FRANKLIN COVEY CO
Form 10-K
November 14, 2008

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

Form 10-K

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED AUGUST 31, 2008.

OR

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

Franklin Covey Co.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

Series A Preferred Stock, no par value
Title of Class

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

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 o   No þ

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 þ   No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) 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. o

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	þ	
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 o   No þ

As of February 29, 2008, the aggregate market value of the Registrant's Common Stock held by non-affiliates of the Registrant was approximately $124.1 million, which was based upon the closing price of $7.72 per share as reported by the New York Stock Exchange.

As of November 3, 2008, the Registrant had 16,879,498 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 16, 2009, are incorporated by reference in Part III of this Form 10-K.

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PART I

ITEM 1. Business

General

Franklin Covey Co. (the Company, we, us, our or FranklinCovey) has enabled greatness in people and organizations and is a worldwide leader in helping organizations, families, and individuals achieve their own great purposes through teaching the principles and practices of effectiveness and by providing reinforcement tools like the FranklinCovey Planning SystemTM. Over 600 FranklinCovey associates world-wide delivered timeless and universal curriculum and effectiveness tools to millions of customers in fiscal 2008. We strive to excel in our efforts to enable greatness because we believe that:

People are inherently capable, aspire to greatness, and have the power to choose.

Principles are timeless and universal and are the foundation to lasting effectiveness.

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.

Habits of effectiveness come only from the committed use of integrated processes and tools.

Sustained superior performance requires a balance of performance and performance capability (P/PC BalanceÒ) - a focus on achieving results and building capability.

Our business has historically been comprised of the Consumer Solutions Business Unit (CSBU) and the Organizational Solutions Business Unit (OSBU). The CSBU 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. 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 OSBU is primarily responsible for the development, marketing, sale, and delivery of strategic execution, productivity, leadership, sales force performance, and communication training and consulting solutions directly to organizational clients, including other companies, the government, and educational institutions. The OSBU includes the financial results of our domestic sales force, public programs, and certain international operations. The domestic sales force is responsible for the sale and delivery of our training and consulting services in the United States. Our international sales group includes the financial results of our directly owned foreign offices and royalty revenues from licensees.

Over the past several years, the strategic focus of our CSBU, which was focused primarily on the sales of our products, and our OSBU, which was focused on the development and delivery of training, consulting, and related services, has 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 has diminished. After significant analysis and deliberation, we decided that these business units would be able to operate more effectively as separate companies, each with clear and distinct objectives, market definitions, and competitive products and services. This conclusion persuaded us to sell substantially all of the operations of CSBU in fiscal 2008.

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During the fourth quarter of fiscal 2008, we completed the sale of substantially all of the assets of our CSBU to a newly formed entity, Franklin Covey Products, LLC (Refer to Note 2 to our Consolidated Financial Statements in Item 8 for further details). Franklin Covey Products, which is controlled by Peterson Partners, purchased the CSBU assets for $32.0 million in cash, subject to adjustments for working capital on the closing date of the sale, which was effective July 6, 2008. On the date of the sale closing, the Company invested approximately $1.8 million to purchase a 19.5 percent voting interest in Franklin Covey Products, made a $1.0 million priority capital contribution with a 10 percent return, and will have the opportunity to earn contingent license fees if Franklin Covey Products achieves specified performance objectives. We recognized a gain of $9.1 million on the sale of the CSBU assets and we deferred a portion of the gain equal to our investment in Franklin Covey Products.

Following the sale of CSBU, our business primarily consists of training, consulting, assessment services, and related products to help organizations achieve superior results by focusing on and executing on top priorities, building the capability of knowledge works, and aligning business processes.

Late in the fourth quarter of fiscal 2008, we also initiated a restructuring plan that included the closing of two domestic sales offices, our Canadian office, and our Sales Performance Group office. Our Canadian sales associates and Sales Performance Group personnel will be absorbed into our remaining five Domestic sales offices. In connection with these office closures, we have also decentralized certain sales support functions. During the fourth quarter of fiscal 2008 we expensed $2.1 million for anticipated severance costs necessary to complete the restructuring plan, which is expected to be substantially completed in fiscal 2009.

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.

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

Industry Information

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.

In fiscal 2008, we 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, including the U.S. Department of Defense, as well as numerous educational institutions. We also provide training curricula, measurement services and implementation tools internationally, either through directly operated offices, or through independent licensed providers. At August 31, 2008, we had directly owned offices in Australia, Canada, Japan, and the United Kingdom. We also had licensed operations in 99 countries and licensed rights in more than 140 countries.

Training and Consulting Services

We offer a range of training programs designed to measurably improve the effectiveness of organizations, families, and individuals. Our offerings are oriented to address organizational, managerial, interpersonal, and personal needs. In addition, we believe that our learning process provides an engaging and behavior-changing experience, which frequently generates additional business. During fiscal 2008, over one million individuals were trained through our direct offices using the Company's curricula in our single and multiple–day workshops and seminars.

Our training and consulting services are designed to inspire organizations, communities, and individuals to become measurably more efficient and effective through our various leadership and

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productivity courses including: The 7 Habits of Highly Effective PeopleÒ; Leadership: Great Leaders—Great Teams—Great Resultsä; The 4 Disciplines of ExecutionTM; FOCUS: Achieving Your Highest Priorities; The 8 Habits of a Successful Marriage; Building Business Acumen; Championing Diversity; Leading at the Speed of Trust; Writing Advantage, and Presentation Advantage. The Company is also in the process of developing curriculum based on the book The Leader in Me by Stephen R Covey, which is aimed at helping principals and teachers implement The 7 Habits of Effective People in their schools. Curriculum and tools are also being developed to assist companies to increase customer loyalty.

Our most popular courses are based on the material presented in The 7 Habits of Highly Effective People® and includes our three-day 7 Habits of Highly Effective People Signature Program. We offer several other variations of this course including The 7 Habits for Managers: Managing Yourself, Leading Others, Unleashing Potential, The 7 Habits of Highly Effective People, Introductory Course for Associates, and other courses targeted for families, teens, and college students. In addition to the principles taught in the best-selling book, these courses contain various teaching aids including several award-winning videos which demonstrate the principles being taught. During fiscal 2008 we released a web-based interactive version of this course, making the principles and content taught in our course accessible to individuals and organizations world-wide without the expense of a facilitator, training room, and the opportunity cost of taking individuals out of the workforce for multiple days.

Our training and consulting offerings include the following.

The 7 Habits of Highly Effective People is one of our best-known offerings and is designed to help organizations and individuals achieve sustained superior results by focusing on making individuals and leaders more effective. Participants gain hands-on experience applying timeless principles that yield greater productivity, improved communication, strengthened relationships, increased influence, and focus on critical priorities. This offering is the basis for some of our other courses and includes over 30 award winning video segments.

Leadership: Great Leaders—Great Teams—Great Resultsä is built on the foundation that people are capable of greatness, that they can make dramatic contributions and that they offer their best when they live by the four imperatives of great leaders, which are 1) that they inspire trust, 2) that they clarify purpose, 3) that they insure systems are aligned, and 4) that they unleash talent.

The 4 Disciplines of Executionä course teaches that execution succeeds or fails on the basis of four critical disciplines, which include 1) focus on the most important goals, 2) acting on the key measures that influence outcome, 3) track the progress on a compelling scoreboard which makes progress visible, and 4) holding individuals accountable. Our Execution products help organizations adopt and implement an operating system for achieving their most pressing objectives measurably and predictably.

Our productivity course FOCUS: Achieving Your Highest Priorities focuses on helping individuals understand their personal values so they can accomplish their most important tasks, both personally and professionally. Our training is based on a productivity pyramid that helps individuals identify their values, set achievable goals, and then build a system of weekly and daily planning, which helps individuals achieve their highest priorities.

We offer a series of pre- and post-assessment surveys and assessments to measure and track key principles and actions taught in our course that directly relate to individual and organizational effectiveness. These products include xQä, (Execution QuotientÔ), LQÔ (Leadership Quotient), tQÔ (Trust Quotient), and the 7 Habits Profile. These surveys, which are administered through a Web-based system, search for details to uncover underlying focus and teamwork barriers or issues.

We also provide The 7 Habits of Highly Effective Teensä as a workshop or as a year-long curriculum to schools and school districts and other organizations working with youth. Based on The 7 Habits of Highly Effective Teens book, it helps to teach students and teachers studying skills, learning habits, and interpersonal development. We are currently developing a new curriculum entitled The Leader in Meä, which will help elementary

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schools incorporate The 7 Habits principles into their lessons to help students develop the life skills they need to be successful.

In addition to providing consultants and presenters, we train and certify client facilitators to teach our workshops within their organizations. We believe client–facilitated training is important to our fundamental strategy of creating pervasive on-going client relationships, which results in perpetual revenue streams. After having been certified by attending one of our certification workshops and completing certain requirements, client facilitators can purchase manuals, profiles, planners and other products to conduct training workshops within their organization without incurring the costs of one of our presenters, which makes it more cost-effective to distribute our curriculum within all departments of their organization. Since 1988, we have trained approximately 25,000 client facilitators.

Software

During fiscal 2008, we launched a new web-based interactive version of The 7 Habits of Highly Effective People® course which was developed through a partnership with Personnel Decisions International (formerly 9th House), a leading firm which uses technology to create engaging learning experiences. During the three-hour online instruction, participants engage in interactive exercises that illustrate how to use The 7 Habits® in real work situations. Participants then get to test their new skills in a state-of-the-art 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 dive deeper in the content and practice what they have learned.

The 7 Habits of Highly Effective People® course is also available on a CD-ROM version. This edition delivers the content from the 3-day classroom workshop in a flexible self-paced version via the Internet or CD-ROM and is available when and where employees need it. The online edition is presented in a multi-media format with video segments, voiceovers, a learning journal, interactive exercises, and other techniques. Included with the course is a 360-Degree profile and e-Coaching to help participants gain a broader perspective of their strengths and weaknesses and to help them implement the training to improve their skills.

Books and Audio

The principles we teach in our curriculum have also been published in book, audiotape and CD formats, and can be downloaded from various Internet sites. Books to which the Company holds copyrights include The 7 Habits of Highly Effective People®, Principle–Centered Leadership, First Things First, The 7 Habits of Highly Effective Families, Nature of Leadership, Living the 7 Habits, The 8th Habit: From Effectiveness to Greatness, Everyday Greatness, The Leader in Me, all by Stephen R. Covey; The 10 Natural Laws of Time and Life Management, What Matters Most and The Modern Gladiator by Hyrum W. Smith; The Power Principle by Blaine Lee; The 7 Habits of Highly Effective Teens, The 6 Most Important Decisions You'll Ever Make, and The 7 Habits of Happy Kids by Sean Covey; and Business Think by Dave Marcum and Steve Smith. These books, as well as audiotape and CD audio versions of many of these products, and the products mentioned above are sold through general retail channels, audio book websites, as well as through our own Internet site at www.franklincovey.com.

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 OSBU, which is designed to serve organizational clients. The following table sets forth, for the fiscal periods indicated, the Company's sales from external customers for each of these operating segments (in thousands):

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YEAR ENDED AUGUST 31,	2008	Percent change from prior year	2007	Percent change from prior year	2006
Organizational Solutions Business Unit:					
Domestic	$ 91,287	(2)	$ 93,308	10	$ 84,904
International	59,100	2	57,674	18	48,984
	150,387	-	150,982	13	133,888
Consumer Solutions Business Unit:					
Retail stores	42,167	(22)	54,316	(13)	62,156
Consumer direct	38,662	(19)	48,018	(8)	52,171
Wholesale	16,970	(6)	17,991	1	17,782
CSBU International	7,295	(1)	7,342	(5)	7,716
Other CSBU	4,611	(16)	5,476	12	4,910
	109,705	(18)	133,143	(8)	144,735
Total net sales	$ 260,092	(8)	$ 284,125	2	$ 278,623

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 19).

Organizational Solutions Business Unit

The following is a more detailed description of our OSBU and its primary operations, which consist of domestic and international operations.

Domestic Operations

In general, we sell effectiveness and productivity solutions to our customers through our own direct sales force. We then deliver training services to organizations, schools and individuals in one of five ways:

1. Our consultants provide on-site coaching, consulting or training classes. In these situations, our consultants tailor the curriculum to our client's specific business and objectives.

2. Our programs are also designed to be facilitated by licensed professional trainers and managers in client organizations, reducing dependence on our professional presenters, and creating knowledgeable advocates of our curriculum in organizations.

3. Our consultants provide training to individuals or small groups of individuals through executive coaching sessions. In these sessions, our consultants are able to deliver course content in greater detail and can help adapt our course

principles to the specific needs of the organization.

4. We conduct public seminars in more than 100 cities throughout the United States, where organizations can send their employees in smaller numbers. These public seminars are also marketed directly to individuals through our Internet web-site and by direct mail.

5. We also offer The 7 Habits of Highly Effective People® training course in online and CD-ROM formats. These products provide the flexibility required by many organizations.

Our domestic training operations are organized in geographic regional sales teams in order to assure that both the consultant and the client sales professional participate in the development of new business and the assessment of client needs. Consultants are entrusted with the actual delivery of content, seminars, processes and other solutions and are required to follow up with client service teams to develop lasting client impact and ongoing business opportunities.

We employ over 150 sales professionals and business developers. Our sales professionals have selling experience prior to employment by the Company and are trained and evaluated in their respective sales territories. Sales professionals typically call upon persons responsible for corporate employee training, such as corporate training directors or human resource officers. Increasingly, sales professionals are calling upon our clients' executive leadership or line leaders as they educate our clients on the value of our solutions. Our sales professionals work closely with training consultants in their territories to schedule and tailor seminars and workshops to meet the specific objectives of our institutional clients. We currently employ over 150 training consultants

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worldwide. Our training consultants are selected from a large number of experienced applicants. These consultants generally have several years of training and/or consulting experience and are known for their excellent presentation skills. Once selected, the training consultant goes through a rigorous training program including multiple live presentations. The training program ultimately results in the Company's certification of the consultant.

International Operations

We deliver training services and products internationally through Company-owned and licensed operations. We have wholly-owned operations and offices in Australia, Canada, Japan, and the United Kingdom. We also have licensed operations in Argentina, Angola, Austria, Bahrain, Bangladesh, Belgium, Bermuda, Bolivia, Botswana, Brazil, Bulgaria, Chile, China, Colombia, Costa Rica, Croatia, Czech Republic, Cyprus, Denmark, Dominican Republic, Ecuador, Egypt, El Salvador, Estonia, Finland, France, Germany, Greece, Guatemala, Hong Kong, Hungary, India, Iceland, Indonesia, Israel, Italy, Jordon, Kenya, Kuwait, Latvia, Lebanon, Lesotho, Lithuania, Luxembourg, Madagascar, Malaysia, Mauritius, Mexico, Mozambique, Namibia, Nepal, Netherlands, Nicaragua, Nigeria, Norway, Oman, Panama, Paraguay, Peru, Philippines, Poland, Portugal, Puerto Rico, Romania, Russia, Qatar, Saudi Arabia, Serbia, Singapore, Slovak Republic, Slovenia, South Africa, South Korea, Spain, Sri Lanka, Swaziland, Sweden, Switzerland, Tanzania, Taiwan, Thailand, Trinidad/Tobago, Turkey, UAE, Ukraine, Uruguay, Venezuela, Vietnam, and Zambia. There are also licensee retail operations in Hong Kong and South Korea. Our nine most popular books, The 7 Habits of Highly Effective People, Principle–Centered Leadership, The 10 Natural Laws of Time and Life Management, First Things First, The Power Principle, The 7 Habits of Highly Effective Families, The 7 Habits of Highly Effective Teen, The 8th Habit: From Effectiveness to Greatness, and The Six Most Important Decisions You'll Ever Makes are currently published in multiple languages. Financial information about our foreign operations is contained in Note 19 to our consolidated financial statements.

Clients

We have a relatively broad base of organizational and individual clients. We have more than 6,000 organizational clients consisting of corporations, governmental agencies, educational institutions, and other organizations. 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, the Company does not have, nor has it had, a significant backlog of firm orders.

Competition

Competition in the performance skills organizational training and education industry is highly fragmented with few large competitors. We estimate that the industry represents more than $7 billion in annual revenues and that the largest traditional organizational training firms have sales in the $100 million to $400 million range. Based upon our fiscal 2008 OSBU sales of $150.4 million, we believe 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.

Given the relative ease of entry in our training market, the number of 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 companies may have greater financial and other resources than us. We believe that our products compete primarily on the basis of quality, proven results, content, client loyalty, price, and client service. We also 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

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States in productivity, leadership and execution products and services. Increased competition from existing and future competitors could, however, have a material adverse effect on our sales and profitability.

Manufacturing and Distribution

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

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

Research and Development

FranklinCovey believes that the development of new curricula and related products are important to maintaining its competitive position. Our products and services are conceived, designed, and developed through the collaboration of our internal innovations group and external partner organizations. We expense in the same year incurred part of the costs to develop new curricula and products. Curriculum costs are only capitalized when a course is developed that will result in significant future benefits or when there is a major revision to a course or course materials. Our research and development expenditures totaled $4.6 million, $3.3 million, and $2.3 million in fiscal years 2008, 2007, and 2006 respectively. Capitalized curriculum development costs are reported as a component of other long-term assets in our consolidated balance sheets and totaled $6.8 million and $8.6 million at August 31, 2008 and 2007. Amortization of capitalized curriculum development costs is reported as a component of cost of sales.

Trademarks, Copyrights, and Intellectual Property

We seek to protect our intellectual property through a combination of trademarks, copyrights, and confidentiality agreements. We claim rights for 80 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, FranklinCovey Planner, PlanPlus, The 7 Habits, and The 8th Habit. We consider our trademarks and other proprietary rights to be important and material to our business. Each of the marks set forth in italics above is a registered mark or a mark for which protection is claimed.

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. FranklinCovey places trademark and copyright notices on its 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

At August 31, 2008, FranklinCovey had over 600 full- and part-time associates located in the United States of America, Japan, the United Kingdom, Canada, and Australia. During fiscal 2001, we outsourced a significant part of our information technology services, customer service, distribution and warehousing operations to EDS. A number of the Company's former employees involved in these operations are now employed by EDS to provide those services to FranklinCovey. None of our associates are represented by a union or other collective bargaining group.

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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 reasonable practicable after we file or furnish these reports with the SEC.

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ITEM 1A. RISK FACTORS

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

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

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

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

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

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

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

The training and consulting services industry is intensely competitive with relatively easy entry. Competitors continually introduce new programs and services that may compete directly with our offerings or that may make our offerings uncompetitive or obsolete. Larger and better capitalized competitors may have superior abilities to compete for clients and skilled professionals, reducing our ability to deliver quality work to our clients. In

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addition, one or more of our competitors may develop and implement training courses or methodologies that may adversely affect our ability to sell our curricula and products to new clients. Any one of these circumstances could have a material adverse effect on our ability to obtain new business and successfully deliver our services and solutions.

Our results of operations may be negatively affected if we cannot expand and develop our services and solutions in response to client demand.

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 and introduction of new programs and solutions may entail more risk than supplying existing offerings to our clients. In addition, the introduction of new or competing services or solutions by current or future competitors may render our service or solution 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 decrease if we are unable to control our costs.

Our future success and profitability depend in part on our ability to achieve the appropriate cost structure and 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 redemptions of preferred stock, exiting non-core businesses, asset sales, headcount reductions, and other internal initiatives designed to reduce our operating costs. If we do not achieve targeted business model cost levels and manage our costs and processes to achieve additional efficiencies, our competitiveness and profitability could decrease.

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 government contracting process. These risks include, but are not limited to, the following:

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- Governmental entities typically fund projects through appropriated monies. While these projects are often planned and executed as multi-year projects, the government entities usually reserve the right to change the scope of or terminate these projects for lack of approved funding and at their convenience. Changes in government or political developments could result in changes in scope or in termination of our projects.

- Government 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 rates for our work and may affect our future margins.

- If a government 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 government 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, government 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 profitability will suffer if we are not able to maintain our pricing and utilization rates and control our costs.

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:

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- 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 recent 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 could suffer.

If our pricing structures do not accurately anticipate the cost and complexity of performing our services, then 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 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 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, Canada, Japan, and the United Kingdom. We also have licensed operations in numerous other foreign countries. As a result of these foreign operations and their growing impact upon our results of operations, we are subject to a number of risks, including:

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

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

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We may experience foreign currency gains and losses.

Our sales outside of the United States totaled $62.9 million, or 24 percent of total sales, for the year ended August 31, 2008. As our international operations continue to grow and become a larger component of our overall financial results, our revenues and operating results may be adversely affected when the dollar strengthens relative to other currencies and may be positively affected when the dollar weakens. In order to manage a portion of our foreign currency risk, we make limited use of foreign currency derivative contracts to hedge certain transactions and translation exposure. There can be no guarantee that our foreign currency risk management strategy will be effective in reducing the risks associated with foreign currency transactions and translation.

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

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

In many parts of the world, including countries in which we operate, practices in the local business community might not conform to international business standards and could violate anticorruption regulations, including the U.S. 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 U.S. federal procurement contracting, any of which could have a material adverse effect on our business.

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.

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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 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.

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 and 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

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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.

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, and 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 strategy of outsourcing certain functions and operations may fail to reduce our costs for these services.

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

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

We have significant intangible asset balances that may be impaired if cash flows from related activities decline.

At August 31, 2008 we had $72.3 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). Although our current sales and cash flows are sufficient to support the carrying basis of these intangibles, 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.

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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.

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 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 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 need additional capital in the future, and this capital may not be available to us on favorable terms.

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

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

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 future 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 regularly under audit by tax authorities. Although we believe that our tax estimates are reasonable, we cannot assure you that the final determination of tax audits will not be different from what is reflected in our historical income tax provisions and accruals.

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. Properties

Franklin Covey's principal business operations and executive offices are located in Salt Lake City, Utah. The following is a summary of our owned and leased properties. Our corporate headquarters lease is accounted for as a financing arrangement and all other facility lease agreements are accounted for as operating leases. Our lease agreements expire at various dates through the year 2025.

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

Organizational Solutions Business Unit
Regional Sales Offices:
United States (5 locations) – all leased

International Administrative/Sales Offices:
Canada (1 location) – owned
Asia Pacific (4 locations) – all leased
England (1 location) – leased

International Distribution Facilities:
Canada (1 location) – owned
Asia Pacific (3 locations) – all leased
England (1 location) – leased

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

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

The following significant developments occurred during fiscal 2008 that affected our properties:

- During the fourth quarter of fiscal 2008, we completed the sale of our Consumer Solutions Business Unit, which operated retail stores both domestically and in certain international locations.

- In connection with a restructuring plan initiated in the fourth quarter of fiscal 2008, we closed one domestic regional sales office and intend to close our Canadian facility in fiscal 2009.

ITEM 3. Legal Proceedings

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

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ended August 31, 2008, the Company paid EpicRealm a one-time license fee of $1.0 million for a non-exclusive, irrevocable, perpetual, and royalty-free license to use any product, system, or invention covered by the disputed patents. In connection with the purchase of the license, EpicRealm and the Company agreed to dismiss their claims with prejudice and the Company is released from further action regarding these patents.

The Company is also the subject of certain other legal actions, which we consider routine to our business activities. At August 31, 2008, we believe that, after consultation with legal counsel, any potential liability to the Company under such actions will not materially affect our financial position, liquidity, or results of operations.

ITEM 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of our fiscal year ended August 31, 2008.

PART II

ITEM 5. Market for the Registrant's Common Equity, Related Shareholder Matters, and Issuer Purchases of Equity Securities

FranklinCovey's common stock is listed and traded on the New York Stock Exchange (NYSE) under the symbol "FC." The following table sets forth the high and low sale prices per share for our common stock, as reported on the NYSE, for the fiscal years ended August 31, 2008 and 2007.

	High	Low
Fiscal Year Ended August 31, 2008:		
Fourth Quarter	$ 9.32	$ 7.35
Third Quarter	8.76	6.72
Second Quarter	8.00	6.86
First Quarter	7.75	5.91
Fiscal Year Ended August 31, 2007:		
Fourth Quarter	$ 8.99	$ 6.97
Third Quarter	9.01	7.10
Second Quarter	8.15	5.66
First Quarter	6.18	4.96

On November 3, 2008, our common stock closed at $5.25 per share. Subsequent to our fiscal year end on August 31, 2008 the stock market in the United States experienced increased volatility and suffered significant losses primarily as a result of the credit and liquidity crises. Due to the serious and unpredictable nature of these factors affecting the stock market, we are unable to determine what, if any, impact these external factors may have upon our stock price in future periods.

We did not pay or declare dividends on our common stock during the fiscal years ended August 31, 2008 or 2007. We currently anticipate that we will retain all available funds to

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repay our line of credit obligation, finance future growth and business opportunities, and to purchase shares of our common stock. We do not intend to pay cash dividends on our common stock in the foreseeable future.

As of November 3, 2008, the Company had 16,879,498 shares of common stock outstanding, which were held by 392 shareholders of record.

Purchases of Common Stock

The following table summarizes Company purchases of common stock during the fiscal quarter ended August 31, 2008:

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)
June 1, 2008 to July 5, 2008	-	$ -	none	$ 2,413
July 6, 2008 to August 2, 2008	-	-	none	2,413
August 3, 2008 to August 31, 2008	3,027,027(1)	9.32	3,027,027	2,413(2)
Total Common Shares	3,027,027	$ 9.32	3,027,027	

(1) During August 2008, we completed a modified "Dutch Auction" tender offer in which we were able to purchase 3,027,027 shares of our common stock for $9.25 per share plus costs necessary to conduct the tender offer.

(2) 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, 2008 under the terms of this plan.

Performance Graph

The following graph shows a comparison of cumulative total shareholder return indexed to August 31, 2003, calculated on a dividend reinvested basis, for the five fiscal years ended August 31, 2008, for Franklin Covey Co. common stock, the S&P SmallCap 600 Index, and the S&P Diversified Commercial Services Index. The Company was previously included in the S&P 600 SmallCap Index and was assigned to the S&P Diversified Commercial and Professional Services Index within the S&P 600 SmallCap Index. The Company believes that if it were included in an index it would be included in the indices where it was previously listed. The Diversified Commercial Services Index consists of 7 companies similar in size and nature to Franklin Covey. The Company is no longer a part of the S&P 600 SmallCap Index but believes that the S&P 600 SmallCap Index and the Diversified

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Commercial Services Index continues to provide appropriate benchmarks with which to compare our stock performance.

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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. 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,	2008	2007	2006	2005	2004
In thousands, except per share data					
Income Statement Data:					
Net sales	$ 260,092	$ 284,125	$ 278,623	$ 283,542	$ 275,434
Income (loss) from operations	16,760	18,084	14,046	8,443	(9,064)
Net income (loss) before income taxes	13,834	15,665	13,631	9,101	(8,801)
Income tax benefit (provision)(1)	(7,986)	(8,036)	14,942	1,085	(1,349)
Net income (loss)(1)	5,848	7,629	28,573	10,186	(10,150)
Net income (loss) available to common shareholders(1)	5,848	5,414	24,188	(5,837)	(18,885)
Earnings (loss) per share:					
Basic	$ .30	$ .28	$ 1.20	$ (.34)	$ (.96)
Diluted	$ .29	$ .27	$ 1.18	$ (.34)	$ (.96)
Balance Sheet Data:					
Total current assets	$ 67,911	$ 70,103	$ 87,120	$ 105,182	$ 92,229