FRANKLIN COVEY CO
Form 10-K
November 16, 2009

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, 2009.

OR

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

Franklin Covey Co.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

None

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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PART I

ITEM 1. BUSINESS

Disclosure Regarding Forward-Looking Statements

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

General

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

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

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

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

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

Services Overview

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

1. Sustained Superior Performance. Great organizations succeed financially and operationally in both the short and long term relative to their market and strategic potential.

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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.

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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:

1. Inspire Trust: Build credibility as a leader so that people will contribute their highest efforts.
2. Clarify Purpose: Define a clear and compelling purpose that motivates people to offer their best to achieve the organizational goals.
3. 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.
4. 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

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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.

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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

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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,

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and we believe that it removes the adversarial interplay between sellers and buyers. It is also a process for creating candid dialogue, fresh thinking, innovative collaboration, insightful decision making, and robust execution—with clients and within an organization.

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

7. Education Solutions

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

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

- Develops students who have the skills and self-confidence to succeed as leaders in the 21st century.
- Decreases discipline referrals.
- Teaches and develops character and leadership through existing core curriculum.
- Improves academic achievement.
- Raises levels of accountability and engagement among both parents and staff.

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

Phase 1: Faculty Development
Through facilitated peer-to-peer discussion, videos, and learning exercises, teachers and administrators will:

- Explore and create a guiding vision for what "greatness" means within the culture of their school.
- Learn and internalize the 7 Habits and understand how to apply the principles in their classrooms.
- Study other schools that have integrated the 7 Habits and other leadership and quality tools.
- Become certified to deliver The 7 Habits of Highly Effective People® training as a means of ongoing professional development.

Phase 2: Implementation Training
In this phase, teachers and administrators will learn how to:

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

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Phase 3: Classroom Implementation

The Leader in Me includes several tools to assist educators, students, and parents in implementation during the first year, as well as reinforcing the process in following years.

- The Leader in Me Web Community— www.TheLeaderInMe.org—features cross-curricular lesson plans, award-winning videos, assessments, and a forum for educators, as well as fun activities for students.
- Student Activity Guides for Lower/Upper Elementary and Annotated Teacher's Editions.
- The 7 Habits of Happy Kids™ poster set.
- The 7 Habits of Happy Kids book by Sean Covey.
- The Leader in Me book by Stephen R. Covey.

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

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

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

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

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

8. E-Learning

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

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

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

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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.

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- Facilitate client reviews.
- Incorporate changes.
- Prepare final materials.

Deliver

- Training delivered by training professionals.

Learn

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

10. Media Publishing

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

Industry Information

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

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

Segment Information

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

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

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

Clients

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

Competition

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

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

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

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- Global reach and scale

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

Seasonality

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

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

Manufacturing and Distribution

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

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

Trademarks, Copyrights, and Intellectual Property

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

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

Employees

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

At August 31, 2009, we had over 600 full- and part-time associates located in the United States of America, Canada, Japan, the United Kingdom, and Australia. During fiscal 2001, we outsourced a significant part of our information technology services, customer service, distribution and warehousing operations to EDS. A number of our former employees involved in these operations are now employed by EDS to provide those services to FranklinCovey. None of our associates are represented by a union or other collective bargaining group. Management believes that its relations with its associates are good and we do not currently foresee a shortage in qualified personnel needed to operate our business.

Available Information

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

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

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

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

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

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

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

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

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

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

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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.

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

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

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

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

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

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

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

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

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- Price controls or restrictions on exchange of foreign currencies

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

We may experience foreign currency gains and losses.

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

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

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

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

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

Our financial success depends, in part, upon our ability to protect our proprietary methodologies and other intellectual property. The existing laws of some countries in which we provide services might offer only limited protection of our intellectual property rights. To protect our intellectual property, we rely upon a combination of trade secrets, confidentiality policies, nondisclosure and other contractual arrangements, as well as patent, copyright, and trademark laws to protect our intellectual property rights. The steps we take

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in this regard might not be adequate to prevent or deter infringement or other misappropriation of our intellectual property, and we might not be able to detect unauthorized use of, or take appropriate and timely steps to enforce, our intellectual property rights, especially in foreign jurisdictions.

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

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

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

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

- Governmental entities often reserve the right to audit our contract costs, including allocated indirect costs, and conduct inquiries and investigations of our business practices with respect to our government contracts. If the governmental entity finds that the costs are not reimbursable, then we will not be allowed to bill for those costs or the cost must be refunded to the client if it has already been paid to us. Findings from an audit also may result in our being required to prospectively adjust previously agreed upon rates for our work, which may affect our future margins.

- If a governmental client discovers improper activities in the course of audits or investigations, we may become subject to various civil and criminal penalties and administrative sanctions, which may include termination of contracts, forfeiture of profits, suspension of payments, fines and suspensions or debarment from doing business with other agencies of that government. The inherent limitations of internal controls may not prevent or detect all improper or illegal activities, regardless of their adequacy.

- Political and economic factors such as pending elections, revisions to governmental tax policies and reduced tax revenues can affect the number and terms of new governmental contracts signed.

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

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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.

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

According to the terms of the agreements associated with the sale of the CSBU assets that closed in the fourth quarter of fiscal 2008, we are entitled to receive a $1.2 million payment for working capital delivered on the closing date of the sale and to receive $2.3 million as reimbursement for specified costs necessary to complete the transaction. Payment for these costs was originally due in January 2009, but we extended the due date of the payment at Franklin Covey Products' request and obtained a promissory note from Franklin Covey Products for the amount owed, plus accrued interest.

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

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

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

Our business depends on our ability to successfully obtain payment from our clients of the amounts they owe us for services performed. We evaluate the financial condition of our clients and usually bill and collect on relatively short cycles. We maintain allowances against our receivables and unbilled services that we believe are adequate to reserve for potentially uncollectible amounts. However, actual losses on client balances could differ from those that we currently anticipate and, as a result, we might need to adjust our allowances. In addition, there is no guarantee that we will accurately assess the creditworthiness of our clients. Macroeconomic conditions could also result in financial difficulties for our clients, and as a result could cause clients to delay payments to us,

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request modifications to their payment arrangements that could increase our receivables balance, or not pay their obligations to us. Timely collection of client balances also depends on our ability to complete our contractual commitments and bill and collect our invoiced revenues. If we are unable to meet our contractual requirements, we might experience delays in collection of and/or be unable to collect our client balances, and if this occurs, our results of operations and cash flows could be adversely affected. In addition, if we experience an increase in the time to bill and collect for our services, our cash flows could be adversely affected.

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

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

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

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

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

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

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

If we fail to meet our contractual obligations, fail to disclose our financial or other arrangements with our business partners, or otherwise breach obligations to clients, we could be subject to legal liability. We may enter into non-standard agreements because we perceive an important economic opportunity or because our personnel did not adequately adhere to our guidelines. We may also find ourselves committed to providing services that we are unable to deliver or whose delivery will cause us financial loss. If we cannot, or do

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not, perform our obligations, we could face legal liability, and our contracts might not always protect us adequately through limitations on the scope of our potential liability. If we cannot meet our contractual obligations to provide services and solutions, and if our exposure is not adequately limited through the terms of our agreements, then we might face significant legal liability, and our business could be adversely affected.

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

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

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

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

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

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

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

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

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

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We may have exposure to additional tax liabilities.

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

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

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

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

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

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

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losses and interruptions caused by terrorist attacks, conflicts, and wars. If these disruptions prevent us from effectively serving our clients, our operating results could be adversely affected.

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

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

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

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

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

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

Ineffective internal controls could impact our business and operating results.

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

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

Our most critical accounting estimates are described in Management’s Discussion and Analysis found in Item 7 of this report under the section entitled “Use of Estimates and

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Critical Accounting Policies." In addition, as discussed in various footnotes to our financial statements as found in Item 8, we make certain estimates under the provisions of SFAS No. 5, Accounting for Contingencies (FASC 450-20), including decisions related to legal proceedings and reserves. Because, by definition, these estimates and assumptions involve the use of judgment, our actual financial results may differ from these estimates.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

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

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

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

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

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

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

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

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

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

ITEM 3. LEGAL PROCEEDINGS

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

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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

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

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHAES OF EQUITY SECURITIES

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

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

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

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

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

Purchases of Common Stock

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

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

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

Performance Graph

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

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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.

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

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

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

Shareholders' equity	69,004	78,177	100,705	133,310	132,826

(1) Net income in fiscal 2006 includes the impact of deferred tax asset valuation allowance reversals totaling $20.3 million.

(2) During fiscal 2007, we redeemed all remaining outstanding shares of Series A preferred stock at its liquidation preference of $25 per share plus accrued dividends.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

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

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

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

Over the past several years, the strategic focus of our Consumer Solutions Business Unit (CSBU), which was focused primarily on sales of our products, and our Organizational Solutions Business Unit (OSBU), which was focused on the development and delivery of training, consulting, and related services, changed significantly. As a consequence of these changes in strategic direction, we determined that the extent of overlap between our training and consulting offerings and our products had diminished. After significant analysis and deliberation, it became apparent that these business units would be able to operate more effectively as separate companies, each with clear and distinct strategic objectives, market definitions, and competitive products and services. This conclusion persuaded us to sell substantially all of the operations of the CSBU. During the fourth quarter of our fiscal year ended August 31, 2008, we completed the sale of the CSBU to a newly formed entity, Franklin Covey Products, LLC and reported a gain of $9.1 million from the transaction. Franklin Covey Products, LLC was formed with the objective of expanding the worldwide sales of Franklin Covey products through proprietary channels and through third-party retailers as governed by a comprehensive license agreement with the Company.

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

The sale of CSBU had a significant impact on our financial statements since the CSBU and corresponding product sales represented a substantial portion of our total sales, and the business dynamics of a training

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company are considerably different than a consumer products company. Based on relevant accounting literature, we were unable to present the operational results of the CSBU in a discontinued operations format, which makes comparisons of fiscal 2009 financial results to fiscal 2008 results difficult.

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

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

RESULTS OF OPERATIONS

Overview of the Fiscal Year ended August 31, 2009

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

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

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

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

- Sales Performance – Our consolidated sales decreased $129.1 million compared to the prior year. The vast majority of the decline was attributable to the sale of our CSBU operations and the corresponding reduction in product sales. Of the $129.1 million decline, $107.2 million, or 83 percent, was attributable to product sales from the CSBU. Sales delivered through the Organizational Solutions Business Unit (OSBU), which are comparable to the prior year and consist primarily of training and consulting service sales in our domestic and international divisions, decreased $22.9 million due to sales declines in both domestic and international

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operations. Our leasing revenues increased $1.1 million, which was primarily attributable to new sublease contracts for space at our corporate headquarters campus.

- Gross Profit – Consolidated gross profit decreased to $80.4 million in fiscal 2009 compared to $161.0 million in fiscal 2008 primarily due to decreased sales as described above. However, our gross margin, which is gross profit stated as a percentage of sales, remained relatively consistent with the prior year at 61.8 percent compared to 62.1 percent in the prior year.

- Operating Costs – Our operating costs, excluding the gain on the sale of the CSBU, decreased by $62.3 million compared to fiscal 2008, which was primarily due to the sale of the CSBU. Decreased operating expenses consisted primarily of a $63.4 million decrease in selling, general, and administrative expenses, a $2.1 million increase in impaired asset charges, a $1.2 million decrease in depreciation expense, and a $0.2 million increase in amortization expense.

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

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

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

Segment Review

Prior to the fiscal 2008 sale of our Consumer Solutions Business Unit (CSBU), the Company had two operating segments: the Organizational Solutions Business Unit (OSBU) and the CSBU. Following the sale, our operations constitute one reportable segment. However, to improve comparability, the sales information presented in the table below reflect fiscal 2009 and fiscal 2008 operating results based upon

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the previously defined segments. The following is a description of these segments, their primary operating components, and their significant business activities:

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

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

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

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

Total operating segments		126,562	(51	)		256,722	(9	)		281,985
Leasing		3,556	44			2,471	15			2,140
Total net sales	$	130,118	(50	)	$	259,193	(9	)	$	284,125

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FISCAL 2009 COMPARED TO FISCAL 2008

Sales

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

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

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

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

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

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

Gross Profit

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

Prior to the sale of CSBU assets in fiscal 2008, we recorded the costs associated with operating our retail stores, call center, and Internet site as part of our consolidated selling, general, and administrative expenses. Therefore, our consolidated gross profit may not be comparable with the gross profit of other companies that include similar costs in their cost of sales.

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

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

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

Operating Expenses

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

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

Impairment of Assets – Based on the terms of the sale of CSBU assets, we were entitled to receive a $1.2 million adjustment for working capital delivered on the closing date of the sale and to receive $2.3 million as reimbursement for specified costs necessary to complete the transaction. Payment for these costs was originally due in January 2009, but we extended the due date of the payment at Franklin Covey Products' request and obtained a promissory note from Franklin Covey Products for the amount owed, plus accrued interest. At the time we received the promissory note from Franklin Covey Products, we believed that we could obtain payment for the amounts owed, based on prior year performance and forecasted financial performance in 2009. However, the financial position of Franklin Covey Products deteriorated significantly late in fiscal 2009 and the deterioration accelerated subsequent to August 31, 2009. As a result of this deterioration, the Company reassessed the collectibility of the promissory note. Based on revised expected cash flows and other operational issues, we determined that the promissory note should be impaired at August 31, 2009. Accordingly, we recorded a $3.6 million impaired asset charge and reversed $0.1 million of interest income that was recorded during fiscal 2009 from the working capital settlement and reimbursable transaction cost receivables.

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

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

Income Taxes

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

Interest Income and Expense

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

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

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FISCAL 2008 COMPARED TO FISCAL 2007

Sales

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

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

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

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

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

- Retail Stores – Prior to the sale of the CSBU operations, our retail sales decreased compared to the prior year primarily due to reduced traffic in our retail locations, which was partially due to a significant increase in the number of wholesale outlets that sold our products and competed directly against our retail stores, reduced demand for technology and related products, and fewer store locations, which had a $2.5 million impact on retail sales. Our retail store traffic, or the number of consumers entering our retail locations, declined by approximately 18 percent on a comparable basis (for stores which were open during the comparable periods) and resulted in decreased sales of “core” products (e.g. planners, binders, totes, and accessories). Due to declining demand for electronic handheld planning products, during late fiscal 2007 we decided to exit the low-margin handheld

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device and related electronics accessories business, which reduced retail sales by $0.9 million compared to the prior year. These factors combined to produce a 7 percent decline in year-over-year comparable store sales versus the prior year.

- Consumer Direct – Sales through our consumer direct channels (primarily the Internet and call center) decreased primarily due to a decline in the number of customers visiting our website and a decline in the number of orders that are being processed through the call center. Visits to our website decreased from the prior year by approximately 12 percent. Declining consumer orders through the call center continues a long-term trend and decreased by approximately 14 percent compared to the prior year, which we believe was partially the result of a transition of customers to our other product channels.

- Wholesale – Sales through our wholesale channel, which included sales to office superstores and other retail chains, decreased primarily due to the transition of a portion of our wholesale business to a new distributor and the timing of sales as the new distributor built inventories.

- CSBU International – This channel includes the product sales of our directly owned international offices in Canada, the United Kingdom, Mexico, and Australia. Product sales were flat through these channels compared to the prior year before the sale of CSBU.

- Other CSBU – Other CSBU sales consist primarily of domestic printing and publishing sales and building sublease revenues. The decline in other CSBU sales was primarily due to decreased external printing sales, which was partially offset by a $0.3 million increase in sublease revenue.

Gross Profit

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

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

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

Operating Expenses

Selling, General and Administrative – Consolidated SG&A expenses decreased $7.9 million, or 5 percent, compared to the prior year (excluding the gain on the sale of the CSBU assets in fiscal 2008 and a gain on the sale of a manufacturing facility in fiscal 2007). The decrease in SG&A expenses was primarily due to 1) the fiscal 2008 sale of the CSBU, which reduced CSBU SG&A expenses by $9.7 million in the fourth quarter of fiscal 2008 compared to the prior year; 2) a $1.7 million decrease in share-based compensation primarily due to the determination that no shares will be awarded under our fiscal 2006 or fiscal 2007 long-term incentive plans and the corresponding reversal of share-based compensation expense from those plans; 3) a $1.1 million decrease in bonuses and commissions based on sales performance in the OSBU during the year; and 4) smaller decreases in SG&A spending in various other areas of our operations. These decreases were partially offset by 1) a $2.7 million increase in associate compensation primarily resulting from the payment of awards and bonuses subsequent to the sale of the CSBU; 2) a $1.4 million increase in promotional costs in our OSBU, which were primarily comprised of increased spending for “Greatness Summit” programs for our clients and increased spending on public programs promotional materials; 3) a $0.9 million increase in legal fees primarily related to the EpicRealm litigation; and 4) a $0.6 million increase in retail store closure costs that were primarily incurred in connection with the buyout of two leases.

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

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

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

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

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

Interest Income and Expense

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

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

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Income Taxes

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

Preferred Stock Dividends

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

QUARTERLY RESULTS

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

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

YEAR ENDED AUGUST 31, 2009

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

Loss per share attributable to common shareholders:				
Basic	$ (.04)	$ (.05)	$ (.38)	$ (.34)
Diluted	$ (.04)	$ (.05)	$ (.38)	$ (.34)

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YEAR ENDED AUGUST 31, 2008	December 1	March 1	May 31	August 31
In thousands, except per share amounts				
Net sales	$ 73,574	$ 75,127	$ 59,061	$ 51,431
Gross profit	45,991	46,802	35,968	32,267
Selling, general, and administrative expense	38,771	37,652	34,210	30,685
Gain on sale of CSBU	-	-	-	(9,131)
Restructuring costs	-	-	-	2,064
Impairment of assets	-	-	-	1,483
Depreciation	1,380	1,532	1,679	1,101
Amortization	899	901	902	901
Income (loss) from operations	4,941	6,717	(823)	5,164
Income (loss) before income taxes	4,040	5,971	(1,493)	4,555
Net income (loss)	1,992	3,047	(1,482)	1,970
Earnings (loss) per share available to common shareholders:				
Basic	$ .10	$ .16	$ (.09)	$ .10
Diluted	$ .10	$ .15	$ (.09)	$ .10

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

Summary

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

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

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

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

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

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

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

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

YEAR ENDED AUGUST 31,	2009	2008	2007
Total cash provided by (used for):			

Operating activities	$ 5,282	$ 7,868	$ 13,370
Investing activities	(3,203)	18,520	(11,480)
Financing activities	(16,248)	(16,159)	(26,376)
Effect of exchange rates on cash	(47)	(451)	25
Increase (decrease) in cash and cash equivalents	$ (14,216)	$ 9,778	$ (24,461)

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