009
In thousands, except per share data		
Assets		
Current assets:		
Cash and cash equivalents	$ 3,484	$ 1,688
Accounts receivable, less allowance for doubtful accounts of $718 and $879	30,665	22,877
Inventories	4,470	6,770
Deferred income tax assets	2,543	2,551
Income taxes receivable	-	508
Prepaid expenses and other current assets	7,454	5,748
Total current assets	48,616	40,142
Property and equipment, net	20,330	22,629
Intangible assets, net	65,240	68,994
Goodwill	3,761	505
Other long-term assets	9,396	11,608
	$ 147,343	**$ 143,878**
Liabilities And Shareholders' Equity		
Current liabilities:		
Current portion of financing obligation	$ 734	$ 621
Line of credit	9,532	12,949
Accounts payable	6,847	8,758
Income taxes payable	198	-
Accrued liabilities	26,743	20,976
Total current liabilities	44,054	43,304
Financing obligation, less current portion	30,364	31,098
Other liabilities	253	472
Deferred income tax liabilities	1,637	-
Total liabilities	76,308	74,874
Commitments and contingencies (Notes 1, 8, and 9)		
Shareholders' equity:		
Common stock, $.05 par value; 40,000 shares authorized, 27,056 shares issued	1,353	1,353
Additional paid-in capital	183,794	183,436
Common stock warrants	7,597	7,597
Retained earnings	13,462	13,980
Accumulated other comprehensive income	3,014	1,961
Treasury stock at cost, 10,041 shares and 10,080 shares	(138,185)	(139,323)
Total shareholders' equity	71,035	69,004
	$ 147,343	**$ 143,878**

See accompanying notes to consolidated financial statements.

Consolidated Statements Of Operations And Comprehensive Income (Loss)

YEAR ENDED AUGUST 31,	2010	2009	2008
In thousands, except per share amounts			
Net sales:			
Training and consulting services	$ 129,462	$ 114,910	$ 138,112
Products	4,226	4,668	111,491
Leasing	3,186	3,556	2,471
	136,874	123,134	252,074
Cost of sales:			
Training and consulting services	43,945	40,798	44,738
Products	2,226	2,620	48,415
Leasing	1,632	1,834	1,390
	47,803	45,252	94,543
Gross profit	89,071	77,882	157,531
Selling, general, and administrative	77,604	75,813	139,616
Gain on sale of consumer solutions business unit	-	-	(9,131)
Restructuring costs	-	2,047	2,064
Impairment of assets	-	3,569	1,483
Depreciation	3,669	4,532	5,692
Amortization	3,760	3,761	3,603
Income (loss) from operations	**4,038**	**(11,840)**	**14,204**
Interest income	34	27	157
Interest expense	(2,892)	(3,049)	(3,083)
Income (loss) from continuing operations before income taxes	**1,180**	**(14,862)**	**11,278**
Income tax benefit (provision)	(2,484)	3,814	(6,738)
Net income (loss) from continuing operations	**(1,304)**	**(11,048)**	**4,540**
Income from discontinued operations, net of tax (Note 2)	548	216	987
Gain on sale of discontinued operations, net of tax (Note 2)	238	-	-
Net income (loss)	**$ (518)**	**$ (10,832)**	**$ 5,527**
Income (loss) from continuing operations per share:			
Basic and diluted	$ (.10)	$ (.82)	$ .23
Net income (loss) per share:			
Basic and diluted	$ (.04)	$ (.81)	$ .28
Weighted average number of common shares:			
Basic	13,525	13,406	19,577
Diluted	13,525	13,406	19,922

Comprehensive Income (Loss):

Net income (loss)	$ (518)	$ (10,832)	$ 5,527
Foreign currency translation adjustments	1,053	955	46
Comprehensive income (loss)	$ 535	$ (9,877)	$ 5,573

See accompanying notes to consolidated financial statements.

Consolidated Statements Of Cash Flows

YEAR ENDED AUGUST 31,	2010	2009	2008
In thousands			
Cash Flows From Operating Activities			
Net income (loss)	$ (518)	$ (10,832)	$ 5,527
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	7,429	8,038	9,533
Amortization of capitalized curriculum costs	2,083	2,263	2,124
Gain on sale of discontinued operation	(1,092)	-	-
Gain on sale of consumer solutions business unit assets	-	-	(9,131)
Deferred income taxes	2,406	(5,476)	4,152
Share-based compensation cost (benefit)	1,099	468	(259)
Loss on disposals of assets	75	319	460
Restructuring charges	-	2,047	2,064
Impairment of assets	-	3,569	1,483
Changes in assets and liabilities, net of effect of acquired business:			
Decrease (increase) in accounts receivable, net	(7,597)	5,196	(6,299)
Decrease in inventories	606	2,170	2,748
Increase in receivable from equity method investee	-	-	(7,672)
Decrease (increase) in prepaid expenses and other assets	(1,571)	4,136	4,985
Increase (decrease) in accounts payable and accrued liabilities	3,398	(5,368)	(1,512)
Increase (decrease) in income taxes payable/receivable	699	(983)	(184)
Increase (decrease) in other long-term liabilities	7	(265)	(151)
Net cash provided by operating activities	**7,024**	**5,282**	**7,868**
Cash Flows From Investing Activities			
Proceeds from the sale of consumer solutions business unit assets, net	-	-	28,241
Proceeds from sale of discontinued operation	3,350	-	-
Purchases of property and equipment	(1,384)	(2,275)	(4,164)
Capitalized curriculum development costs	(712)	(1,762)	(4,042)
Acquisition of business, net of cash acquired	(3,256)	(1,157)	-
Investment in equity method investee	-	-	(2,755)
Proceeds from disposal of consolidated subsidiaries	-	201	1,180
Proceeds from sales of property and equipment, net	-	1,790	60
Net cash provided by (used for) investing activities	**(2,002)**	**(3,203)**	**18,520**
Cash Flows From Financing Activities			
Proceeds from line of credit borrowings	54,705	77,044	69,708
Payments on line of credit borrowings	(58,123)	(64,095)	(85,707)
Proceeds from notes payable financing	1,154	-	-
Payments on notes payable financing	(1,096)	-	-
Principal payments on long-term debt and financing obligation	(654)	(1,211)	(622)
Purchases of common stock for treasury	(50)	(28,270)	-
Proceeds from sales of common stock held in treasury	288	284	462
Proceeds from management stock loan payments	159	-	-
Net cash used for financing activities	**(3,617)**	**(16,248)**	**(16,159)**
Effect of foreign currency exchange rates on cash and cash equivalents	391	(47)	(451)
Net increase (decrease) in cash and cash equivalents	1,796	(14,216)	9,778
Cash and cash equivalents at beginning of the year	1,688	15,904	6,126
Cash and cash equivalents at end of the year	**$ 3,484**	**$ 1,688**	**$ 15,904**
Supplemental disclosure of cash flow information:			
Cash paid for income taxes	$ 428	$ 2,788	$ 3,549
Cash paid for interest	2,862	3,026	3,146
Non-cash investing and financing activities:			
Acquisition of treasury stock from tender offer through liabilities	$ -	$ -	$ 28,222
Purchases of property and equipment financed by accounts payable	95	77	314

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock		Additional Paid-In	Common Stock	Retained	Accumulated Other Comprehensive	Treasury Stock	
	Shares	Amount	Capital	Warrants	Earnings	Income	Shares	Amount
In thousands								
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)
Issuance of common stock from treasury			(495)				56	783
Purchase of treasury shares							(5)	(29)
Unvested share award			(850)				61	850
Share-based compensation			1,099					
Management stock loan payments			664				(84)	(505)
NQDC share activity			(60)				11	39
Cumulative translation adjustments						1,053		
Net loss					(518)			
Balance at August 31, 2010	**27,056**	**$1,353**	**$183,794**	**$7,597**	**$13,462**	**$3,014**	**(10,041)**	**$(138,185)**

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 140 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 28, 2009, February 27, 2010, and May 29, 2010 during fiscal 2010. 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 consist of Franklin Development Corp., and our offices 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.

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, 2010 or 2009.

As of August 31, 2010, 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 and the product sales operations of our Japan office in the fourth quarter of fiscal 2010, our inventories are comprised primarily of training materials, books, and related accessories and consisted of the following (in thousands):

AUGUST 31,	2010	2009
Finished goods	$ 4,366	$ 6,542
Raw materials	104	228
	$ 4,470	$ 6,770

Provision is made to reduce excess and obsolete inventories to their estimated net realizable value. At August 31, 2010 and 2009, our reserves for excess and obsolete inventories totaled $0.9 million for each year. 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 7) 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. We generally use 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	3-5 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. 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. Based on this valuation methodology, we believe the fair value of the Covey trade name substantially exceeds its carrying value and no impairment charges were recorded against the Covey trade name during the fiscal years ended August 31, 2010, 2009, or 2008.

Our reported goodwill resulted from the fiscal 2009 acquisition of CoveyLink, LLC (Note 14) and the fiscal 2010 payment of the first of five annual potential contingent earnout payments. Based on our evaluation, we believe the fair value of the reporting unit, which was defined as our consolidated operations, substantially exceeded its carrying value and no impairment charges to the CoveyLink, LLC acquisition goodwill were recorded during the fiscal years ended August 31, 2010 or 2009.

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 clients. 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.

During fiscal 2010, 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 $5.0 million and $6.3 million at August 31, 2010 and 2009. 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 years 2010 or 2009.

Accrued Liabilities

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

AUGUST 31,	2010	2009
Accrued compensation	$ 7,445	$ 4,078
Unearned revenue	4,884	3,692
Outsourcing contract costs payable	3,879	2,531
Customer credits	2,373	2,384
Other accrued liabilities	8,162	8,291
	$ 26,743	$20,976

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, decentralized certain sales support functions, closed our Canadian office, and made other changes to our operations in Canada. The restructuring plan was 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 charges were as follows at August 31, 2010 (in thousands):

Description		Accrued Restructuring Costs
Balance at August 31, 2008	$	2,055
Restructuring charges		2,047
Amounts paid - employee severance		(2,803)
Balance at August 31, 2009	$	1,299
Restructuring charges		-
Amounts paid - employee severance		(1,299)
Balance at August 31, 2010	$	-

Foreign Currency Translation and Transactions

The functional currencies of our 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 $0.5 million, $0.2 million, and $0.1 million during the fiscal years ended August 31, 2010, 2009, and 2008, 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.

Sales Taxes

We collect sales tax on qualifying transactions with customers based upon applicable sales tax rates in various jurisdictions. We account for sales taxes collected using the net method; accordingly, we do not include sales taxes in net sales reported in our consolidated financial statements.

Revenue Recognition

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, services, and intellectual property. For transactions that contain more than one element, we recognize revenue in accordance with the guidance for multiple element arrangements. 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 $9.2 million, $8.6 million, and $10.1 million for the fiscal years ended August 31, 2010, 2009, and 2008.

Revenue recognition on software sales involving multiple elements, such as software products and support, requires revenue to be allocated to each element based on vendor specific objective evidence (VSOE). Nearly all of our 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, we had software sales totaling $2.5 million, which was included as a component of product sales in our consolidated statement of operations for that period.

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 13.

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 $3.3 million, $5.5 million, and $15.5 million for the fiscal years ended August 31, 2010, 2009, and 2008. Our direct response advertising costs reported in other current assets totaled $0.2 million and $0.1 million at August 31, 2010 and 2009.

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.

We provide 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, 2010 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. In order to obtain a more favorable interest rate on the line of credit facility, the facility requires an annual renewal. We currently believe that we will be successful in obtaining a new or extended line of credit from our lender prior to the expiration of the current credit facility in March 2011 to ensure available liquidity in future periods. 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 would 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 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.

Accounting Pronouncements Issued Not Yet Adopted

Revenue Recognition – In October 2009, the Financial Accounting Standards Board issued guidance on revenue recognition that will be effective for us beginning September 1, 2010. The new guidance 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). The new guidance 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. We have not completed our evaluation of the impact of this guidance.

2. Sale Of Japan Product Sales Operation

During fiscal 2010, we sold the product sales component of our wholly owned subsidiary in Japan to Nakabayashi Co. Ltd., an unrelated Japan-based paper products company. The sale included the disposition of inventories, certain intangibles assets (including customer lists), and other current assets, which had an aggregate carrying value of $2.0 million. The sale closed on June 1, 2010 and the total sale price was JPY 305.0 million, or approximately $3.4 million. We recognized a pre-tax gain from the sale totaling $1.1 million after normal transaction costs. In addition, the sale agreement provides for a three percent passive royalty on annual sales, which we believe are insignificant to our operations. We believe that the sale of this division will further align our Japanese operations with our overall strategic focus on training and consulting sales. The Japan products sales component was previously reported as a part of our international operations.

We determined that the operating results of the Japan product sales component qualify for discontinued operations presentation and we have presented the operating results of the Japan product sales component as discontinued operations for all periods presented in this report. The income recognized from discontinued operations was comprised of the following for the periods presented (in thousands):

AUGUST 31,	2010	2009	2008
Sales	$ 5,097	$ 6,984	$ 7,119
Gross profit	2,230	2,531	3,497
Income before income taxes	988	401	1,795
Income tax provision	(440)	(185)	(808)
Income from discontinued operations, net of tax	548	216	987

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 may have the opportunity to earn contingent license fees if Franklin Covey Products achieves specified performance objectives. However, as prescribed by FASC 845-10-55-28, the excess of net monetary consideration received over the fair value of surrendered assets is required to first reduce the cost of any retained equity method investment in Franklin Covey Products to zero with any remainder being recognized as an additional gain. As a result of this guidance, the basis of the investment in Franklin Covey Products of $2.8 million was reduced to zero with a corresponding reduction to the gain. We recognized a net gain of $9.1 million on the sale of the CSBU assets, and a negative basis difference for the amount of the initial investment in Franklin Covey Products. We amortize the negative basis difference 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 FASC 205-20-45, 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, 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 the fiscal years ended August 31, 2010 and 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 2010 and fiscal 2009 were not recorded in our consolidated statements of operations. Consequently, the net book value of our investment in Franklin Covey Products was zero as of August 31, 2010 and 2009.

We receive reimbursement for certain operating costs, such as warehousing and distribution costs, which are billed to the Company by third party providers. We also make payments to Franklin Covey Products for products that we use for our training and consulting services. At August 31, 2010 and 2009, we had $3.4 million and $2.0 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 continued 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,	2010	2009
Land and improvements	$ 1,312	$ 1,312
Buildings	32,406	32,385
Machinery and equipment	2,387	2,333
Computer hardware and software	17,465	19,221
Furniture, fixtures, and leasehold improvements	9,861	9,803
	63,431	65,054
Less accumulated depreciation	(43,101)	(42,425)
	$ 20,330	$ 22,629

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. The transaction involving the Canadian property 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.

5. Intangible Assets And Goodwill

Our intangible assets and goodwill were comprised of the following (in thousands):

AUGUST 31, 2010	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite-lived intangible assets:			
License rights	$ 27,000	$ (11,166)	$ 15,834
Curriculum	58,271	(32,981)	25,290
Customer lists	15,111	(13,995)	1,116
Trade names	377	(377)	-
	100,759	(58,519)	42,240
Indefinite-lived intangible asset:			
Covey trade name	23,000	-	23,000
	$123,759	$ (58,519)	$ 65,240

AUGUST 31, 2009			
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

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, 2010 were as follows:

Category of Intangible Asset	Range of Remaining Estimated Useful Lives	Weighted Average Amortization Period
License rights	16 years	30 years
Curriculum	9 to 16 years	26 years
Customer lists	1 to 2 years	14 years

During fiscal 2009 we acquired the assets of CoveyLink Worldwide, LLC (Note 14). 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 are 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. During fiscal 2010, we paid $3.3 million in cash to the former owners of CoveyLink Worldwide, LLC for the first contingent payment. The fiscal 2010 contingent payment was classified as goodwill in our August 31, 2010 consolidated balance sheet. Our consolidated goodwill consisted of the following at August 31, 2010 (in thousands):

Balance at August 31, 2008	$ -
Acquisition of CoveyLink Worldwide, LLC	505
Impairments	-
Balance at August 31, 2009	$ 505
Contingent earnout payment from CoveyLink acquisition	3,256
Impairments	-
Balance at August 31, 2010	$ 3,761

Our aggregate amortization expense from definite-lived intangible assets totaled $3.8 million, $3.8 million, and $3.6 million, for fiscal years 2010, 2009, and 2008. Amortization expense for our intangible assets over the next five years is expected to be as follows (in thousands):

YEAR ENDING AUGUST 31,	
2011	$ 3,537
2012	2,495
2013	2,469
2014	2,452
2015	2,443

6. Line Of Credit And Short-Term Note Payable

Line of Credit

We have a line of credit borrowing facility with an external lender that provides additional working capital to fund our operations and provide capital for other uses. During fiscal 2010, our previous line of credit agreement expired and we obtained a modification to the previously existing line of credit agreements that extended the due date of the previous agreement (the Fourth Modification). The Fourth Modification Agreement affected the following terms of our previously existing line of credit agreements:

- **Loan Amount** – The line of credit will continue to allow up to $13.5 million of borrowing capacity until December 31, 2010, when the loan amount will be reduced to $10.0 million.
- **Maturity Date** – The maturity date of the credit facility was extended one year to March 14, 2011.
- **Interest Rate** – The effective interest rate will be based upon the calculation of the Funded Debt to EBITDAR Ratio and the Fixed Charge Coverage Ratio. If our Funded Debt to EBITDAR Ratio is less than 2.5 to 1.0 and the Fixed Charge Coverage Ratio is greater than 2.0 to 1.0, the interest rate will be LIBOR plus 2.6 percent. If the ratios are in excess of these amounts, but still in compliance with the terms of the line of credit facility, the interest rate will be LIBOR plus 3.5 percent.
- **Financial Covenants** – The Funded Debt to EBITDAR Ratio was modified for the twelve month periods to be less than (a) 3.75 to 1.00 as of the end of the fiscal quarter ending on February 27, 2010, (b) 3.50 to 1.00 as of the end of the fiscal quarter ending on May 29, 2010, and (c) 3.00 to 1.00 as of the end of the fiscal quarter ending on August 31, 2010 and each fiscal quarter thereafter. The Fixed Charge Coverage Ratio is required to be greater than 1.5 to 1.0 for all periods and the minimum net worth was revised to $67.0 million. The capital expenditure limitations remain unchanged. We believe that we were in compliance with the terms and covenants of the Fourth Modification Agreement at August 31, 2010.

The additional expense related to the Fourth Modification was recorded as a component of interest expense and was immaterial to our consolidated financial statements.

The effective interest rate on our line of credit was 3.8 percent and 2.3 percent at August 31, 2010 and 2009, respectively.

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.

Short-Term Note Payable

On December 1, 2009, we obtained an unsecured short-term loan from a bank in Japan for 100.0 million yen. The loan was due on May 31, 2010 and bore interest at 2.5 percent for the duration of the loan. The note payable was paid in full on the due date; however, at the inception of the loan, the United States dollar equivalent of the loan exceeded the allowable $1.0 million, which resulted in an instance of non-compliance with our line of credit agreement. This instance of non-compliance was cured and did not increase our outstanding obligation on the line of credit agreement. The Fourth Modification Agreement described above waived the instance of non-compliance with regard to the Japan loan.

7. Financing Obligation

Our financing obligation was comprised of the following (in thousands):

AUGUST 31,	2010	2009
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	$31,098	$31,719
Less current portion	(734)	(621)
Total long-term debt and financing obligation, less current portion	$30,364	$31,098

Future principal maturities of our financing obligation were as follows at August 31, 2010 (in thousands):

YEAR ENDING AUGUST 31,	
2011	$ 734
2012	857
2013	992
2014	1,139
2015	1,298
Thereafter	26,078
	$ 31,098

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, we were prohibited 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 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,	
2011	$ 3,116
2012	3,178
2013	3,242
2014	3,307
2015	3,373
Thereafter	36,858
Total future minimum financing obligation payments	53,074
Less interest	(23,288)
Present value of future minimum financing obligation payments	$ 29,786

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 our financial statements.

8. 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 training products and accessories. 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, 2010, we had operating leases that have remaining terms ranging from approximately one year to approximately six years. Following the sale of our CSBU assets, 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, 2010 (in thousands):

YEAR ENDING AUGUST 31,	Required Minimum Lease Payments	Receivable from Franklin Covey Products	Net Required Minimum Lease Payments
2011	$ 1,853	$ (422)	$ 1,431
2012	1,923	(475)	1,448
2013	1,376	(529)	847
2014	1,248	(584)	664
2015	1,210	(632)	578
Thereafter	1,067	(535)	532
	$ 8,677	$ (3,177)	$ 5,500

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 and was insignificant for the periods presented. Total rent expense recorded in selling, general, and administrative expense from operating lease agreements was $3.0 million, $3.2 million, and $8.7 million for the years ended August 31, 2010, 2009, and 2008.

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 $33.4 million, which had a carrying value of $14.9 million at August 31, 2010. Future minimum lease payments due to us from our sublease agreements at August 31, 2010 were as follows (in thousands):

YEAR ENDING AUGUST 31,	
2011	$ 2,306
2012	2,392
2013	2,150
2014	1,973
2015	1,795
Thereafter	8,563
	$ 19,179

Sublease payments made to the Company totaled $3.2 million, $3.6 million, and $2.7 million, during the fiscal years ended August 31, 2010, 2009, and 2008 of which $0.2 million was recorded as a reduction of rent expense associated with underlying lease agreements in our selling, general, and administrative expense in fiscal 2008.

9. Commitments And Contingencies

Outsourcing Contract

The Company has an outsourcing contract with HP Enterprise Services (HP and formerly Electronic Data Services) 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 HP. Under terms of the amended outsourcing contract with HP: 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 HP 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
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
2015	4,138	(2,159)	1,979
Thereafter	2,969	(1,796)	1,173
	$ 23,659	$ (12,591)	$ 11,068

Our actual payments to HP 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 2010, 2009, and 2008, we expensed $6.2 million, $7.1 million, and $26.7 million for services provided under terms of the HP outsourcing contract. The total amount expensed each year under the HP contract includes freight charges, which are billed to the Company based upon activity. Freight charges included in our total HP costs totaled $1.5 million, $1.8 million, and $8.8 million during the years ended August 31, 2010, 2009, and 2008, 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 HP 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, 2010, we had purchase commitments totaling $3.2 million for products and services to be delivered primarily in fiscal 2011. 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, 2010.

Legal Matters

On April 20, 2010, Moore Wallace North America, Inc. doing business as TOPS filed a complaint against Franklin Covey Products in the Circuit Court of Cook County, Illinois, for breach of contract. The complaint also named us as a defendant and alleged that we should be liable for Franklin Covey Products' debts under the doctrine of alter ego or fraudulent transfer. We are still in the early stages of this litigation and any potential liability is not currently estimable. We believe that we have meritorious defenses against this action, and we will continue to vigorously defend it.

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, we 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.

We are also the subject of certain other legal actions, which we consider routine to our business activities. At August 31, 2010, we believe that, after consultation with legal counsel, any potential liability to us under these other actions will not materially affect our financial position, liquidity, or results of operations.

Franklin Covey Products Store Leases

According to the terms of the agreements associated with the sale of the CSBU assets that closed in the fourth quarter of fiscal 2008 (Note 3), we assigned the benefits and obligations relating to the leases of most of our retail stores to Franklin Covey Products. However, we remain secondarily liable to fulfill the obligations contained in the lease agreements, including making lease payments, if Franklin Covey Products is unable to fulfill its obligations pursuant to the terms of the lease agreements. Any default by Franklin Covey Products in its lease payment obligations could provide us with certain remedies against Franklin Covey Products, including potentially allowing us to terminate the Master License Agreement. If Franklin Covey Products is unable to satisfy the obligations contained in the lease agreements and we are unable to obtain adequate remedies, our results of operations and cash flows may be adversely affected.

10. Shareholders' Equity

Preferred Stock

We have 14.0 million shares of preferred stock authorized for issuance. However, at August 31, 2010, no shares of preferred stock were issued or 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, 2010 and 2009, 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.

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, 2010, we have 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 2010, fiscal 2009, or fiscal 2008, and at August 31, 2010 we had $2.4 million remaining for future purchases under the terms of this approved plan.

In addition to the treasury shares shown below, we issued 61,064; 66,112; and 36,000 shares of our common stock held in treasury in connection with unvested stock awards during fiscal years 2010, 2009, and 2008 (Note 13).

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
2010	56,475	-	56,475	$288
2009	55,448	1,000	56,448	284
2008	68,702	15,371	84,073	462

11. 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 waived 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. However, due to the nature of the May 2004 modifications, the Company reevaluated its accounting for the management stock loan program. Based upon relevant accounting guidance, 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 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. According to share-based accounting rules, 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 our common stock on the Breakeven Date.
- If our common 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 our common stock equal the principal and accrued interest on the management stock loans. If a loan participant declined 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 our 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, we have determined that the escrowed loan shares are participating securities. 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.

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, these individuals owed the Company $759,417 (51,970 shares), $270,597 (18,518 shares), and $192,037 (13,142 shares), respectively, in December 2009. To settle the loans, they each surrendered their loan shares, which were valued at market on the date of surrender, to the Company in partial payment of their loans and we collected or forgave the remaining loan balances. David M.R. Covey paid the remaining balance owing on his management loan in cash during the quarter ended February 27, 2010. To the extent necessary, we also paid the listed persons a bonus to cover the related taxes that were incurred as a result of this action. The carrying value of our management stock loans was reduced to zero in our consolidated financial statements during previous periods.

The inability of the Company to collect all, or a portion, of the management stock loans could have an adverse impact upon our financial position and cash flows compared to full collection of the loans.

12. Financial Instruments

Fair Value of Financial Instruments

The book value of our financial instruments at August 31, 2010 and 2009 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, 2010 or 2009, 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, Cash Equivalents, and Accounts Receivable – The carrying amounts of cash, cash equivalents, and accounts receivable approximate their fair values due to the liquidity and short-term maturity 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, 2010, 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. In addition, the line of credit agreement is renewed on an annual basis the terms and conditions are reflective of current market conditions. 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, 2010, 2009, and 2008, 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,	2010	2009	2008
Losses on foreign exchange contracts	$ (240)	$ (321)	$ (487)
Gains on foreign exchange contracts	-	105	36
Net losses on foreign exchange contracts	$ (240)	$ (216)	$ (451)

At August 31, 2010, we had one open foreign currency sell contract that did not qualify for hedge accounting. The notional amount of this contract was JPY 186.1 million with a contracted value of $2.0 million. The fair value of this foreign currency forward contract, which was determined using the estimated amount at which the contract could be settled based upon forward market exchange rates, was insignificant.

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, 2010, 2009, or 2008.

13. 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, 2010, our stock option incentive plan, which permits the granting of performance awards, unvested stock awards to employees, and incentive stock options had approximately 1,402,000 shares available for granting and our 2004 ESPP plan had approximately 720,000 shares authorized for purchase by plan participants. The total cost of our share-based compensation plans for the fiscal years ended August 31, 2010, 2009, and 2008 were as follows (in thousands):

YEAR ENDED AUGUST 31,	2010	2009	2008
Performance awards	$ 327	$ -	$(1,338)
Unvested share awards	458	427	969
Compensation cost of the ESPP	53	41	79
Stock options	261	-	31
	$ 1,099	$ 468	$ (259)

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 2010, 2009, or 2008. We generally issue shares of common stock for our 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 number of common shares that eventually vest and are issued to LTIP participants is variable and is based entirely upon the achievement of specified financial performance objectives during a defined 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 issued 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 issued.

During fiscal 2010, the Compensation Committee approved the fiscal 2010 LTIP award, which includes the following key terms:

- Target Number of Shares Expected to Vest at August 31, 2012 - 232,576 shares
- Vesting Dates - August 31, 2012, February 28, 2013, and August 31, 2013
- Grant Date Fair Value of Common Stock - $5.28 per share

The fiscal 2010 LTIP has a four-year performance period, but has three vesting dates if certain financial measures are achieved during the performance period. Therefore, we record compensation expense based on the estimated number of shares expected to be issued at each of the vesting dates. During fiscal 2010, the only adjustments made to the expected number of shares that will vest were due to forfeitures resulting from the departure of two participants in the fiscal 2010 LTIP grant.

As we completed our evaluations of the LTIP awards during fiscal 2008, we reduced the number of shares expected to be issued 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 issued to participants. There were no awards granted under the terms of the LTIP during the fiscal years ended August 31, 2009 or 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 one 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 obtain an interest in the Company through the acquisition of shares of common stock. For awards granted after fiscal 2008, the Directors' Plan provides for an annual whole-share grant equal to $40,000 with a one-year vesting period, which is generally granted in January (following the Annual Shareholders' Meeting) of each year. The Directors' Plan also requires a minimum stock ownership requirement for directors. Shares granted under the terms of the Directors' Plan subsequent to fiscal 2008 are ineligible to be voted or participate in any common stock dividends until they are vested.

Under the provisions of the Directors' Plan, we issued 61,064 shares, 66,112 shares, and 36,000 shares of our common stock to eligible members of the Board of Directors during the fiscal years ended August 31, 2010, 2009, and 2008. The fair value of the shares awarded under the Directors' Plan was $0.3 million during for each of the years ended August 31, 2010, 2009, and 2008, 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 for these awards was $0.9 million, $0.9 million, and $0.6 million in fiscal years 2010, 2009, and 2008.

Employee Awards – 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 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. 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 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.

The following information applies to our unvested stock awards for the fiscal year ended August 31, 2010:

	Number of Shares	Weighted-Average Grant-Date Fair Value Per Share
Unvested stock awards at August 31, 2009	133,612	$ 6.28
Granted	61,064	5.24
Forfeited	-	-
Vested	(97,612)	5.83
Unvested stock awards at August 31, 2010	97,064	$ 6.08

At August 31, 2010, there was $0.2 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 five months. The total recognized tax benefit from unvested stock awards totaled $0.2 million, $0.2 million, and $0.4 million for the fiscal years ended August 31, 2010, 2009, and 2008, respectively. The intrinsic value of our unvested stock awards at August 31, 2010 was $0.6 million.

Employee Stock Purchase Plan

We have an employee stock purchase plan (Note 15) 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. We determined that the discount offered to employees under the ESPP is compensatory, and the discount amount is therefore expensed at each grant date. During the fiscal year ended August 31, 2010, a total of 56,475 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 the Compensation Committee.

During fiscal 2010, the Compensation Committee awarded the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) options to purchase 500,000 shares and 175,000 shares of our common stock, respectively. These stock options have a contractual life of 10 years and are divided into four equal tranches with exercise prices of $9.00 per share, $10.00 per share, $12.00 per share, and $14.00 per share. The options vest upon resolution of the management common stock loan program, subject to Board of Director approval of the resolution, which was determined to be a market vesting condition based upon our share price. Accordingly, the fair value of these stock options was determined using a Monte Carlo simulation with an embedded Black-Scholes valuation model. The following assumptions were made in estimating the fair value of the CEO and CFO stock options awarded in fiscal 2010:

Model Input	Value
Grant date share price per share	$ 5.28
Volatility	51.47%
Dividend yield	0.0%
Risk-free rate	1.57%

The fair value of these stock options was determined to be $0.8 million, which is being amortized over 1.8

years. The amortization period was defined as the mean time to vest as calculated by the Monte Carlo simulation model.

Information related to our stock option activity during the fiscal year ended August 31, 2010 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, 2009	1,762,000	$13.37		
Granted	675,000	11.25		
Exercised	-	-		
Canceled	(1,705,000)	13.55		
Outstanding at August 31, 2010	732,000	$10.99	8.7	$ -
Options vested and exercisable at August 31, 2010	57,000	$7.95	0.4	$ -

The number of stock options canceled in fiscal 2010 includes 1,602,000 options that were previously granted to the CEO with an exercise price of $14.00 per share. These options expired on August 31, 2010.

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 the 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 applicable accounting guidance. 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 received proceeds totaling approximately $7,000 and $21,000 in fiscal years 2009 and 2008 from the exercise of common stock options. The intrinsic value of stock options exercised was $2,500 and $0.1 million for the fiscal years ended August 31, 2009 and 2008, and the fair value of options that vested during fiscal 2008 totaled $9,375. We did not grant any stock options during the fiscal years ended August 31, 2009 or 2008.

The following additional information applies to our stock options outstanding at August 31, 2010:

Range of Exercise Prices	Number Outstanding at August 31, 2010	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Options Exercisable at August 31, 2010	Weighted Average Exercise Price
$6.56 - $8.00	57,000	0.4	$7.95	57,000	$7.95
$9.00 - $14.00	675,000	9.4	11.25	-	-
	732,000			57,000	

14. 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.

We determined that the CoveyLink operation constituted a business, and we accounted for the acquisition of CoveyLink using the guidance found in Statement of Financial Accounting Standards 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.

During fiscal 2010, we paid $3.3 million in cash to the former owners of CoveyLink for the first of five potential annual contingent payments. The annual contingent payments are based on earnings growth over the specified earnings period and were classified as goodwill in our consolidated balance sheet.

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.

15. 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, $0.9 million, and $1.5 million during the fiscal years ended August 31, 2010, 2009, and 2008. We do 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 56,475; 55,448; and 68,702 shares were issued to ESPP participants during the fiscal years ended August 31, 2010, 2009, and 2008, which had a corresponding cost basis of $0.8 million, $0.7 million, and $0.9 million, respectively. The Company received cash proceeds from the ESPP participants totaling $0.3 million, $0.3 million, and $0.4 million for fiscal years 2010, 2009, and 2008.

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 our common stock as directed by the plan participants.

However, due to legal changes resulting from the American Jobs Creation Act of 2004, we 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 declined steadily, 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. The NQDC plan's liabilities totaled $0.5 million at August 31, 2009. At August 31, 2010, the cost basis of the shares of our common stock held by the rabbi trust was $0.4 million.

We expensed charges totaling $0.1 million during each of the fiscal years ended August 31, 2009 and 2008 related to insurance premiums and external administration costs for our deferred compensation plan.

16. Income Taxes

The benefit (provision) for income taxes from continuing operations consisted of the following (in thousands):

YEAR ENDED AUGUST 31,	2010	2009	2008
Current:			
Federal	$ 454	$ 33	$ (23)
State	(16)	35	(237)
Foreign	(1,555)	(1,812)	(2,465)
	(1,117)	(1,744)	(2,725)
Deferred:			
Federal	(1,859)	5,156	(4,012)
State	4	300	(196)
Foreign	488	(214)	79
Change in valuation allowance	-	316	116
	(1,367)	5,558	(4,013)
	$ (2,484)	$ 3,814	$ (6,738)

The allocation of total income tax benefit (provision) is as follows (in thousands):

YEAR ENDED AUGUST 31,	2010	2009	2008
Continuing operations	$ (2,484)	$ 3,814	$ (6,738)
Other comprehensive income	229	123	129
Discontinued operations	(440)	(185)	(808)
Gain on sale of discontinued operations	(854)	-	-
	$ (3,549)	$ 3,752	$ (7,417)

Income from continuing operations before income taxes consisted of the following (in thousands):

YEAR ENDED AUGUST 31,	2010	2009	2008
United States	$ 1,127	$ (15,229)	$ 8,053
Foreign	53	367	3,225
	$ 1,180	$ (14,862)	$ 11,278

The differences between income taxes at the statutory federal income tax rate and income taxes from continuing operations reported in our consolidated statements of operations were as follows:

YEAR ENDED AUGUST 31,	2010	2009	2008
Federal statutory income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal effect	1.2	2.3	3.8
Foreign jurisdictions tax differential	(4.2)	(1.5)	1.7
Tax differential on income subject to both U.S. and foreign taxes	140.6	(5.4)	9.3
Uncertain tax positions	(21.2)	-	(1.8)
Tax on management stock loan interest	25.9	(2.7)	6.1
Non-deductible executive compensation	26.8	(0.5)	2.6
Non-deductible meals and entertainment	7.4	(0.6)	1.3
Other	(0.9)	(0.9)	1.7
	210.6%	25.7%	59.7%

We paid significant amounts of withholding tax on foreign royalties during fiscal years 2010, 2009, and 2008. We also recognized income tax expense on repatriated earnings from foreign income that are taxed in both foreign and domestic jurisdictions. However, no domestic foreign tax credits were available to offset the foreign withholding taxes and the taxes on dividends during those years.

The Company accrues taxable interest income on outstanding management common stock loans (Note 11). 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,	2010	2009
Deferred income tax assets:		
Net operating loss carryforward	$ 10,795	$ 12,094
Sale and financing of corporate headquarters	11,439	11,729
Foreign income tax credit carryforward	2,159	2,159
Investment in Franklin Covey Products	1,747	2,934
Impairment of Franklin Covey Products note receivable	1,504	1,395
Bonus and other accruals	821	969
Unearned revenue	783	210
Inventory and bad debt reserves	603	607
Impairment of investment in Franklin Covey Coaching, LLC	595	1,151
Alternative minimum tax carryforward	421	847
Deferred compensation	293	334
Sales returns and contingencies	286	454
Other	146	99
Total deferred income tax assets	31,592	34,982
Less: valuation allowance	(2,159)	(2,159)
Net deferred income tax assets	29,433	32,823
Deferred income tax liabilities:		
Intangibles step-ups - definite lived	(9,812)	(10,867)
Intangibles step-ups - indefinite lived	(8,606)	(8,658)
Property and equipment depreciation	(6,098)	(6,728)
Intangible asset impairment and amortization	(3,454)	(2,803)
Unremitted earnings of foreign subsidiaries	(386)	(181)
Other	(129)	(104)
Total deferred income tax liabilities	(28,485)	(29,341)
Net deferred income taxes	$ 948	$ 3,482

Deferred income tax amounts are recorded as follows in our consolidated balance sheets (in thousands):

YEAR ENDED AUGUST 31,	2010	2009
Current assets	$ 2,543	$ 2,551
Long-term assets	42	931
Long-term liabilities	(1,637)	-
Net deferred income tax asset	$ 948	$ 3,482

A federal net operating loss of $33.3 million was generated in fiscal 2003. During fiscal years 2005 through 2010, a total of $32.5 million of the fiscal 2003 loss carryforward was utilized, leaving a remaining loss carryforward from fiscal 2003 of $0.8 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 $9.9 million was generated, which expires on August 31, 2029. The total loss carryforward of $31.9 million includes $1.8 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 $32.5 million during fiscal years 2005 through 2010 for a net carryforward amount of $0.8 million, which primarily expires between August 31, 2010 and August 31, 2018. The state net operating loss carryforward of $21.2 million generated in fiscal 2004 primarily expires between August 31, 2010 and August 31, 2019. The state net operating loss carryforward of $9.9 million generated in fiscal 2009 expires primarily between August 31, 2012 and August 31, 2024.

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

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, 2010.

The table below presents the pre-tax book income, significant book versus tax differences, and taxable income for the years ended August 31, 2010, 2009, and 2008 (in thousands).

YEAR ENDED AUGUST 31,	2010	2009	2008
Domestic pre-tax book income (loss)	$ 1,745	$(14,593)	$ 8,857
Actual and deemed foreign dividends	2,502	593	604
Property and equipment depreciation and dispositions	1,482	1,599	(10,420)
Unearned revenue	1,534	400	(342)
Disallowed executive compensation	755	198	824
Share-based compensation	359	227	(1,144)
Impairment of note receivable from Franklin Covey Products	315	3,706	-
Interest on management common stock loans	313	1,133	1,968
Taxable earnings (losses) from Franklin Covey Products	(3,073)	623	-
Deduction for foreign income taxes	(1,272)	(1,410)	(1,260)
Changes in accrued liabilities	(724)	(931)	(2,588)
Amortization/write-off of intangible assets	(617)	(1,022)	(2,039)
Sale of corporate headquarters campus	(585)	(530)	(491)
Deferred taxable loss on sale of assets to Franklin Covey Products	-	-	4,431
Negative basis difference for book purposes on sale of assets to Franklin Covey Products	-	-	2,755
Other book versus tax differences	232	(152)	165
	$ 2,966	$(10,159)	$ 1,320

Uncertain Tax Positions

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.

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows (in thousands):

YEAR ENDED AUGUST 31,	2010	2009	2008
Beginning balance	$ 4,225	$ 4,232	$ 4,349
Additions based on tax positions related to the current year	46	434	267
Additions for tax positions in prior years	173	51	31
Reductions for tax positions of prior years resulting from the lapse of applicable statute of limitations	(425)	(271)	(292)
Other reductions for tax positions of prior years	(79)	(221)	(123)
Ending balance	$ 3,940	$ 4,225	$ 4,232

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is $2.8 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 decreased income tax expense by $0.1 million in fiscal 2010, 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 sheets at August

31, 2010 and 2009 was $0.1 million and $0.2 million, respectively. We do not expect significant changes in our unrecognized tax benefits over the next twelve months.

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 our 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.

2003-2010 Canada

2005-2010 Japan, United Kingdom

2006-2010 United States - state and local income tax

2007-2010 United States - federal income tax

17. Earnings Per Share

Basic earnings per common share (EPS) is calculated by dividing net income (loss) by the weighted-average number of common shares outstanding for the period. Diluted EPS is calculated by dividing net income (loss) by the weighted-average number of common shares outstanding plus the assumed exercise of all dilutive securities using the treasury stock method or the “if converted” method, as appropriate. Due to modifications to our management stock loan program, we determined that the shares of management stock loan participants that were placed in the escrow account are participating securities 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. Our unvested share awards granted prior to fiscal 2010 also participate in common stock dividends on the same basis as outstanding shares of common stock. However, the impact of the unvested share awards was immaterial to our EPS calculations for the periods presented.

The following table presents the computation of our EPS for the periods indicated (in thousands, except per share amounts):

YEAR ENDED AUGUST 31,	2010	2009	2008
Numerator for basic and diluted earnings per share:			
Income (loss) from continuing operations	$ (1,304)	$(11,048)	$ 4,540
Income from discontinued operations, net of tax	548	216	987
Gain on sale of discontinued operations, net of tax	238	-	-
Net income (loss)	$ (518)	$(10,832)	$ 5,527
Denominator for basic and diluted earnings per share:			
Basic weighted average shares outstanding	13,525	13,406	19,577
Effect of dilutive securities(1):			
Stock options and other share-based awards	-	-	223
Common stock warrants(2)	-	-	122
Diluted weighted average shares outstanding	13,525	13,406	19,922
EPS Calculations:			
Income (loss) from continuing operations per share:			
Basic and diluted	$ (.10)	$ (.82)	$ .23
Income from discontinued operations, net of tax per share:			
Basic and diluted	.04	.01	.05
Gain on sale of discontinued operations, net of tax per share:			
Basic and diluted	.02	-	-
Net income (loss) per share:			
Basic and diluted	(.04)	(.81)	.28

(1) Since we recognized net income for the fiscal year ended August 31, 2008, basic weighted average shares for that period includes 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 years ended August 31, 2010 and 2009.
(2) For the fiscal years ended August 31, 2010 and 2009, the conversion of 6.2 million common stock warrants is not assumed because such conversion would be anti-dilutive.

At August 31, 2010, 2009, and 2008, we had 0.7 million, 1.7 million, and 1.8 million stock options outstanding (Note 13) 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 10). 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.

18. Segment Information

Operating Segment Information

Prior to the sale of the CSBU, we had two operating segments: the 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 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 the previously reported operating segments, their primary operating components, and their significant business activities:

Organizational Solutions Business Unit - The OSBU was 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 included the financial results of our domestic sales force, public programs, and certain international operations. The domestic sales force remains 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, and the gain from the sale of CSBU in fiscal 2008.

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 the fourth quarter of fiscal 2010, we sold the products division of our wholly owned subsidiary in Japan (Note 2). We determined that the operating results of the Japan products division should be presented as discontinued operations and we have excluded the operating results of this discontinued operation from the following table. All prior period segment information has also been revised to conform to the most recent classifications and organizational changes. We account for our segment information on the same basis as the accompanying consolidated financial statements.

Enterprise Information

(in thousands)

Fiscal Year Ended August 31, 2010	Sales to External Customers	Gross Profit	EBITDA	Depreciation	Amortization	Segment Assets	Capital Expenditures
Organizational Solutions							
Business Unit:							
Domestic	$ 98,344	$ 60,367	$ 7,956	$ 1,825	$ 3,746	$ 70,765	$ 1,966
International	35,309	27,148	10,456	352	14	13,205	86
Total OSBU	133,653	87,515	18,412	2,177	3,760	83,970	2,052
Consumer Solutions							
Business Unit:	-	-	-	-	-	-	-
Total operating units	133,653	87,515	18,412	2,177	3,760	83,970	2,052
Corporate and eliminations	3,221	1,556	(6,945)	1,492	-	63,373	60
Consolidated	$ 136,874	$ 89,071	$ 11,467	$ 3,669	$ 3,760	$ 147,343	$ 2,112
Fiscal Year Ended August 31, 2009							
Organizational Solutions							
Business Unit:							
Domestic	$ 83,193	$ 48,808	$ (5,212)	$ 2,304	$ 3,748	$ 75,743	$ 3,397
International	36,385	27,352	11,040	377	13	13,766	343
Total OSBU	119,578	76,160	5,828	2,681	3,761	89,509	3,740
Consumer Solutions							
Business Unit:	-	-	-	-	-	-	-
Total operating units	119,578	76,160	5,828	2,681	3,761	89,509	3,740
Corporate and eliminations	3,556	1,722	(9,375)	1,851	-	54,369	94
Consolidated	$ 123,134	$ 77,882	$ (3,547)	$ 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	43,060	32,704	13,573	778	7	16,190	521
Total OSBU	142,368	94,941	13,947	2,185	3,603	101,206	5,317
Consumer Solutions							
Business Unit:	107,235	61,509	8,207	1,361	-	-	1,285
Total operating units	249,603	156,450	22,154	3,546	3,603	101,206	6,602
Corporate and eliminations	2,471	1,081	(7,786)	2,146	-	76,471	401
Consolidated	$ 252,074	$ 157,531	$ 14,368	$ 5,692	$ 3,603	$ 177,677	$ 7,003

Capital expenditures in the OSBU domestic segment include $0.7 million, $1.8 million, and $4.0 million of spending on capitalized curriculum during the fiscal years ended August 31, 2010, 2009 and 2008, respectively.

A reconciliation of enterprise EBITDA to consolidated income (loss) before taxes is provided below (in thousands):

YEAR ENDED AUGUST 31,	2010	2009	2008
Enterprise EBITDA	$ 18,412	$ 5,828	$ 22,154
Corporate expenses	(6,945)	(9,375)	(7,786)
Consolidated EBITDA	11,467	(3,547)	14,368
Gain on sale of CSBU assets	-	-	9,131
Depreciation	(3,669)	(4,532)	(5,692)
Amortization	(3,760)	(3,761)	(3,603)
Consolidated income (loss) from operations	4,038	(11,840)	14,204
Interest income	34	27	157
Interest expense	(2,892)	(3,049)	(3,083)
Income (loss) from continuing operations before income taxes	$ 1,180	$(14,862)	$ 11,278

Interest expense and interest income are primarily generated at the corporate level and are not allocated. Income taxes are likewise calculated and paid on a corporate level (except for entities that operate in foreign jurisdictions) and are not allocated for analysis purposes.

Corporate assets, such as cash, accounts receivable, and other assets are not generally allocated for business analysis purposes. However, inventories, intangible assets, goodwill, identifiable fixed assets, and certain other assets are allocated for analysis purposes. A reconciliation of enterprise assets to consolidated assets is as follows (in thousands):

AUGUST 31,	2010	2009	2008
Reportable unit assets	$ 83,970	$ 89,509	$ 101,206
Corporate assets	63,423	54,513	78,010
Intercompany accounts receivable	(50)	(144)	(1,539)
	$ 147,343	$ 143,878	$ 177,677

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 from continuing operations were derived from the following countries (in thousands):

YEAR ENDED AUGUST 31,	2010	2009	2008
Net sales:			
United States	$ 97,286	$ 82,437	$ 197,181
Japan	13,935	16,955	18,492
Canada	6,157	6,555	10,389
United Kingdom	5,751	5,235	10,174
Australia	4,545	3,314	4,313
Singapore	1,900	1,652	1,443
Brazil/South America	1,229	1,039	1,283
Korea	1,028	917	1,234
Indonesia/Malaysia	822	706	794
Mexico	261	138	1,905
Others	3,960	4,186	4,866
	$ 136,874	$ 123,134	$ 252,074

At August 31, 2010, 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,	2010	2009	2008
Long-lived assets:			
United States	$ 96,512	$ 101,335	$ 106,878
Americas	-	-	2,230
Japan	1,962	1,835	1,509
United Kingdom	145	410	258
Australia	108	156	141
	$ 98,727	$ 103,736	$ 111,016

Inter-segment sales were immaterial and are eliminated in consolidation.

19. Related Party Transactions

The Company pays the Vice-Chairman of the Board of Directors a percentage of the proceeds received for seminars that he presents. During the fiscal years ended August 31, 2010, 2009, and 2008, we expensed charges totaling $1.4 million, $1.3 million, and $2.8 million to the Vice-Chairman for his seminar presentations. We also pay the Vice-Chairman a percentage of the royalty proceeds received from the sale of certain books that were authored by him. During fiscal 2010, 2009, and 2008, we expensed approximately $50,000, $0.2 million, and $0.3 million for royalties to the Vice-Chairman under these agreements. At August 31, 2010 and 2009, we had accrued $1.2 million and $0.8 million payable to the 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 him. During the fiscal years ended August 31, 2010, 2009, and 2008, we expensed $0.2 million, $0.1 million, and $0.7 million to the son of the Vice-Chairman for these royalties and had $0.1 million accrued at August 31, 2010 and 2009 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 the Vice-Chairman. The amount expensed for these royalties due to the son of the Vice-Chairman totaled $1.1 million, $0.5 million, and $0.3 million during the fiscal years ended August 31, 2010, 2009, and 2008, respectively. During fiscal 2009, we acquired CoveyLink (Note 14), 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. We expensed $0.8 million for payment from these presentations during each fiscal 2010 and fiscal 2009, which are based upon the concepts found in *The Speed of Trust*, which was authored by this son of the Vice-Chairman. We had $0.1 million and $0.4 million accrued for these fees at August 31, 2010 and 2009. These amounts are included in accrued liabilities in our consolidated balance sheets.

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

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) or 15d-15(f)) during the fourth quarter ended August 31, 2010 that 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 2010 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 14, 2011. 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 our 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 our 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 our definitive Proxy Statement for the annual meeting of shareholders, which is scheduled to be held on January 14, 2011.

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 our definitive Proxy Statement for the annual meeting of shareholders, which is scheduled to be held on January 14, 2011.

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 our definitive Proxy Statement for the annual meeting of shareholders, which is scheduled to be held on January 14, 2011.

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 our definitive Proxy Statement for the annual meeting of shareholders, which is scheduled to be held on January 14, 2011.

Plan Category	[a] Number of securities to be issued upon exercise of outstanding options, warrants, and rights	[b] Weighted-average exercise price of outstanding options, warrants, and rights	[c] 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)(4)	949	$10.99	2,122(3)

(1) Excludes 97,064 shares of unvested (restricted) stock awards that are subject to forfeiture.
(2) Amount includes 217,424 performance share awards that are expected to be awarded under the terms of a Board of Director approved long-term incentive plan (LTIP). The number of shares eventually awarded to LTIP participants is variable and based upon the achievement of specified financial performance goals related to cumulative operating income. The weighted average exercise price of outstanding options, warrants, and rights does not take the LTIP awards into account. For further information on our share-based compensation plans, refer to the notes to our financial statements as presented in Item 8 of this report.
(3) Amount is based upon the number of LTIP shares expected to be awarded at August 31, 2010 and may change in future periods based upon the achievement of specified goals and revisions to estimates.
(4) At August 31, 2010, we had approximately 720,000 shares authorized for purchase by participants in our Employee Stock Purchase Plan.

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, 2010, are as follows:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets at August 31, 2010 and 2009

Consolidated Statements of Operations and Statements of Comprehensive Income (Loss) for the years ended August 31, 2010, 2009, and 2008

Consolidated Statements of Shareholders' Equity for the years ended August 31, 2010, 2009, and 2008

Consolidated Statements of Cash Flows for the years ended August 31, 2010, 2009, and 2008

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	Warrant, dated March 8, 2005, to purchase 5,913,402 shares of Common Stock issued by the Company to Knowledge Capital Investment Group	(8)
10.11	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)
10.12*	Franklin Covey Co. 2004 Non-Employee Directors' Stock Incentive Plan	(9)
10.13*	The first amendment to the Franklin Covey Co. 2004 Non-Employee Director Stock Incentive Plan, (Appendix B)	(12)
10.14*	Form of Option Agreement for the 2004 Non-Employee Directors Stock Incentive Plan	(9)
10.15*	Form of Restricted Stock Agreement for the 2004 Non-Employees Directors Stock Incentive Plan	(9)
10.16	Master Lease Agreement between Franklin SaltLake LLC (Landlord) and Franklin Development Corporation (Tenant)	(10)
10.17	Purchase and Sale Agreement and Escrow Instructions between Levy Affiliated Holdings, LLC (Buyer) and Franklin Development Corporation (Seller) and Amendments	(10)
10.18	Redemption Extension Voting Agreement between Franklin Covey Co. and Knowledge Capital Investment Group, dated October 20, 2005	(11)

10.19	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)
10.20	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)
10.21	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)
10.22	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)
10.23	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)
10.24	Secured Promissory Note between JPMorgan Chase Bank, N.A. and Franklin Covey Co. dated March 14, 2007	(18)
10.25	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)
10.26	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)
10.27	Pledge and Security Agreement between Franklin Covey Co. and JPMorgan Chase Bank, N.A. and Zions First National Bank, dated March 14, 2007	(18)
10.28	Revolving Line of Credit Agreement ($7,000,000) by and between Zions First National Bank and Franklin Covey Co. dated March 14, 2007	(18)
10.29	Secured Promissory Note between Zions First National Bank and Franklin Covey Co. dated March 14, 2007	(18)

10.30	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)	
10.31	Master License Agreement between Franklin Covey Co. and Franklin Covey Products, LLC	(21)	
10.32	Supply Agreement between Franklin Covey Products, LLC and Franklin Covey Product Sales, Inc.	(21)	
10.33	Master Shared Services Agreement between The Franklin Covey Products Companies and the Shared Services Companies	(21)	
10.34	Amended and Restated Operating Agreement of Franklin Covey Products, LLC	(21)	
10.35	Sublease Agreement between Franklin Development Corporation and Franklin Covey Products, LLC	(21)	
10.36	Sub-Sublease Agreement between Franklin Covey Co. and Franklin Covey Products, LLC	(21)	
10.37	Loan Modification Agreement between Franklin Covey Co. and JPMorgan Chase Bank, N.A. dated July 8, 2008	(21)	
10.38	General Services Agreement between Franklin Covey Co. and Electronic Data Systems (EDS) dated October 27, 2008	(22)	
10.39*	Second Amendment to the Franklin Covey Co. Non-Employee Directors Stock Incentive Plan	(23)	
10.40	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)	
10.41	Amended and Restated License of Intellectual Property by and Among Franklin Covey Co. and Covey/Link LLC, dated December 31, 2008	(24)	
10.42	Loan Modification Agreement between Franklin Covey Co. and JPMorgan Chase Bank, N.A. dated November 11, 2009	(25)	
10.43	Fourth Modification Agreement by and among Franklin Covey Co. and JPMorgan Chase Bank, N.A., dated February 25, 2010	(26)	
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, 2010, 2009, and 2008	★★
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.**
(26) Incorporated by reference to Report on Form 8-K filed with the Commission on March 2, 2010.**
★★ 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 12, 2010.

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 Robert A. Whitman	Chairman of the Board and Chief Executive Officer	November 12, 2010
/s/ STEPHEN R. COVEY Stephen R. Covey	Vice-Chairman of the Board	November 12, 2010
/s/ CLAYTON M. CHRISTENSEN Clayton M. Christensen	Director	November 12, 2010
/s/ ROBERT H. DAINES Robert H. Daines	Director	November 12, 2010
/s/ E.J. "JAKE" GARN E.J. "Jake" Garn	Director	November 12, 2010
/s/ DENNIS G. HEINER Dennis G. Heiner	Director	November 12, 2010
/s/ DONALD J. MCNAMARA Donald J. McNamara	Director	November 12, 2010
/s/ JOEL C. PETERSON Joel C. Peterson	Director	November 12, 2010
/s/ E. KAY STEPP E. Kay Stepp	Director	November 12, 2010

Section 302 Certification

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 12, 2010

/s/ ROBERT A. WHITMAN

Robert A. Whitman
Chief Executive Officer

Section 302 Certification

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 12, 2010

/s/ STEPHEN D. YOUNG

Stephen D. Young
Chief Financial Officer

Certification

In connection with the annual report of Franklin Covey Co. (the "Company") on Form 10-K for the annual period ended August 31, 2010, 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.

/s/ ROBERT A. WHITMAN

Robert A. Whitman
Chief Executive Officer
Date: November 12, 2010

/s/ STEPHEN D. YOUNG

Stephen D. Young
Chief Financial Officer
Date: November 12, 2010

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

Jennifer C. Colosimo
Chief Learning Officer

Clifton Todd Davis
Chief People Officer

Shawn D. Moon
Executive Vice President

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 14, 2011, 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

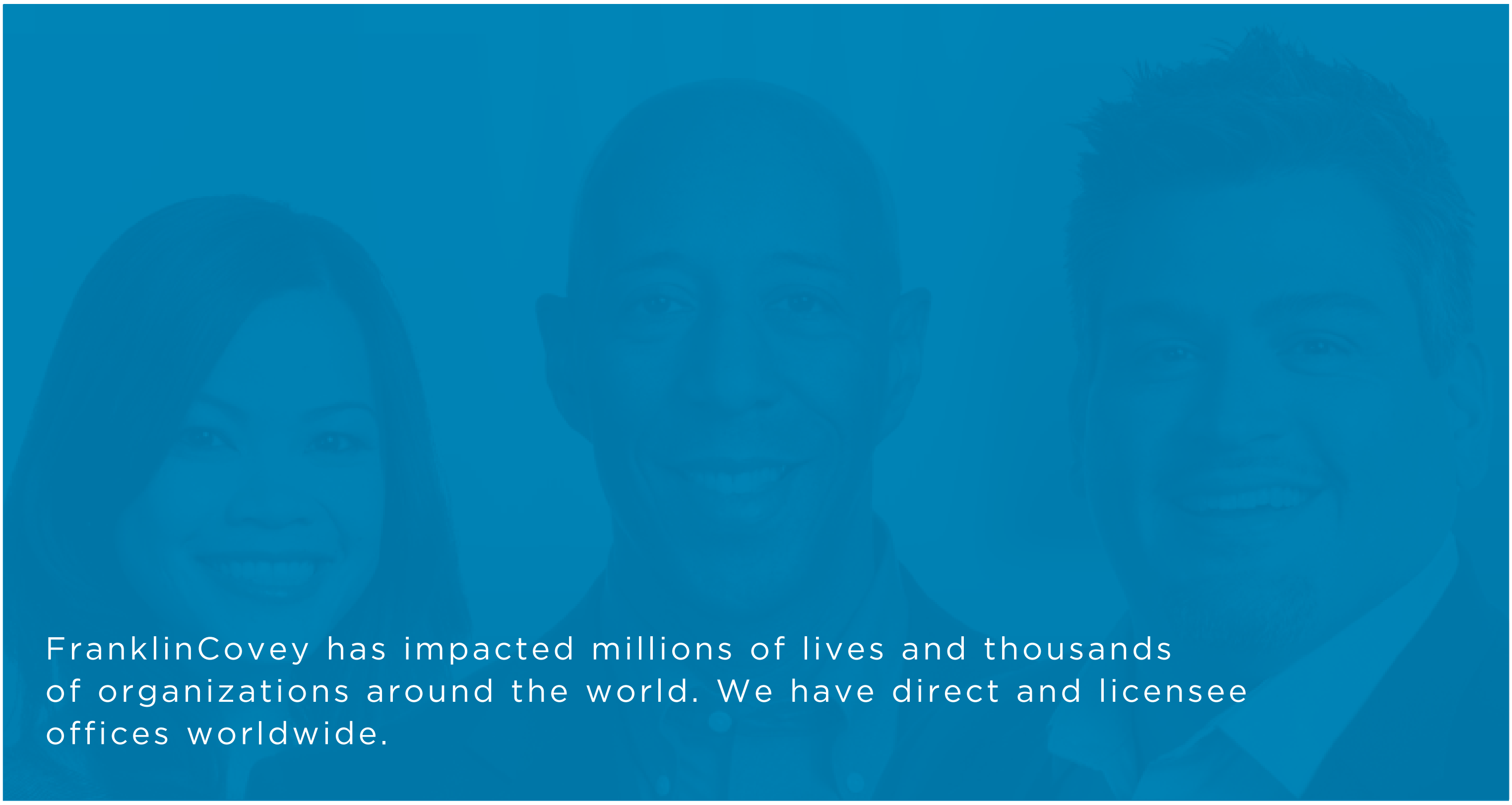
Registrar and Transfer Agent
Zions First National Bank, N.A.
Stock Transfer Department
One South Main Street
Salt Lake City, Utah 84111

Common Stock
The Company's Common Stock is traded on the New York Stock Exchange under the ticker symbol FC. There were approximately 719 shareholders of record on the Company's record date of November 19, 2010.

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.



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
Spain
Sri Lanka
Sweden
Switzerland
Taiwan
Thailand
Tobago
Trinidad
Turkey
UAE
Ukraine
United Kingdom
Uruguay
Venezuela
Vietnam

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