

FRANKLIN COVEY CO  
Form 10-K  
November 14, 2011

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

\_\_\_\_\_  
Form 10-K  
\_\_\_\_\_

b ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED  
AUGUST 31, 2011.

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

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

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

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

None

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

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

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

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

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

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

Large  Accelerated   
accelerated filer

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

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

As of February 26, 2011, the aggregate market value of the Registrant's Common Stock held by non-affiliates of the Registrant was approximately \$109.6 million, which was based upon the closing price of \$8.07 per share as reported by the New York Stock Exchange.

As of October 31, 2011, the Registrant had 17,735,564 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 27, 2012, 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, relating to our operations, results of operations, and other matters that are based on our current expectations, estimates, assumptions, and projections. Words such as “may,” “will,” “should,” “likely,” “anticipates,” “expects,” “intends,” “plans,” “projects,” “believes,” “estimates,” and similar expressions are used to identify these forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties, and assumptions that are difficult to predict. Forward-looking statements are based upon assumptions as to future events that might not prove to be accurate. Actual outcomes and results could differ materially from what is expressed or forecast in these forward-looking statements. Risks, uncertainties, and other factors that might cause such differences, some of which could be material, include, but are not limited to, the factors discussed under the section of this report entitled “Risk Factors.”

#### General

Franklin Covey Co. (we, us, our, the Company, or FranklinCovey) is a leading global provider of training and consulting solutions with over 590 employees worldwide delivering principle-based curriculums and effectiveness tools to our customers. Our consolidated net sales for the fiscal year ended August 31, 2011 totaled \$160.8 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; an office that specializes in sales to governmental entities; wholly owned subsidiaries in Australia, Japan, and the United Kingdom; and contract with licensee partners who deliver our curriculums and provide services in over 140 other countries and territories around the world.

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

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

During fiscal 2010, we sold the product sales component of our wholly owned subsidiary in Japan to an unrelated Japan-based paper products company. The sale closed on June 1, 2010 and the total sale price was JPY 305.0 million, or approximately \$3.4 million. In addition, the sale agreement provides for a three percent passive royalty on annual sales, which is not significant to our operations. The sale of this division was designed to align our Japanese operations with our overall strategic focus on training and consulting sales. As a consequence of the sale, we determined that the operating results of the Japan product sales component qualified for discontinued operations presentation and we have presented the operating results of the Japan product sales component as discontinued operations for periods prior to fiscal 2011 presented in this report on Form 10-K.

Services Overview

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

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

Our content, tools, and methodologies are organized into key practice areas or product lines, each offering targeted solutions that are designed to drive these four outcomes. We have divided our curriculums into the following seven major practices:

1. Leadership
2. Productivity
3. Trust
4. Execution
5. Sales Performance
6. Education
7. Customer Loyalty

Our practices are designed to provide world-class content and delivery, including best-selling books and audio, innovative and widely recognized thought leadership, multiple delivery and teaching methods, a practice-centric focused sales force, and practice-specific marketing support. These elements allow us to offer our clients training and consulting solutions that are designed to improve individual and organizational behaviors, deliver content that adapts to an organization’s unique needs, and provide meaningful improvements in our client’s business performance.

The following description of our practices and associated curriculums describes what our offerings are designed to provide to our clients. The description should not be viewed as a warranty or guarantee of results. Further information about our curriculums and services can be found on our website at [www.franklincovey.com](http://www.franklincovey.com). However, the information contained in, or that can be accessed through, our website does not constitute a part of this annual report.

1. 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.

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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 is designed to drive organizational success by helping participants gain the paradigms and behaviors of effective people. Participants gain hands-on experience, applying principles that are designed to yield greater productivity, improve communication, strengthen relationships, increase 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.

### 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 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 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 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.

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### 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.

### 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.

## 2. Productivity

In today's world of "doing more with less," workforce productivity and engagement can be a competitive advantage. Today's workers and leaders are required to make more decisions every day than ever before while their attention is under unprecedented attack. Over 350,000 survey respondents report on average that 40 percent of their time is spent on irrelevant activities creating enormous opportunity to improve "human productivity" without increasing human resources.

### The 5 Choices to Extraordinary Productivity™

Our new flagship productivity course, The 5 Choices to Extraordinary Productivity, which was launched in Fall of 2011, is designed to provide the in-depth skills, knowledge and attitudes that allow individual contributors, teams and organizations to be able to identify, validate, and act on what's most important. Instead of trying to get everything done, participants focus on how to get the right things done. This discernment enables them to make wiser decisions, harness technology to enhance workflow, and put their finest attention and energy on executing what matters most.

Supported by science and years of experience, this new program is designed to not only produce a measurable increase in productivity, but to also provide a renewed sense of engagement.

## 3. 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

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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.

### 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.

## 4. Execution

Execution remains one of the toughest challenges organizations face today. We believe that 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.

## 5. Sales Performance

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

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

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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.

### 6. Education

The FranklinCovey Education 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 is also designed to help 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.

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

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

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

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

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

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



their personal mission, setting goals, prioritizing tasks, and teaming with others.

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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.

### 7. Winning Customer Loyalty®

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

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

### Delivery Methods

We have multiple methods to deliver our world-class content to our clients that are designed to provide our customers with a learning environment that suits their needs. Our primary delivery methods include the following:

- Onsite Presentations
- Facilitators
- International Licensees
- E-Learning
- Public Workshops
- Custom Solutions
- Intellectual Property Licenses
- Media Publishing

### Onsite Presentations

We employ highly talented consultants and presenters to deliver our curriculums in person at client locations. Based around the world, our consultants represent diverse, global industry experience and can tailor their delivery to meet a client's precise needs. Whether the need is for consulting, training, or customized keynote speeches, our consultants can deliver our curriculums to any level of an organization, from the C-suite to a team or department. We believe that

our delivery consultants provide high quality services and are a competitive advantage in the marketplace.

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### Facilitators

For organizations seeking cost-effective ways to implement solutions involving large populations of managers and frontline workers, FranklinCovey certifies on-site client facilitators to teach our content and adapt it to our client's organizational needs. We have over 45,000 client facilitators world-wide who are certified to teach in 41 different content areas. In order to become a client facilitator, an individual must become certified to teach our curriculums through a two-step process that is designed to ensure that these trained personnel can deliver our content in a professional and meaningful manner.

### International Licensees

In foreign countries where we do not have an office, our training and consulting services are delivered through independent licensees, which may translate and adapt our curriculums to local preferences and customs, if necessary. Our licensee partners deliver our curriculums and provide services in over 140 other countries and territories around the world. These licensee partners allow us to deliver the same high quality content to clients that have multinational operations or in countries that have specific cultural requirements. Our licensee partners pay us a royalty based on the programs and content delivered.

### E-Learning

Our E-Learning capabilities bring FranklinCovey to clients in innovative ways that transcend traditional E-learning solutions. Our primary E-learning platforms are comprised of the following:

#### FranklinCovey InSights™

We believe that some of the best development happens when leaders teach their own teams. FranklinCovey InSights represents a paradigm of "Teach to Learn" leadership. This library of bite-sized, Web-based learning modules is built around our award-winning video presentations that leaders can use to motivate their teams to improve performance. Designed to address generational learning styles, the modules teach people to see and do things differently, enabling teams to produce better results and make changes over time.

#### LiveClicks™

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

#### 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.

### Public Workshops

Each year, we offer a number of training events, primarily in the United States and Canada, which are open to the public. Prior to the event, we advertise in the geographic region where the event will be held and participants may register for the events in advance. Interested persons may also search for upcoming workshops based on the desired curriculum and register for these workshops through our website at [www.franklincovey.com](http://www.franklincovey.com). In addition, our curriculums are also taught by certain professional training firms that also offer events to the public.

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Custom Solutions

Whether clients need a program customized, or require a new product developed for their organization, our custom solutions department 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 (diagnose, design, develop, deliver, and learn) lowers development costs and strives to improve our clients' return on investment.

Intellectual Property Licenses

For clients that want to utilize our curriculums in their internal training environments, we offer intellectual property licenses to allow further customization of our content to specific client needs.

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 2011 Training Industry Survey, the total size of the U.S. training industry is estimated to be \$59.7 billion, which is up approximately 13 percent compared to the prior year. One of our competitive advantages in this highly fragmented industry stems from our fully integrated training curriculums, 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

Our sales are primarily comprised of training and consulting sales and related products. Based on the consistent nature of our services and products and the types of customers for these services, we function as a single operating segment. However, to improve comparability with previous periods, operating information for our U.S./Canada, international, and corporate services operations is presented below. Our U.S./Canada operations are 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 foreign offices and royalty revenues from licensees. Our corporate services information includes leasing income and certain corporate operating expenses.

	Percent change		Percent change	
2011	from	2010	from	2009

Y E A R  
E N D E D  
A U G U S T  
31,

prior  
year

prior  
year

U.S./Canada	\$ 118,420	20	\$ 98,344	18	\$ 83,193
International	40,011	13	35,309	(3 )	36,385
Total	158,431	19	133,653	12	119,578
Leasing	2,373	(26 )	3,221	(9 )	3,556
Consolidated	\$ 160,804	17	\$ 136,874	11	\$ 123,134

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Additional financial information related to our operating segments, as well as geographical information can be found in the notes to our consolidated financial statements (Note 18).

### Clients

We have a relatively broad base of organizational and individual clients. Worldwide, we have more than 4,200 organizational clients consisting of corporations, governmental agencies, educational institutions, and other organizations. We have additional organizational clients throughout the world, and we believe that our products, workshops, and seminars encourage strong client loyalty. Employees in each of our domestic and international distribution channels focus on providing timely and courteous responses to client requests and inquiries. Due to the nature of our business, we do not have a significant backlog of firm orders.

During fiscal 2011, we recognized \$16.8 million in sales from our contracts with a division of the United States federal government, which is more than ten percent of our consolidated revenues for the year.

### 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 2011 consolidated sales of \$160.8 million, we believe that we are a leading competitor in the organizational training and education market. Other significant comparative companies in the training and consulting market are Development Dimensions International, CRA International, Inc., Learning Tree International Inc., GP Strategies Corp., American Management Association, Wilson Learning, Forum Corporation, Corporate Executive Board Co., and the Center for Creative Leadership.

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

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

Given the relative ease of entry in our training market, the number of our competitors could increase, many of whom may imitate existing methods of distribution, or could offer similar products and seminars at lower prices. Some of these competitors may have greater financial and other resources than us. However, we believe our curriculum based upon best-selling books, which encompasses relevant high-quality video segments, has become a competitive advantage. This advantage is strengthened and enhanced by our ability to easily train individuals within organizations to become client facilitators who in turn can effectively relay our curriculums 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.

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### Manufacturing and Distribution

We do not manufacture any of our products. We purchase our training materials and related products from various vendors and suppliers located both domestically and internationally, and we are not dependent upon any one vendor for the production of our training and related materials as the raw materials for these products are readily available. We currently believe that we have good relationships with our suppliers and contractors.

During fiscal 2001, we entered into a long-term contract with HP Enterprise Services (HP, formerly Electronic Data Services) to provide warehousing and distribution services for our training products and related accessories. Our materials are primarily warehoused and distributed from an HP facility located in Des Moines, Iowa.

### 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 450 trademarks in the United States and foreign countries, and we 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, and The 7 Habits. We consider our trademarks and other proprietary rights to be important and material to our business.

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

### Employees

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

At August 31, 2011, we had 590 associates located in the United States of America, Canada, Japan, the United Kingdom, and Australia. During fiscal 2001, we outsourced a significant part of our information technology services, customer service, distribution and warehousing operations to HP. A number of our former employees involved in these operations are now employed by HP to provide those services to FranklinCovey. None of our associates are represented by a union or other collective bargaining group. Management believes that its relations with its associates are good and we do not currently foresee a shortage in qualified personnel needed to operate our business.

### Available Information

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

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

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

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

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

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

Global economic and political conditions affect our clients' businesses and the markets in which they operate. Our financial results are somewhat dependent on the amount that current and prospective clients budget for training. A serious and/or prolonged economic downturn (or a slow recovery) combined with a negative or uncertain political climate could adversely affect our clients' financial condition and the amount budgeted for training by our clients. These conditions may reduce the demand for our services or depress the pricing of those services and have an 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



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companies have already invested substantial resources in their current means of conducting their business and they may be reluctant or slow to adopt new approaches that could disrupt existing personnel and/or processes. If the growth in the general use of training and consulting services in business or our clients' spending on these items declines, or if we cannot convince our clients or potential clients to embrace new services and solutions, our results of operations could be adversely affected.

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

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

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

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 or term loan. 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.

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

The success of our business model depends significantly 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 address 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.

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

Our future success and profitability depend in part on our ability to achieve an appropriate cost structure and to improve our efficiency in the highly competitive services industry in which we compete. We regularly monitor our operating costs and develop initiatives and business models that 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, and other internal initiatives designed to reduce our operating costs. If we are unable to achieve targeted business model cost levels and effectively manage our costs, our competitiveness and profitability may decrease.

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

The profit margin on our services 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 that we may be unable to control, 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.

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

According to the terms of the agreements associated with the sale of the consumer solutions business unit (CSBU) assets to FC Organizational Products, LLC (FCOP and formerly Franklin Covey Products) that closed in the fourth quarter of fiscal 2008, we were entitled to receive a \$1.2 million payment for working capital delivered on the closing date of the sale and to receive \$2.3 million as reimbursement for specified costs necessary to complete the transaction. Payment for these costs was originally due in January 2009, but we





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extended the due date of the payment at FC Organizational Products' request and obtained a promissory note from FCOP for the amount owed, plus accrued interest.

At the time we received the promissory note from FCOP, 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 FCOP deteriorated significantly late in fiscal 2009 and the deterioration accelerated subsequent to August 31, 2009 and throughout fiscal 2010. As a result of its deteriorating financial position, we reassessed the collectibility of the promissory note. Based on revised expected cash flows and other operational issues, we determined that the promissory note should be impaired at August 31, 2009. Accordingly, we recorded a \$3.6 million impaired asset charge and reversed \$0.1 million of interest income that was recorded during fiscal 2009 from the working capital settlement and reimbursable transaction cost receivables.

We receive reimbursement for certain operating costs, such as warehousing and distribution costs, which are billed to us by third party providers. At August 31, 2011 and 2010 we had \$5.7 million and \$5.0 million receivable from FCOP, which have been classified in current assets. We also owed FCOP \$1.2 million and \$1.7 million at August 31, 2011 and 2010 for items purchased in the ordinary course of business. These liabilities were classified in accounts payable in our consolidated balance sheets. Although FCOP is past due on a portion of its receivables, we believe that we will obtain payment from FCOP for these charges. However, if FCOP fails to reimburse us for these costs, and we fail to obtain payment on the promissory note, our future cash flows and results of operations will be adversely affected.

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

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

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

Our success and ability to grow are dependent, in part, on our ability to hire, retain, and motivate sufficient numbers of talented people with the increasingly diverse skills needed to serve our clients and grow our business. Competition for skilled personnel is intense at all levels of experience and seniority. To address this competition, we may need to further adjust our compensation practices, which could put upward pressure on our costs and adversely affect our profit margins. At the same time, the profitability of our business model is partially dependent on our ability to effectively utilize personnel with the right mix of skills and experience to effectively deliver our programs and content. There is a risk that at certain points in time and in certain geographical regions, we will find it difficult to hire

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

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

We may experience foreign currency gains and losses.

Our sales outside of the United States totaled \$45.1 million, or 28 percent of total sales, for the year ended August 31, 2011. If our international operations grow and become a larger component of our overall financial results, our revenues and operating results may be adversely affected when the dollar strengthens relative to other currencies and may be favorably 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. However, 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.

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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, regulations 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 may 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 an 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 curriculums 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 confidentiality policies, nondisclosure and other contractual arrangements, as well as patent, copyright, and trademark laws. The steps we take in this regard may 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 curriculums 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:

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

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

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

Our business depends on our ability to successfully obtain payment from our clients of the amounts they owe us for services performed. We evaluate the financial condition of our clients and usually bill and collect on relatively short cycles. We maintain allowances against our receivables and unbilled services that we believe are adequate to reserve for potentially uncollectible amounts. However, actual losses on client balances could differ from those that we currently anticipate and, as a result, we might need to adjust our allowances. In addition, there is no guarantee that we will accurately assess the creditworthiness of our clients. Macroeconomic conditions could also result in financial difficulties for our clients, and as a result could cause clients to delay payments to us, request modifications to their payment arrangements that could increase our receivables balance, or not pay their obligations to us. Timely collection of client balances also depends on our ability to complete our contractual commitments and bill and collect our invoiced revenues. If we are unable to meet our contractual requirements, we might experience delays in collection of and/or be unable to collect our client balances, and if this occurs, our results of operations and cash flows may be adversely affected.

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

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

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

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

At August 31, 2011 we had \$61.7 million of intangible assets, which were primarily generated from the fiscal 1997 merger with the Covey Leadership Center, and \$9.2 million of goodwill, which was generated by the fiscal 2009 acquisition of CoveyLink Worldwide LLC and the payment of subsequent contingent earnout payments. Our intangible assets are evaluated for impairment based upon cash flows (definite-lived intangible assets) and estimated royalties from revenue streams (indefinite-lived intangible assets). Our goodwill is evaluated by comparing the fair value of the reporting unit to the carrying value of the goodwill balance. Our intangible assets, goodwill, and other long-term assets may become impaired if the corresponding cash flows associated with these assets declines in future periods or if our market capitalization declines significantly in future periods. Although our current sales, cash flows, and market capitalization are sufficient to support the carrying basis of these long-lived assets, if our sales, cash flows, or common stock price decline, we may be faced with significant asset impairment charges that would have an adverse impact upon our results of operations.

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

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

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

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

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

At August 31, 2011 our line of credit has a remaining maturity of less than one year. In order to obtain a more favorable interest rate on our line of credit facility, the credit facility requires an annual renewal. We currently believe that we will be successful in obtaining a new or extended line of credit from our existing lender prior to the expiration of the current credit facility in March 2012 to ensure available liquidity in future periods. Additional potential sources of liquidity include factoring receivables, issuance of additional equity, or issuance of debt from public or private sources. However, no assurance can be provided that we will obtain a new or extended line of credit or obtain additional financing from other sources on terms that would be acceptable to us. If necessary, we will evaluate all of these options and select one or more of them depending on overall capital needs and the associated cost of capital. If we are unsuccessful in obtaining a renewal or extension of our line of credit, or additional financing, we believe that cash flows from operations combined with a number of initiatives we would implement in the months preceding the due date will create sufficient liquidity to pay down any outstanding balance on the line of credit. These initiatives include deferral of capital purchases for externally developed curriculum and uncommitted capital expenditures; deferral of executive team compensation; deferral of certain related party contractual royalties and earnout payments; substantial reduction of associate salaries; reduction of operating expenses, including non-critical travel; and deferral of payments to other vendors in order to generate sufficient cash. However, there can be no assurance that we will successfully implement these initiatives.

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

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

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

We may have exposure to additional tax liabilities.

As a multinational company, we are subject to income taxes as well as non-income based taxes in both the United States and various foreign tax jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes and other tax liabilities. In the normal course of a global business, there are many intercompany transactions and

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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 individually identifiable information. If any person, including any of our associates, negligently disregards or intentionally breaches our established controls with respect to such data or otherwise mismanages or misappropriates that data, we could be subject to monetary damages, fines, and/or criminal prosecution. Unauthorized disclosure of sensitive or confidential client or employee data, whether through systems failure, employee negligence, fraud, or misappropriation could damage our reputation and cause us to lose clients.

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

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

Our sales office in Japan is located in Tokyo and was slightly damaged by the recent natural disasters that occurred in that country. Our associates were unharmed, but continued disruptions from damaged transportation and concerns over radiation levels from damaged





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nuclear reactors have caused significant interruptions to the business climate in Japan. Although we are currently unable to estimate the financial impact of these disasters on our business (from lost or postponed sales) we anticipate that these conditions may have an adverse impact upon our operations in Japan in future periods, depending upon the timeliness of the resolution of these business environment issues.

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 an adverse effect upon our stock price in the future.

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

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

Ineffective internal controls could impact our business and operating results.

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

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

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

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

Our most critical accounting estimates are described in Management's Discussion and Analysis found in Item 7 of this report under the section entitled "Use of Estimates and Critical Accounting Policies." In addition, as discussed in various footnotes to our financial statements as found in Item 8, we make certain estimates for loss contingencies, including decisions related to legal proceedings and reserves. Because, by definition, these estimates and assumptions involve the use of judgment, our actual financial results may differ from these estimates.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

Our principal executive offices are located in Salt Lake City, Utah and as of August 31, 2011, all of the facilities used in our operations are leased. Our leased facilities primarily consist of sales and administrative offices both in the United States and various countries around the world. We also lease warehouse and distribution space at independent facilities in certain foreign countries. 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)

U.S./Canada Sales Offices

Regional Sales Offices:  
United States (4 locations)

Administrative Offices:

United States (2 locations)

International Facilities

International Administrative/Sales Offices:

Australia (3 locations)

England (1 location)

Japan (1 location)

International Distribution Facilities:

Australia (1 location)

England (1 location)

Japan (1 location)

New Zealand (1 location)

During fiscal 2011, we moved our international office in Japan to a new location, which we anticipate will reduce our office lease expense in Japan. There were no other significant changes to our properties during fiscal 2011. We consider our existing facilities to be in good condition and suitable for our current and anticipated level of operations in the upcoming fiscal year.

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

ITEM 3. LEGAL PROCEEDINGS

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

against this action, and we will continue to vigorously defend it.

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The Company is also the subject of certain other legal actions, which we consider routine to our business activities. At August 31, 2011, we believe that, after consultation with legal counsel, any potential liability to the Company under these other actions will not materially affect our financial position, liquidity, or results of operations.

## ITEM 4. RESERVED

## PART II

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

Our common stock is listed and traded on the New York Stock Exchange (NYSE) under the symbol "FC." The following table sets forth the high and low sale prices per share for our common stock, as reported by the NYSE, for the fiscal years ended August 31, 2011 and 2010.

	High	Low
Fiscal Year Ended August 31, 2011:		
Fourth Quarter	\$ 12.15	\$ 7.56
Third Quarter	9.50	6.91
Second Quarter	9.55	7.26
First Quarter	9.30	6.06
Fiscal Year Ended August 31, 2010:		
Fourth Quarter	\$ 7.52	\$ 5.35
Third Quarter	8.19	5.75
Second Quarter	6.39	5.06
First Quarter	6.44	4.76

We did not pay or declare dividends on our common stock during the fiscal years ended August 31, 2011 or 2010. We currently anticipate that we will retain all available funds to repay our loan obligations, finance future growth and business opportunities, and to purchase shares of our common stock.

As of October 31, 2011, the Company had 17,735,564 shares of common stock outstanding, which were held by 702 shareholders of record.

## Purchases of Common Stock

The following table summarizes the purchases of our common stock during the fiscal quarter ended August 31, 2011:

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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 29, 2011 to July 2, 2011	-	\$ -	none	\$ 2,413
July 3, 2011 to July 30, 2011	-	-	none	2,413
July 31, 2011 to August 31, 2011	71	(2) 11.40	none	2,413 (1)
Total Common Shares	71	\$ 11.40	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, 2011 under the terms of this plan, which does not have an expiration date.
- (2) These shares were acquired from a former employee who approached us regarding a purchase transaction. The shares were valued using the closing share price of our common stock on the date of the transaction.

## Performance Graph

The following graph shows a comparison of cumulative total shareholder return indexed to August 31, 2006, calculated on a dividend reinvested basis, for the five fiscal years ended August 31, 2011 for Franklin Covey Co. common stock, the S&P SmallCap 600 Index, and the S&P Commercial & Professional Services Index. We were previously included in the S&P 600 SmallCap Index and were assigned to the S&P Diversified Commercial and Professional Services Index within the S&P 600 SmallCap Index. However, during fiscal 2009, the Diversified Commercial Services Index was discontinued, and we have determined that the S&P 600 Commercial & Professional Services Index is appropriate for comparative purposes. We 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 our consolidated financial statements and related footnotes as found in Item 8 of this report on Form 10-K.

In the fourth quarter of fiscal 2010, we sold the product sales component of our wholly owned subsidiary in Japan to an unrelated Japan-based paper products company. We determined that the operating results of the Japan product sales component qualified for discontinued operations presentation and we have presented the operating results of the Japan product sales component as discontinued operations for all periods prior to fiscal 2011 that are presented in this report and have adjusted the financial statement information presented below to be consistent with the discontinued operations presentation.

During fiscal 2008, we sold substantially all of the assets of our CSBU, which was primarily responsible for the sale of our products to consumers, to FC Organizational Products, LLC (formerly Franklin Covey Products). Based upon applicable accounting guidance, the operations of the 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,	2011	2010	2009	2008	2007
In thousands, except per share data					
Income Statement Data:					
Net sales	\$ 160,804	\$ 136,874	\$ 123,134	\$ 252,074	\$ 276,660
Income (loss) from operations	11,112	4,038	(11,840 )	14,204	16,133
Net income (loss) from continuing operations before income taxes	8,446	1,180	(14,862 )	11,278	13,714
Income tax benefit (provision)	(3,639 )	(2,484 )	3,814	(6,738 )	(7,172 )
Income (loss) from continuing operations	4,807	(1,304 )	(11,048 )	4,540	6,542
Income from discontinued operations, net of tax	-	548	216	987	923
Gain on sale of discontinued operations, net of tax	-	238	-	-	-
Net income (loss)	4,807	(518 )	(10,832 )	5,527	7,465
Net income (loss) available to common shareholders(1)	4,807	(518 )	(10,832 )	5,527	5,250